

The Four Cornerstones of Reform

Guiding Arizona to a More Prosperous Future

Janice K. Brewer

Governor



January 13, 2014

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Bolstered by historic reforms and groundbreaking innovations, Arizona is poised to serve as a beacon of economic opportunity and prosperity for years to come.

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When I took office in January 2009, Arizona was among the states hit hardest by the most severe national economic downturn since the Great Depression. The collapse of the real estate market and the near-collapse of the nation's financial system had exposed fundamental flaws in the U.S. economy, and Arizona was at the center of the crisis. As job losses mounted and home values fell across the nation, the federal government attempted to spend its way out of recession at the expense of current and future generations of taxpayers. Today, it is clear that increased public spending in the name of economic stimulus accomplished little more than prolonging the recession and further encumbering a nation already deeply mired in debt.

In Arizona, we took a different approach. Rather than embarking on major policy initiatives in the midst of the crisis, we dealt with the immediate challenge of closing a \$3 billion budget deficit by shrinking the size of State Government and enacting a temporary sales tax increase. Effective budgeting and fiscal decision-making proved to be essential to Arizona's recovery, but, as I noted in my inaugural address, "we cannot budget our way to prosperity, and still less, we will not attain prosperity by taxing our way either." With the hard work of balancing the budget behind us, our focus has shifted to positioning Arizona for a prosperous second century.

After assessing the damage that resulted from the Great Recession and making a candid assessment of Arizona's circumstances at the time, in 2011 I identified the four policy areas that will serve as Arizona's cornerstones of reform: (1) Economic Competitiveness, (2) Education, (3) State Government and (4) Renewed Federalism. We have made great progress in each of these areas over the past three years, and there is certainly more to be done in 2014. But the results of our efforts are already coming in, and it is clear that, in choosing between higher spending and fiscal discipline, Arizona selected the more prudent approach. Our economy is once again creating jobs. Our schools are well on their way to helping young Arizonans achieve college- and career-readiness. State Government is smaller and more efficient. And we accomplished all of this while managing our sometimes contentious relationship with the federal government.

CORNERSTONE 1

ECONOMIC COMPETITIVENESS

"You knew that in the end it was free enterprise, not government regulation, not high taxes or big government spending, but free enterprise, that had led to the building of a great America."

-President Ronald Reagan
April 18, 1988

During the middle portion of the last decade, Arizonans experienced first-hand the power of the free market to create vast amounts of wealth and prosperity. Unfortunately, in retrospect we know that the industry serving as the catalyst for all of that economic activity was in the midst of an unsustainable bubble. When property values began to fall, the resulting slowdown in economic activity devastated the construction industry and threatened other industries whose fortunes were too closely tied to building and population growth.

When deciding where to invest, companies' criteria include a stable, predictable business environment that is free of unnecessary regulation and other barriers to economic growth. Notwithstanding its pro-business claims, in the years immediately

preceding my taking office State Government neglected many of the factors that major employers and business builders value most, and our competitiveness as a relocation target and business incubator sharply declined.

Starting with the regulatory moratorium that I issued on my first day in office and that has remained in effect every day since, we have spent the last five years reforming the business climate in ways that improve our economic competitiveness.

Recognizing that Arizona entrepreneurs and risk-takers will respond to a favorable business climate, we accepted the challenge of diversifying the state's economic base and cultivating more durable drivers of economic growth. This required redoubling our efforts in attracting high-wage employers to Arizona and encouraging expansion by our existing companies.

But it is not enough to simply enact bold policy initiatives. In today's global economy, states need to effectively market themselves to prospective employers. That is why I abolished the old Department of Commerce and replaced it with the Arizona Commerce Authority (ACA). Guided by a board of directors consisting of top business leaders, the new ACA is exclusively focused on business attraction, retention and expansion in Arizona's strongest economic sectors.

The new economic formula is working. In its September 25, 2013, issue, *Forbes* ranked Arizona first in the nation for projected employment over the next five years. In 2011, Arizona achieved the highest rate of business startup in the nation. And capital investment is flowing into Arizona from both new and existing sources.

As Arizona prepares to grow on its new, strengthened economic foundation, I will continue to pursue policies that improve our economic competitiveness and provide opportunity for all Arizonans.

TAXATION

Taxation is a key component of economic competitiveness because it directly impacts a company's cost of doing business. From the Arizona Competitiveness Package in 2011 and several major tax changes in 2012 to Transaction Privilege Tax (TPT) reform in 2013, over the past three years Arizona's tax code has undergone some of the most significant reforms in our state's history. Our tax reform measures have included:

- reducing the corporate income tax rate;
- reducing the business property tax assessment ratio;
- accelerating the personal property depreciation schedule;
- reducing the effective tax rate on capital gains;
- simplifying our complex TPT system, which goes into effect in January 2015;
- creating an elective 100% sales factor for both manufacturers and service providers;
- extending the net operating loss carry forward; and
- replacing outdated and ineffective incentives with performance-based tax credits that reward companies for creating high-quality jobs.

As a result of these changes, Arizona now has a much more competitive tax code that is attractive to high-wage employers across a wide range of industries.

However, there remain a number of areas in our tax statutes that conflict with the State's underlying approach to taxation. As one example, Arizona is among the majority of states that provide a sales tax exemption for the purchase of machinery and equipment that is used in the manufacturing process. The rationale for such an exemption is that, because the finished good will eventually be taxed when it is sold to the end consumer, the process of creating it should not be taxed. However, we are in the small minority of states that do not extend that logic to the purchase of the electricity that is used to power the equipment. This year, I will work with lawmakers to address this and other inconsistencies in our tax code.

INFRASTRUCTURE

The State's transportation, energy, and military infrastructure is paramount for Arizona to create jobs, attract capital investment and foster economic growth. We must take time to recognize past achievements, identify areas for future growth and continue to advocate for the completion of current projects.

TRANSPORTATION

The Transportation and Trade Corridor Alliance (TTCA) has worked diligently over the past year with the private and public sectors to develop a roadmap that reflects a vision for promoting trade through infrastructure, promotion of base industries, and collaboration among the Arizona Department of Transportation (ADOT), ACA and the Arizona-Mexico Commission. The roadmap lays out a solid, achievable agenda that outlines the development of key commerce corridors, firmly supporting competitiveness, trade development and job creation, and positioning Arizona to be a serious player in the fiercely competitive global marketplace.

Arizona also will continue to advocate for construction of Interstate 11, which will connect Las Vegas and Phoenix, the largest cities in the nation not connected by an interstate highway corridor. The Arizona and Nevada transportation departments have teamed up to conduct detailed planning of the corridor and have reached the halfway point in this effort. I-11 will also connect Arizona to Mexico, our largest trading partner. The growth of Mexico's economy has created more trade activity through Arizona, and I-11 will help us capitalize on that growth. The ability to provide seamless connectivity in all directions set Arizona apart as an indispensable business and transportation hub.

Finally we will move forward with the South Mountain Freeway project, the last step in the Loop 202 and Loop 101 freeway system, which is necessary for optimum regional mobility in the Phoenix area. In July 2013, ADOT and the Federal Highway Administration completed the public review and comment period of the draft environmental impact study for the South Mountain Freeway. That study is a critical step in evaluating the impact and benefits of the proposed freeway and in enhancing eligibility for federal funding.

ENERGY PLANNING

Ensuring ready access to reliable and affordable sources of energy is critically important to Arizona's economic competitiveness. Despite its importance, Arizona has lacked a coherent energy policy for the past two decades. That's why in 2011 I transferred the duties and responsibilities of the State Energy Office, which had been operating as part of the Department of Commerce, into the new Governor's Office of Energy Policy (GOEP). Soon after its creation, the new GOEP was put to work when I charged the Solar Energy Advisory Task Force with evaluating and identifying ways to promote the use of solar energy in Arizona. Most recently, I established the Master

Energy Plan Task Force to evaluate Arizona's overall energy needs and demands for the next ten years. With the work of the Task Force complete, Arizona should now focus its efforts on implementing the following initiatives included in Arizona's new Master Energy Plan:

- Simplify the solar energy planning and development process.
- Educate the next generation of energy professionals.
- Make Arizona a leader in energy-sector workforce development.
- Foster statewide coordination to reduce energy consumption.
- Establish a State Energy Advisory Board.

SUPPORT FOR THE MILITARY

Arizona hosts a diverse group of major military installations and defense and aerospace industry partners. The economic impact of military installations in Arizona exceeds \$9 billion per year. More than 50,000 active-duty members of the Army and Air Force, members of our National Guard, and civilians continue to provide for our homeland defense, military readiness and immediate response to emergencies. We also host members of allied nations. Our favorable weather, coupled with designated air and electronic test ranges, provide training conditions that are unmatched anywhere in America. As such, Arizona is positioned to continue its important role in the nation's defense.

In fact, the Department of Defense recognized Arizona's inherent value to the military when it selected two Arizona bases, Luke Air Force Base in Glendale and the Marine Corps Air Station in Yuma, as its premier F-35 pilot training centers. The F-35 is the military's newest multi-role fighter aircraft and is designed to maintain the military's air superiority.

As part of our proactive efforts to promote security and military readiness, our framework will include tasking the Military Affairs Commission to:

- develop a strategic plan for sustaining our bases;
- recommend enhancements to our ability to respond to potential new missions;
- preserve land use and mitigate encroachment; and
- encourage expanded defense investment.

CORNERSTONE 2

EDUCATION

"Upon the subject of education, not presuming to dictate any plan or system respecting it, I can only say that I view it as the most important subject which we as a people can be engaged in"

-Abraham Lincoln
March 9, 1832

As we face mounting challenges to prepare young Arizonans for success in higher education and in the workplace, our education system is bolstered by critical accomplishments that offer long-term benefits:

- Nationally known as a pioneer in the charter school movement, Arizona has the highest percentage, among all states, of students attending charter schools.
- Arizona is blessed to have thousands of dedicated, effective teachers and school leaders who work diligently to give our students the skills and knowledge they need to succeed in an increasingly competitive global economy.
- Arizona's school accountability system clearly labels school performance with letter grades so that parents can select the highest quality programs for their children.

Despite these achievements, Arizona's education system is not producing the results needed for Arizona to remain competitive. The Arizona Board of Regents recently released data from a study of Arizona's graduating class of 2006. Including all students who started with these high school graduates as freshmen, only 17% succeeded in higher education by earning a postsecondary degree by 2012.

It is estimated that, by 2018, three out of five jobs in Arizona will require postsecondary education or training.¹ With fewer than one in five Arizona high school students successfully finishing a two- or four-year degree, we must continue to aggressively pursue reforms that will set more students on the path to success.

Fortunately, we are already making progress toward that objective. Since 2010, our education system has undergone some of the most comprehensive, ambitious and widespread reforms in Arizona's history. For the first time, Arizona has an education reform plan, "Arizona Ready," that reaches every student in every classroom in every part of Arizona. Arizona Ready has clear goals, steps and metrics to ensure that students can read by the time they finish third grade, can graduate from high school prepared to succeed in college and in their careers, and can graduate from college ready to improve Arizona's competitiveness.

¹ Carnavale et al, "Help Wanted: Projections of Jobs and Education Requirements Through 2018," Georgetown University's Center on Education and the Workforce, <http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/fullreport.pdf>

For K-12 education, the major policy changes enacted under my watch that are moving Arizona's education system forward include:

- adopting clear, rigorous standards that prepare children to succeed after high school;
- expanding school choice options, including high-quality charter schools, increased tax credits for school tuition organizations, and empowerment scholarship accounts;
- replacing Arizona's Instrument to Measure Standards (AIMS) with an improved assessment that is aligned to Arizona's standards and measures critical thinking and problem-solving abilities rather than rote memorization;
- clearly labeling schools with a grading system that everyone understands and is based on tangible measures such as student growth in academic performance;
- ending social promotion in third grade and investing in supports for struggling readers so that every fourth grader can read;
- evaluating and rewarding educators based on effectiveness, not seniority; and
- building an effective, secure education data system that helps teachers and school leaders tailor instruction to the needs of each student.

With respect to higher education, we have reformed the State universities and community colleges by:

- adopting a focused, ambitious plan for the universities to dramatically increase outcomes while maintaining quality;
- advancing performance-based funding for Arizona's public universities;
- providing innovative, lower-cost options for bachelor's degrees throughout rural Arizona;
- enhancing accountability for community colleges; and
- dramatically increasing and improving pathway programs between Arizona's community colleges and universities to reduce the time and cost of earning a bachelor's degree.

While these reforms are already showing results, they are also meeting with resistance. There will always be those who defend the *status quo* even though it underserves, and in some cases disservices, our students. We must continue to move forward despite the headwinds impeding change. The future of our children and our great state depend on it.

K-12 EDUCATION

HIGHER STANDARDS, PERFORMANCE-BASED ASSESSMENTS

For almost a decade, Arizona leaders in education policy have been working to raise the standards and expectations for public school students. Arizona's previous standards did not give families and teachers clear measures of readiness for college and careers; thus, thousands of students graduate from Arizona

high schools only to go directly into remedial education to master that which they should have learned in high school.

Arizona's College and Career Ready Standards reflect the real-world expectations of what is necessary for students to succeed in life. The 2013-2014 school year will see the last administration of AIMS testing, which will be replaced with a new assessment that is more closely aligned to Arizona's higher standards. The new assessment will be digital and innovative, allowing for better measurement of critical thinking and problem solving rather than rote memorization. The new assessment will cost more than AIMS because, similar to Advanced Placement tests, it will contain more performance-based assessment items. This critical investment in an improved assessment system will give parents and teachers the information they need to help Arizona students advance and be prepared for success in higher education and the workplace.

STUDENT SUCCESS FUNDING

Last year, I proposed an ambitious performance funding plan, based on district and charter school letter grades, that rewards schools that earn high marks or show real improvement. The Legislature agreed to put a \$2.4 million down payment on the idea and finalize the proposal this year.

Over the past year, we received feedback from a diverse group of stakeholders, including those from the school and business communities. That feedback helped to shape my updated performance funding proposal, "Student Success Funding," which bases payments on individual student success metrics rather than district and charter school letter grades. In addition, the emphasis is on student growth, rewarding schools that help students improve and move forward.

Student Success Funding will reward schools that help good students do better, and that help underperforming students achieve above-average improvement. The incentives are clear: the greater the growth by students, the higher the reward for their school. Schools will want to show improvement with every child, regardless of a student's starting point relative to grade level, and will be rewarded every time students succeed.

In too many instances, the best school options are often located far from the families that need them most. All Arizona families deserve high-quality options for schooling regardless of where they live, and Student Success Funding will provide powerful incentives to reward schools, regardless of location and other factors, that are helping the children who are most behind to learn and move forward.

If we encourage excellence through Arizona's school finance system, coupled with the reforms already enacted, student success in Arizona will become the norm.

PROTECTING STUDENT DATA

Our students must be protected, not only from physical harm but also against the misuse of their private student-level data. As we build a data system at the Arizona Department of Education (ADE) that will provide parents, teachers and schools with useful data to help shape instruction, we must ensure that none of the data are misused. I commend ADE for instituting safeguards to protect student data, and I urge the passage of legislation that further increases the accountability of ADE's data systems and prohibits schools from collecting and reporting sensitive data.

CHARTER SCHOOL REFORM

Charter schools represent an important choice option for parents because they are free of school district rules and regulations and can tailor their offerings to students' needs. Of the 1,673 schools large enough to receive a letter grade under ADE's traditional school calculations, 22% are charter schools. Of Arizona's 20 highest-performing schools, 55% are charter schools. At the same time, charter schools make up 60% of our 20 *lowest*-performing schools.

Our excellent charter schools should be rewarded and allowed to expand, and our worst charter schools should be shut down because they are failing our children. With almost two decades of Arizona charter school history and experience, it is time to reform some of our charter school laws.

Last year, the number of charter schools authorized by local school districts increased from a handful to almost 70. That surge in district-sponsored charter schools highlighted issues surrounding charter school governance, accountability and funding equity. I look forward to working with the Legislature to address these issues.

Recognizing that high-performing charter schools are producing desired results, in recent years the State Board for Charter Schools has streamlined the process by which excelling charter schools expand and replicate. My Student Success Funding proposal will also incentivize the expansion and replication of excellent charter schools.

To address the challenge of underperforming charters, the State Board has enhanced accountability and is aggressively working to shut down failing charter schools. We should pass legislation that (a) clearly shows that no failing charter school will be tolerated and (b) gives the Board the tools necessary to easily reform or close charter schools that fail to produce results.

INTERNET ACCESS

A growing number of online educational services provide the opportunity for schools to reduce costs and improve quality – if they can access the Internet at much faster speeds. Unfortunately, the lack of broadband infrastructure, primarily fiber optic, in Arizona's rural counties and certain urban areas prevents economies of scale, resulting in costs to, for example, our rural schools that are four times the national average. Arizona's

median Internet speed per K-12 campus is 12 Mbps, with almost the same cost as for schools in Utah, where schools' average Internet speed is roughly 100 times faster.

To be competitive with other states, Arizona needs faster Internet service across the board, particularly in our school systems. Our schools would benefit from statewide management, infrastructure development and consolidated E-rate applications, an objective that could be achieved by giving the Department of Administration fee authority to charge Arizona's schools for the service. This plan will lower our schools' costs for connecting to the Internet while dramatically improving Internet speeds.

HIGHER EDUCATION

As key sources of talent generation and workforce development, Arizona's universities and community colleges fuel immediate and long-term growth in Arizona's economy.

During the State's recent budget crisis, I challenged our universities and community colleges to pursue new paths of accountability, accessibility and affordability to support the goal of increasing to 36,000 the number of bachelor's degrees awarded in Arizona by the year 2020. My Arizona Ready Council recently adopted another goal to increase the number of community college students earning associates degrees and certificates to 44,000 and the number of in-state university transfers to 12,500 by 2020. I am pleased to report that our institutions are on track to meet these goals.

While much work remains to be done, our institutions, both public and private, should be commended for their achievements. During the last four years, State institutions have dramatically increased partnership programs, which allow students to transfer seamlessly from a community college to a university, as well as innovative four-year programs throughout rural Arizona, such as the ASU Lake Havasu City and NAU Yavapai campuses.

GUARANTEED TUITION RATES

In 2008, Northern Arizona University began its "Pledge Program," which guarantees incoming freshmen a stable tuition rate for four consecutive years. This has provided stability and predictability to NAU students during trying economic times. It is time for all of Arizona's public universities to guarantee stable in-state tuition levels for the four years it should take a student to graduate. I urge the Arizona Board of Regents to develop a plan to make this a reality by school year 2016.

PARITY FUNDING WRAP-UP

For the past two years the Legislature and I have pursued a program to achieve State funding parity among our three State universities by FY 2017. My plan will wrap up this issue in FY 2015, putting it behind us so that we can transition to funding Arizona's public universities based on performance.

PERFORMANCE-BASED FUNDING

I have been a consistent champion of funding our education systems based on performance rather than on enrollment and other inputs. With performance-based funding, the incentives for the universities shift from recruiting students to ensuring that students succeed.

Arizona's university performance-based funding model should be based on:

- the measures of university performance only, not on external measures; and
- the percentage growth in overall weighted degrees produced, credit hours earned, and research expenditures secured; and
- the average percentage growth in these three areas applied to a university's total State funding, and not overall funding.

For example, if a university increases its degrees produced, credit hours earned and research expenditures secured each by 5%, its base budget would increase by 5%. For the dollars the State invests in our universities, the State sees its return in the current output levels. If the universities increase their output levels, the State should adjust their funding levels accordingly.

I do not recommend additional university performance-based funding in FY 2015. Instead, I call on the universities to work with my office and the Legislature to develop a model to put into statute this session, to be funded in FY 2016.

COMMUNITY COLLEGE STEM FUNDING

Much of Arizona's job growth will consist of positions that require postsecondary training but not a four-year bachelor's degree. Arizona's community colleges, especially in rural areas, are taking on increasing importance in workforce training and development.

Last year, the community colleges' capital outlay formula was amended to better meet local workforce needs by creating the Science, Technology, Engineering and Mathematics (STEM) and workforce formula. In the FY 2014 budget, the rural community colleges received \$2 million in STEM funding. The State should fund these rural community colleges at 100% of the STEM formula amount, to allow them to pay for the faculty, technology and equipment associated with these high-demand programs.

CORNERSTONE 3

STATE GOVERNMENT

"We in government should learn to look at our country through the eyes of the entrepreneur, seeing possibilities where others see only problems."

*-President Ronald Reagan
January 26, 1985*

The citizens of Arizona need and deserve the efficient and effective delivery of services that are the inherent responsibility of State Government. Striving to achieve that standard, through streamlining and modernizing the State's operations, is consistent with my enduring advocacy of smaller government.

As an example, when I took office, the State of Arizona was struggling to attract and retain high quality employees. Due to the archaic personnel regulations that were then in place, hiring employees took too long, firing workers was too difficult, and rewarding high performing employees was nearly impossible. By enacting personnel reform, the State is now able to more effectively compete for talented, motivated workers who have career and employment options.

In addition to reforming the personnel system, Arizona has improved the efficiency and effectiveness of government operations by:

- eliminating outmoded provisions in the State procurement code that led to unnecessary delays and excessive spending for goods and services;
- investing in critical information technology upgrades; and
- creating the Government Transformation Office, which is charged with working with state agencies to eliminate inefficiencies and redundancies by implementing private sector innovations and practices.

These broad policy reforms have been aimed at improving State Government as a whole. I am also committed to enacting targeted reforms where such action serves the public interest. When achieving excellence in an essential public service requires the creation or expansion of a specific program or State agency, I have been willing to support such strategies when the interests of Arizonans require them.

CHILD PROTECTION

Child safety and well-being are of the utmost importance, and State Government's role in ensuring child safety should be performed in a manner that inspires the highest level of public confidence. Sadly, the child protection system has long been a major source of concern and distrust.

Although numerous, substantial reforms are underway and many have already been implemented, we must remain committed to child safety and well-being and ensure that child safety is not compromised. I urge State policymakers to join

with me in continued efforts to strengthen our child welfare system through significant, long-term reform.

INVESTIGATIVE INTEGRITY

In 2011, I convened the Child Safety Task Force to review the State's child welfare system and recommend appropriate reforms. One of those recommendations was the creation of the Office of Child Welfare Investigations (OCWI), to investigate criminal conduct allegations of child abuse and neglect. Though the Office has been operational only since May 2013, it has already made a positive impact on child safety by effectively partnering with law enforcement and Child Protective Services (CPS) to address criminal conduct allegations of child abuse and neglect.

However, due to funding restraints, OCWI is able to investigate only about 17% of the criminal conduct allegations received via the Arizona Child Abuse Hotline. It is vital for the OCWI to continue to strengthen the child safety system through uniform, law enforcement-informed investigations in high risk cases. In order to achieve that goal, the Office must begin to increase its investigator staffing.

Additionally, OCWI, instead of CPS, should operate the Child Abuse Hotline. OCWI should be the responsible party in determining whether child abuse and neglect allegations involve criminal conduct and which response times are most appropriate for the misconduct alleged.

In November 2013, OCWI discovered that CPS had closed, without investigation, more than 6,000 reports of child abuse and neglect since 2009. Armed with the knowledge that child safety had been compromised for the past several years, I ordered the Department of Public Safety (DPS) to conduct an administrative review of the disposition of the neglected reports. Additionally, I established an independent Child Advocate Response Examination (CARE) Team to oversee the investigation of the uninvestigated reports and to identify possible reforms within CPS to ensure that investigative failures would not be repeated. Their recommendations will provide a blueprint for how we can further strengthen our child safety system.

AGENCY RESTRUCTURING

Meaningful process improvements, policy innovations and management practice changes are imperative to improving child safety and outcomes. However, their impact will be limited as long as child protection is housed within an agency with competing missions and needs. It is evident that the size and structure of the Department of Economic Security (DES) discourages transparency in, and accountability for, child safety and well-being. The time has come to separate child protection from DES and create a stand-alone agency whose sole focus is child safety.

Creating a separate agency will require Legislative action. I implore the Legislature to work with me, and with child

welfare stakeholders, in the development and implementation of the new Child Safety and Family Services Agency.

In the meantime, I have abolished the DES Division of Children, Youth and Families, which currently houses CPS and other child welfare programs, and established a new cabinet-level Division of Child Safety and Family Services within DES. The Division's Director will report directly to my office on all administrative and policy matters involving child welfare.

CASELOAD MANAGEMENT

In addition to an independent operating structure, funding for the appropriate amount of caseworkers remains vital to a successful child welfare system. CPS caseworkers must be able to manage reasonable caseloads in order to ensure child safety and timely permanency. When government intervention is necessary in the protection and defense of children in harm's way, it is the government's duty to provide appropriate intervention and support in a timely manner.

FOSTER CARE AND ADOPTION

More than 15,000 children are in the State's care and custody, hundreds of whom long for a permanent home. It is critical that we find and retain safe and loving families to care for them.

For several years I have been committed to engaging the community in this effort. Last year, I signed a budget that included a new individual income tax credit for contributions to charities that provide services to foster children. I have also asked DES to strengthen its foster care recruiting, retention and adoption efforts. In response, DES has created a support and resource hotline for foster parents, partnered with community organizations to host events celebrating foster families, and created a statewide Children's Heart Gallery to promote children in the State's care who are waiting to be adopted. I have asked that the Department sustain its foster and adoptive family outreach and retention efforts and look forward to the CARE Team recommendations that relate to these issues.

Additionally, in 2010 I established Arizona SERVES to connect faith-based and non-profit organizations to help meet the needs of our most vulnerable, particularly within the realm of foster care and adoption. Over the past three years, Arizona SERVES has:

- launched and supported numerous initiatives to recruit and support foster families;
- received national recognition for connecting the faith community with government programs to address pressing needs, especially regarding the recruitment of foster care and adoptive families; and
- substantially supported efforts to find "forever homes" for children in the State foster care system.

However, our work is far from complete. As our State child welfare system encounters caseload growth and families continue to struggle, the faith-based and non-profit communi-

ties are needed more than ever. I am so grateful for the compassion and generosity that continues to come out of the work of Arizona SERVES and am heartened to see communities supporting those who are in need.

HUMAN TRAFFICKING

Human trafficking is a worldwide epidemic of exploitation of our most vulnerable populations. Commonly thought of as an international problem, victims of human trafficking are both U.S. citizens and foreign nationals. They are male and female, and come from all races, ages, socioeconomic classes and geographic locations. Victims are recruited for forced labor or sexual exploitation by means of violence, fraud or psychological manipulation. Stripped of all freedoms, victims are continually resold for labor or commercial sex, forced to live in inhumane conditions and unable to eat, drink, talk or sleep without permission from their traffickers. Victims are treated worse than animals, called derogatory names and forced to live under the constant threat of violence.

Human traffickers prey upon children, runaway and homeless youth, previously traumatized individuals, prior victims of sexual assault, and individuals taken to foreign lands without paperwork or knowledge of the foreign language. This modern-day form of slavery must be put to an end and we must secure Arizona's vulnerable populations.

Last year I established a task force to examine Arizona's human trafficking statutes and consider recommendations for strengthening them. After careful consideration and input from more than 16 subject-matter experts, the task force submitted 27 recommendations for strengthening Arizona human trafficking laws and preventive practices. The recommendations increase protections for victims, fortify penalties for persons who traffic and solicit services from victims, and facilitate a better statewide response to human trafficking overall.

Accordingly, I will work with the Legislature to strengthen our State laws around human trafficking in order to better protect and serve victims, penalize perpetrators and prevent trafficking. I will also establish an ongoing statewide council on human trafficking. The council will continue to identify and implement best practices, develop a comprehensive and coordinated victim services plan, and evaluate statewide human trafficking data.

Additionally, in an effort to bring this issue to the forefront of public consciousness, I will launch a statewide public awareness campaign to create zero tolerance for this crime against humanity in Arizona. By raising public awareness, community members will more easily identify victims and vulnerable individuals, which will prevent further victimization.

HEALTH CARE

Arizona has a distinguished history of innovation in health care, based on the free market principles of competition, choice, public/private partnerships and limited government regula-

tions. This approach has ensured a highly competitive private health insurance market, with some of the lowest premiums in the country. The Patient Protection and Affordable Care Act (PPACA) mandates, regulations and new taxes have resulted in higher commercial insurance premiums (at an average of 50%), policy cancellations and fewer choices for employers and individuals.

AHCCCS

Arizona was the last state to join the Medicaid system and the first state to utilize managed care in a public/private partnership that provides high quality care to AHCCCS² members and controls costs. This innovative approach to Medicaid has made the AHCCCS program a national model that other states can use to bring their Medicaid spending under control.

In 2000, Arizona voters approved Proposition 204, which provided coverage, within available resources, for all Arizonans with income less than 100% of the federal poverty level. During the recent recession, enrollment for childless adults was temporarily frozen to help address Arizona's unprecedented budget crisis. In addition, AHCCCS implemented a Medicaid Modernization Plan to ensure that Arizona's Medicaid program was fiscally stable and free of abuse and waste.

The Medicaid Modernization Plan has given Arizona the flexibility in eligibility, cost sharing, benefits and provider reimbursement to drive down costs, without sacrificing access to high quality health care. This innovative approach ensures that AHCCCS remains the national model for providing quality health care at an affordable cost to low-income Arizonans.

Despite the best efforts of Arizona and a coalition of 25 other states, the U.S. Supreme Court upheld the bulk of the PPACA, and it remains the law of the land. By restoring eligibility for childless adults and expanding our Medicaid program slightly above what Arizona voters have already approved through Proposition 204, we will have:

- protected rural and safety net hospitals from either reducing needed services or closing completely due to the increasing costs in caring for the uninsured;
- injected almost \$1.6 billion annually into the Arizona economy, which will save and create thousands of well-paying jobs in the health care sector;
- prevented more than 63,000 childless adults from losing their AHCCCS coverage and enable 240,000 Arizonans to enroll in AHCCCS;
- reduced the hidden health care tax of almost \$2,000 that employers, individuals and families are paying in their health insurance premiums; and
- ensured that the General Fund bears no costs for the Proposition 204 population and that the slight expansion

² Arizona Health Care Cost Containment System

through an assessment on hospitals cannot be passed onto consumers.

Arizona continues to lead the nation in Medicaid innovation. AHCCCS is embarking on a Payment Modernization and Integration plan to bend the upward trajectory of health care costs. Transforming health care delivery and Medicaid payment models is essential to reducing growth in per capita expenditures and improving members' health outcomes. AHCCCS is requiring its contracted health plans to transition to payment models that emphasize value-based purchasing, provider integration and accountability for health outcomes.

Program integrity continues as a key focus for the AHCCCS program. Working with the Division of Motor Vehicles, AHCCCS has implemented a photo ID match that allows providers to match the identity of an AHCCCS member with their AHCCCS ID without adding administrative costs. This technology offers an easy, effective way to prevent member fraud.

Finally, Arizona continues to lead the country in innovative ways to increase personal responsibility within the Medicaid system. AHCCCS members are already responsible for co-payments and premiums to the extent allowed under federal law. Demonstration projects are underway to increase personal responsibility, such as allowing providers to assess a penalty for missed appointments or requiring a co-pay for adults who use non-emergency transportation in an urban area.

COVERAGE INNOVATIONS

Despite the broad scope of AHCCCS coverage, more than 1.2 million Arizonans do not have access to health insurance, which imposes a strain and additional costs on the health care delivery system. The high costs of providing uncompensated care to the uninsured are passed on to consumers and employers through higher health insurance premiums.

In response to the increasing burden of uncompensated care, Arizona has implemented two innovative programs critical to Arizona's safety net health care delivery system: the Safety Net Care Pool and the Indian Health Services/tribal facilities supplemental payment program. Both programs have enabled Arizona to draw down hundreds of millions of dollars in federal funds to assist safety net hospitals and tribal health facilities with their uncompensated care costs. In addition, the Safety Net Care Pool has allowed more than 21,000 children to enroll in KidsCare, at no cost to the General Fund.

BEHAVIORAL HEALTH

Throughout my political career, I have made improving Arizona's behavioral health system a priority, and Arizona has made great strides in funding a community-based behavioral health system. According to a recent national study, Arizona ranks fifth nationally in spending on community-based programs and had the fewest residents per capita living in a state psychiatric hospital.

In Arizona, an individual with a serious mental illness (SMI) may have to navigate as many as five different health systems to get the care they need. The life expectancy for an individual with SMI is, on average, 30 years shorter than that of the general population. This shortened life span and other health problems are largely due to treatable medical conditions, such as diabetes and hypertension, and modifiable health behaviors, such as smoking and obesity.

The Arizona Department of Health Services (DHS) is moving the behavioral health system for Title XIX eligible members to a "Recovery through Whole Health" program that integrates behavioral health and physical health care at both the clinical and administrative levels. This patient-focused approach will result in a better quality of life for patients, less money spent on administrative overhead, and more funding for patient services. Integrating behavioral health care and physical health care will make Arizona's behavioral health system a national model.

To serve individuals who have SMI and do not qualify for Medicaid, \$39 million was added to the DHS budget for additional services. Community mental health services – such as supported housing, supported employment, family and peer support, living skills training and respite care – will improve the quality of life for patients and their families.

ARNOLD V. SARN SETTLEMENT

For more than thirty years, Arizona's behavioral health system for Maricopa County patients with SMI has been governed by the *Arnold v. Sarn* lawsuit. The state and the plaintiffs have reached a permanent agreement that will end this case by reaffirming Arizona's commitment to a community-based behavioral health system of care.

The historic agreement ensures that DHS will continue to provide such key community-based services as supported housing, supported employment, peer support and assertive treatment teams, which are essential in helping patients with SMI. The agreement incorporates national behavioral health standards and protocols, an annual quality service review that will determine whether patient needs are being identified and met, and an independent service capacity assessment to ensure the availability of providers. The independent reviews will enable DHS to continually refine the behavioral health system so that patients with SMI receive the quality care they need in the community.

The agreement is structured in such a way that it remains enforceable by the courts. If DHS were not to live up to the terms of the agreement, plaintiffs would be able to reopen the case by filing a motion with the court. This approach guarantees that Arizona will maintain its commitment to a community-based behavioral health system.

RENEWED FEDERALISM

"In this relation, then, the proposed government cannot be deemed a National one; since its jurisdiction extends to certain enumerated objects only, and leaves to the several States a residuary and inviolable sovereignty over all other objects."

-James Madison
Federalist Paper, No. 39

The United States of America has endured as a democracy for more than 237 years largely because the Founding Fathers designed a system of governance that, instead of concentrating power centrally, reserves to the states all powers not specifically vested in the federal government.

Unfortunately, over the last century Washington, D.C., has succeeded in blurring its intended relationship with the states and, at an accelerating pace, usurping state power and claiming it as its own. Gone unchecked, this federal overreach threatens the future of our nation.

Efforts to reverse this trend will succeed only if they originate in the states. Our elected leaders in Washington have consistently proved unable and unwilling to limit the reach of the federal government, so it is up to Arizona and the 49 other states to push back against policies that encroach on state authority.

It is only natural that Arizona would take a leadership role in this task of restoring an appropriate balance of power between the federal government and the states. Throughout our history, preceding statehood, there have been periods of contention between Arizona and Washington, D.C., including my time as Governor. From its failure to secure the nation's southern border and responsibly manage federal forest land to the attacks on private employers from the Environmental Protection Agency (EPA) and National Labor Relations Board (NLRB), the current administration has attempted to expand the reach and power of the federal government to unprecedented levels.

Arizona has responded to this overreach in various ways. We fought in court against the Patient Protection and Affordable Care Act and in favor of our authority to cooperatively enforce federal immigration laws. We have worked to maximize the number of environmental programs that are administered at the state level by our Department of Environmental Quality (ADEQ), rather than by the EPA, and we have taken steps to protect Arizona's interests related to wildlife, land, water and natural resources.

In 2011 I made the decision to pursue a policy of "Renewed Federalism," fully recognizing that such an endeavor would require a sustained effort across a wide variety of policy areas that are impacted by the federal government. Going forward, we must protect our achievements and remain vigilant in protecting Arizona from further encroachments on state authority.

NATURAL RESOURCES

Arizona's abundant natural resources have given our great state a solid foundation from which to grow and prosper in our second century. From the beauty of the Grand Canyon and our ponderosa pine forests, to the many species that inhabit our lands, to the minerals found under our lands, Arizona is richly blessed.

A doctrine of "multiple use" must be our guide. During our first century, Arizonans planned and managed our resources, balancing economic development with creating a healthy environment.

WATER

For example, over the past 100 years, Arizonans have continually planned and managed our most precious resource: water. Without the visionary leadership of great Arizonans like Senator Carl Hayden and Congressman John Rhodes, we would not have the water infrastructure that provides the basis for our modern quality of life. Hayden, Rhodes and other giants of Arizona history demonstrated that, as Arizonans, we can successfully plan for our future. And just as they paved the way for Arizona during its first century, we are preparing for our second century with a "strategic vision" to meet future challenges associated with water planning. This "vision" is designed to provide the foundation for future discussions among the Arizona Department of Water Resources (ADWR) and stakeholders in communities around the state.

FOREST MANAGEMENT

A prime example of the obstacles imposed by our federal government is found in the area of forest management and the Four Forest Restoration Initiative (4FRI). The 4FRI is a collaborative effort to restore forest ecosystems on portions of four national forests – Coconino, Kaibab, Apache-Sitgreaves and Tonto – along the Mogollon Rim in northern Arizona.

The importance of the 4FRI, the largest restoration project undertaken by the U.S. Forest Service, is emphasized by two recent Arizona forestland disasters: the Wallow fire, our largest ever, and the Yarnell Hill fire, our most deadly.

The underlying premise of 4FRI is the recognition that it is much more cost-effective to create a healthy forest through thinning, which makes our forests more fire-resistant, than to pay the financial and human costs of fighting a fire. Re-establishing healthy forests protects property, lives, species and habitats, and it will create much needed jobs in rural Arizona-jobs that recreate a timbering industry and jobs based on recreational activities such as hunting and hiking.

Despite its importance, 4FRI is off to a painfully slow start. The hiring of a second 4FRI contractor by the Forest Service is an encouraging sign, but we cannot continue to wait for action from the federal government. That is why the Executive Budget Recommendation includes funding for training and assistance

to educate homeowners and communities about “Firewise” techniques; training for local wildland firefighters; and removal of hazardous vegetation.

FEDERAL OVERREACH

Other instances of the federal government trying to tell us how to manage our State include the following:

- The EPA, in its Regional Haze rules, requires us to install costly emission controls on our coal-fired energy plants for improvements that will not be discernible by the human eye.
- The EPA, under Particulate Matter (PM10) rules, fails to recognize our accomplishments to control dust. Further, it is costing the State significant monies to prove to EPA that dust storms and other natural phenomena are not controllable.
- The Forest Service’s proposed Forest Travel Management rules would limit access by recreationalists to forest lands by restricting the number of roads and areas where camping is allowed.
- The Forest Service enacted a 72-hour camp site abandonment restriction, under which it proposed to confiscate any trailer or camping equipment left unattended for more than 72 hours. Fortunately, the Arizona Game and Fish Commission helped to negotiate a reasonable solution.
- The Department of Interior (DOI) closed the Grand Canyon, the crown jewel of the Park Service, during the federal government shutdown, until Arizonans paid the DOI to reopen it.
- DOI has placed a ban on uranium mining on a million acres in and around the Grand Canyon, ignoring the fact that Arizona has a successful permit program for this type of mining.

These are but a few of the areas in which the federal government is trying to control Arizona’s destiny by controlling our natural resources. This is not the federalism that I learned in school; this is better described as “nationalism.”

STATE COORDINATION

As a member of the Arizona House of Representatives and the Senate, as a Maricopa County Supervisor, as Secretary of State and as Governor, I have witnessed the growing encroachment of nationalism. I have been and always will be an ardent supporter of local control.

In an effort to coordinate the State’s response to these federal intrusions, I issued Executive Order 2-2013, which created the Natural Resources Review Council (NRRC). We sought to ensure that all of the appropriate State agencies are in fact contacted by the federal agencies that propose changes such as

those mentioned above. The NRRC has proposed that a “clearing house” be established to receive the requests and coordinate the State’s response. I will be notifying the federal government that the Governor’s Office of Strategic Planning and Budgeting will be the State’s clearing house.

We have proven that we can be a good partner. Given the complexities that surround our relationship with the federal government and the issues we must resolve, we and they need to look to a model that is based on collaboration. As an example, 4FRI epitomizes the essence of collaboration and collaboration will make 4FRI a success.

FEDERAL OVERSIGHT OF LOCAL ELECTIONS

Since 1975 Arizona elections have occurred while under the thumb of the federal government, needing the approval of the U.S. Department of Justice before making any changes to voting-related laws and procedures. Even though, prior to 1975, Arizona had corrected the issues that initially prompted the Justice Department’s intervention, the federal government still felt the need to control the state.

In 2011, Arizona joined several other states in supporting Shelby County, Alabama, in its lawsuit against the federal government in an attempt to remove ourselves from Justice Department control of our elections.

On June 25, 2013, we were victorious, when the U.S. Supreme Court struck down as unconstitutional a portion of the Voting Rights Act of 1965 that required the use of an outdated formula to determine whether a state or jurisdiction was in violation of the Act. The *Shelby County v. Holder* decision freed Arizona from the unnecessary, onerous and costly control that the federal government exerted.

In Arizona, we have shown that we are more than capable of managing our own elections. From developing early voting programs to establishing better ways for our service men and women to vote and safeguarding the rights of voters in rural Arizona, we continue to place a strong emphasis on having our voices heard and allowing Arizona to determine its own future.