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Tools of the Trade

2003 Innovations Awards

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on the cover
CSG's 2003 Innovations Awards winners offer tools of the trade to help other states.
Cover by Jeff Bledsoe

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November/December 1933

November 8
President Franklin Delano Roosevelt created the Civil Works Administration to create jobs for unemployed Americans. It was replaced in 1934 due to the Federal Emergency Relief Act.

November 16
President Roosevelt established diplomatic relations with the Soviet Union.

December 5
Congress ratified the 21st Amendment to the Constitution, which repealed prohibition, allowing the manufacture and sale of liquor in the United States once more.

Ideas flourish in state capitals

BY JACK PENCHOFF

"… It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory and try novel social and economic experiments without risk to the rest of the country."

— Supreme Court Justice Louis D. Brandeis (1932)

Although states face challenging times coping with the current economic downturn, the flow of innovative ideas for delivering state government services continues to flourish throughout the nation's state capitals.

This month, *State Government News* recognizes eight state government programs that have addressed problems in their states with creative and resourceful solutions.

These eight programs were selected from a pool of nearly 300 entries that were submitted for The Council of State Governments' 2003 Innovations Awards program.

All of this year's entries were prime examples of how states are taking the initiative in solving the tough problems in our nation.

The eight finalists we highlight this month were selected by state officials who found these programs the most relevant and adaptable for other states. Two from each of CSG's four regions were selected and were recognized during a special awards luncheon October 25 at CSG's Annual State Trends and Leadership Forum in Pittsburgh.

Many of this year's entries involved the use of technology. This month, CSG's **Trends Research and Response Group** looks at how states are adapting technology advances in policy areas such as health, education, and the environment.

Also this month, we look back at the historic Master Settlement Agreement signed five years ago by 46 states and the tobacco companies. **Melissa Taylor,** CSG's chief research analyst, and **Irakli Khodeli**, research intern, found that the MSA hasn't entirely delivered on promises made by both sides.

Trends for addressing the rising costs in health care and corrections are emerging among the states. Several states are experimenting with different types of pharmacy benefit management plans. **Sally Sue Brown**, a CSG health policy analyst, looks at some of those plans and how they can be used as models for other states.

And as burgeoning prison populations strain the budgets of corrections departments, many states are instituting reforms. **Karen Imas**, publications manager of CSG's Eastern Regional Council, writes about the changing face of corrections.

Like the general population, the nation's prison population is also aging. **Chad Kinsella**, a public safety and criminal justice policy analyst with CSG, shows in a TrendsAlert article the correlation between rising health care costs and the increase in health care costs for inmates.

CSG's newest affiliate is featured this month in an article by **Emily DeMers**, executive director of the Emergency Management Accreditation Program. DeMers profiles Ellis Stanley, director of emergency management for the city of Los Angeles and chairman of EMAP.

Ellis Stanley speaks at a Los Angeles news conference.

Residents play role in emergency management

Emergency manager makes case for broad-based preparedness

BY EMILY DEMERS

If done right, a state or a community has many more people and organizations involved in disaster preparedness and response than people realize.

Ellis M. Stanley Sr., general manager of the Los Angeles Emergency Preparedness Department and a 28-year veteran of emergency management, is a leader in a growing chorus of state and local practitioners and officials who advocate a holistic approach to disaster preparedness.

"People have more capability and more of a role than they may realize" in disaster preparedness and response, said Stanley.

"I believe every department that works for a jurisdiction has a role and responsibility in emergency management. While I don't have enough people working for emergency management, at the same time I acknowledge that I have 42,000 (city employees) who are part of the emergency management program. We require things of them," he said. He also noted that local organizations such as the Chamber of Commerce and the private sector are key partners. "My job is to take advantage of those resources."

In addition to his role as director of emergency management for the city of Los Angeles, with a population of 3.6 million, Stanley currently serves as chairman of the Emergency Management Accreditation Program Commission. EMAP, an affiliate of The Council of State Governments, is a voluntary accreditation process for state/territorial and local government emergency management programs. EMAP recently granted accreditation to two programs that are the first to reach that milestone: Florida and the District of Columbia.

"Jurisdictions that work toward and achieve compliance with these standards are at the forefront in making sure they have an established, viable system in place to deal with disasters," Stanley said of the recent accreditations.

In his city role, as in EMAP, Stanley advocates a proactive, inclusive approach to preparing his city and its residents for whatever situations may arise, from a major sporting event to earthquake to terrorist attack.

"When I took the Los Angeles position, I said we'd get prepared one Angeleno at a time. Now I don't know if I have time to do that," Stanley said, noting today's more urgent need to make sure that communities and individuals are prepared. Los Angeles has begun working through neighborhood councils to provide residents the preparedness information they need and to identify issues that need to be addressed.

"You have to be able to understand the political fabric of the jurisdiction's communities. You have to know where the knowledge, talent, and resources are in a community and be able to tap those resources," he said.

In 1975, when Stanley landed a job as the civil preparedness director in his home county of Brunswick County, N.C., after graduating from the University of North Carolina at Chapel Hill, he started on a path that has placed him in interesting situations where he has been able to make a positive impact.

"I had no clue what I was getting into," he said. Stanley applied for the job and was selected, a fact he acknowledges was probably related to the county's need to hire a minority applicant. He made sure his supervisor knew he was there to do the job. He participated in civil defense and emergency management training courses and found a role he continues to enjoy more than 27 years later.

"I started looking for a job, and I found a profession and career," Stanley said. "It was something I enjoyed and took to heart."

In Brunswick County, which at the time had a population of 40,000 (200,000 during the summer beach season), he gained experience in hurricanes and held one of the first fixed nuclear facility exercises after the Three Mile Island nuclear power plant disaster in 1979. Later, as emergency manager for Durham-Durham County, N.C., he took on a position with more staff and worked with the transportation, hazardous materials, and growing population issues of a county near the Research Triangle. In 1987, he became the emergency management director for Atlanta-Fulton County, Ga., a position he held until moving to Los Angeles in 1997.

Stanley has participated in and enjoyed special event planning and training throughout his career, from assisting with training for the Summer Olympic Games in Los Angeles, to political conventions, papal visits, World Cup soccer events, and the 1996 Summer Olympic Games in Atlanta.

"That's been rewarding, to be able to have had responsibility to make sure those are safe," he said. He noted that special events give emergency management systems the opportunity to use plans, procedures and resources for an event for which the date is known. "They are planned potential disasters, and if you do it correctly, you anticipate the worst case and prepare for it."

When the Olympic Park bombing occurred during the 1996 games in Atlanta, plans and procedures – particularly medical response planning and the Metropolitan Medical Response System team – worked well, Stanley said. The city was proud to be able to reopen the games quickly and safely after the tragedy and horror of the bombing. "We were able to say 'No one will take our games from us.'"

Preparing for the Atlanta games proved a challenge – from early work convincing people that Atlanta had the capability to safely manage a huge event like the Olympics, to helping organizers and leaders understand that in addition to security, the city had to address public health, public works, public safety and public education. Stanley said the Olympic Games brought him a closer relationship with the private sector and a better understanding of its importance in emergency preparedness, awareness and response.

Above: Emergency management coordinates with various agencies, including the l
In L.A. that can include reserve officer and Lakers center Shaquille O'Neal (far ri
Ellis Stanley with former IAEM President Bob Andrews and Homeland Security Se
Ridge at the White House.

Before the games, Atlanta-Fulton County had put in place a system linking hospital and physician information with multiple emergency operations centers that would be active in the Atlanta area during the games. That information proved especially important when the bombing occurred.

Emergency management has changed since Stanley started in the discipline in 1975. Significant changes nationally include the creation of the Federal Emergency Management Agency in 1979 to bring together various federal disaster programs into one agency. More organizations began tracking emergency response and preparedness activities and more training became available both for emergency managers and for elected officials. "Before that, there had been a gap in attention and training since the old civil defense days," Stanley noted.

"At this point, post-9-11, more elected officials understand the need for disaster preparedness," Stanley said, "but we need to do a better job of explaining that natural disasters are not going to stop happening. We still have a huge responsibility there." He noted that additional activities to address homeland security must work in concert with established emergency management programs to avoid creating duplicate or conflicting systems.

"If you have a good emergency management program, I would think you would make homeland security activities a piece of that and not create new processes."

He said elected officials and policy-makers now understand more than ever that an emergency management position cannot be a patronage job.

"Officials are looking for people with particular skill sets because they know it is important. We've seen officials not get re-elected because of bad disaster response – something as simple as poor snow removal in a winter storm." He noted a surge in recent years in professionalism in emergency management, including certifications and accreditation, and specialized education and training for emergency managers.

Stanley has held leadership roles in many national organizations, including the International Association of Emergency Managers, American Society of Professional Emergency Planners, and the National Defense Transportation Association, and as a member of the Certified Emergency Manager Commission. In addition, he is probably the only emergency management director in the country to have received an Emmy. The accolade came in

the Port Police. 'ar right). Right: ity Secretary Tom

2001 for a television public service announcement he produced on emergency preparedness.

The attacks of Sept. 11, 2001, and the subsequent creation of the federal Department of Homeland Security have changed the landscape again, bringing attention to prevention and terrorism avoidance activities and to the status of catastrophic disaster response capabilities. Because addressing prevention activities can sometimes be hampered by barriers among disciplines, the best move, Stanley notes, is to continue to seek an inclusive, programmatic approach, bringing multiple agencies and players to the table together to work through different perspectives, to identify gaps, and to establish common objectives.

— *Emily DeMers is executive director of the Emergency Management Accreditation Program, an affiliate of The Council of State Governments.*

Internet resources

- Emergency Management Accreditation Program
  (www.emaponline.org)
- Los Angeles Emergency Preparedness Department
  (www.lacity.org/epd/index.htm)
- National Emergency Management Association
  (www.nemaweb.org)
- Federal Disaster Information
  (www.disasterhelp.gov)

Emergency management accreditation reaches milestone

With the first awarding of national emergency management accreditation to two jurisdictions, the Emergency Management Accreditation Program, or EMAP, has reached a key milestone at an opportune time.

The EMAP Commission's September votes to grant accreditation to the emergency management programs of Florida and the District of Columbia concluded months-long processes for those jurisdictions in working toward accreditation. The action also marked the culmination of six years of work by many stakeholders to create a voluntary, national assessment and accreditation process for the state systems that coordinate preparedness for and response to disasters.

"Accreditation is a huge step for emergency management in this country," said Ellis M. Stanley Sr., chairman of the EMAP Commission. "We are pleased to see state and territorial emergency management programs striving to meet national standards."

EMAP uses collaboratively developed national emergency management standards along with peer assessment teams to evaluate a program's activities. EMAP looks at a jurisdiction's entire "program" for preparing for and responding to disasters of all kinds, from tornadoes to acts of terrorism. The standards used, collectively called the *EMAP Standard*, are based on the National Fire Protection Association 1600 S*tandard on Disaster/Emergency Management and Business Continuity Programs* (2000 edition) and were developed by state, local and federal emergency management practitioners.

"Whether or not you become accredited, you benefit," Florida Division of Emergency Management Director Craig Fugate said of the assessment and accreditation process. "Our knowledge base is documented much more than it was before this process. We had a lot of work to do, but the benefits far outweigh the work you put into it."

In January, EMAP began a project with the U.S. Department of Homeland Security/Federal Emergency Management Agency to conduct assessments of all state and territorial emergency management programs. Baseline assessments using EMAP provide a methodology to evaluate emergency management programs against a consistent set of criteria to help programs develop prioritized improvement strategies. As of late September, 13 jurisdictions had gone through a baseline assessment, and 15 more had scheduled their assessments. If desired, states can use their baseline assessments to seek emergency management accreditation.

Standards for emergency management

The *EMAP Standard* can be applied to an emergency management program of almost any size, and while scalable, the standards are not easy. Key aspects of preparedness and response that received heightened attention after the Sept. 11, 2001, terrorist attacks are addressed within the standards, such as continuity of operations planning, alternate emergency operating facilities, interoperability, and use of an incident management system. The *EMAP Standard* covers 14 functional areas, including program management, hazard identification and risk assessment; resource management; planning; communications and warning; training; and exercises, evaluations and corrective actions.

A new CSG affiliate, EMAP is a tax-exempt nonprofit organization created through the collaboration and support of many groups, including the National Emergency Management Association, International Association of Emergency Managers, U.S. Department of Justice Office of Justice Programs, Federal Emergency Management Agency, U.S. Department of Transportation, The Council of State Governments, National Governors Association, National League of Cities, individual states and others. EMAP is governed by the nine-member EMAP Commission. EMAP staff work out of the CSG Lexington office.

More information can be found at *www.emaponline.org*.

The ABCs of PBMs

New models for managing drug costs

BY SALLY SUE BROWN

Most Americans show up at their local pharmacy, their plastic drug cards in hand, with little idea of how prices and co-payments are determined or how their drug benefit is managed. They know they pay different co-pays for different drugs, but they don't know why. Headlines and rising drug costs over the past few years, however, have captured the attention of average Americans and state officials alike.

States have taken the lead in developing new models to manage drug benefits. In some cases these new models draw heavily from the private sector and in others, they venture into new territory. Grappling with drug-cost growth as high as 18 percent, states have looked at pooling purchasing among agencies or even among states. States have also used their Medicaid buying power to help the uninsured receive prescription drugs at a discount.

> States have taken the lead in developing new models to manage drug benefits.

One increasingly common strategy states are examining is banding together to increase their purchasing power. In many cases states have joined together and contracted with a private pharmacy benefit manager (PBM) for services.

The Northern New England Tri-State Coalition, for example, linked executive agencies from Maine, New Hampshire and Vermont to issue a joint request for proposals for PBM services in 2001. While the states negotiated with the same company, each one is establishing a separate contract with the PBM. Through their combined buying power, the states expect to save between 10 percent and 15 percent a year on prescription drugs.

"It's been a very successful program for us and it has saved a lot of money," said Vermont Rep. Pat O'Donnell. "We don't believe our program has compromised care in any way. While generic therapies are on the preferred list, patients can get the brand name if the doctor requests."

A similar effort was launched through a Pharmacy Working Group made up of several state employee purchasing agencies that had previously contracted with separate PBMs for their employee health benefits. In 2002, four states – West Virginia, Maryland, Missouri and New Mexico – issued a joint request for proposals. West Virginia and Missouri subsequently selected a single pharmacy benefit manager, and the other two states were able to renegotiate existing PBM contracts at lower rates. West Virginia estimates that the process will save the state $25 million over three years. The multistate PBM was one of the winners of CSG's 2003 Innovations Awards.

In February 2003, Michigan and Vermont announced a plan to work together on Medicaid drug purchasing; Wisconsin and South Carolina quickly joined them. Other states have also expressed interest but each will have to develop or adopt a similar preferred drug list in order to work together.

In May 2003, the Centers for Medicare and Medicaid Services, the federal agency that oversees Medicaid, announced it would allow and provide states with guidance on multistate purchasing arrangements for Medicaid.

In addition to multistate purchasing programs, several states have pooled covered populations within their state agencies to negotiate better prices. For example, in Georgia, the Medicaid program and state employee health benefits plan jointly purchased PBM services and are using a common preferred drug list. Similarly, the Texas Legislature created an interagency council to develop methods for bulk purchasing in hopes of saving $13 million over the next two years. And Michigan created a common preferred drug list for all state programs that purchase pharmaceuticals and has contracted with a PBM to negotiate prices.

How does pharmacy benefit management work? PBMs apply private sector best practice techniques to manage drug costs and access. Their basic functions are to negotiate best prices with manufacturers based on volume, develop a formulary or preferred drug list to encourage patients to use only certain drugs, manage the drug benefit on behalf of purchasers, and contract with pharmacies to create a network for patients to use.

As states have looked at developing new models for drug purchasing, many have followed the private sector's lead and have used private PBM companies to manage their drug benefits. As of July, 22 states had contracted directly with a PBM company to manage drug purchasing and distribution on their behalf, according to the National Academy for State Health Policy.

Since the early 1990s, PBM companies have acted as middlemen between purchasers and pharmacies, promising to cut costs for employers and health plans. The savings come through bulk purchasing as PBMs use their mass buying power to negotiate discount prices on behalf of their clients. Such arrangements also provide convenience for patients, who can have prescriptions filled and only pay the co-payment at the pharmacy. For health plans and employers, PBMs offer specialized expertise in drug management, higher savings and less hassle because the company handles claims processing and reimbursement.

State contracts with pharmacy benefit managers have brought both questions and concerns. PBMs are for-profit companies and have received increased scrutiny by the media and health care analysts in recent years. Some critics contend that PBMs make excessive profits off programs designed to cut costs.

There are three ways PBMs make money: charging administrative fees, collecting a percentage of the cost of each drug dispensed, and taking advantage of manufacturer rebates. Over the years, the fees PBMs charge for their services have actually decreased as the profit potential in drug ingredient costs and rebates has increased. When the PBM industry started out, administrative fees were about $1 per transaction. Now, increased competition and the ability to make money in other aspects of the business have caused fees to plummet to about 19 cents per transaction.

PBMs can profit when a prescription is filled. For example, a PBM may contract with a drug manufacturer to pay $10 for a prescription, but then bill the payer $13. The purchaser is generally glad to pay less than the regular $20 selling price and assumes that $13 represents the best cost savings the company can negotiate. What purchasers sometimes may not realize is that the PBM made a profit of $3. In a health care system where every penny counts, some customers may be frustrated that the price they pay is not the lowest negotiated price.

"Much of the controversy is based on misunderstandings," said Robert Garis, assistant professor of pharmaceutical and administrative sciences at Creighton University. "Most employers think they are charged the actual price that is negotiated and are shocked to discover that these companies are profiting in the process of generating savings."

Another related criticism of PBMs is that they may make formulary decisions based on the potential for greatest profit rather

Continued on page 36

Health care costs strain prisons

BY CHAD KINSELLA

Between 1998 and 2001, state corrections budgets grew by an average of 8 percent annually and accounted for 7 percent of all state general fund expenditures, according to the National Association of State Budget Officers. One of the driving forces behind the increase in corrections expenditures is the rise in health care costs for inmates.

From 1998 to 2001, corrections health care costs increased by an average of 10 percent a year. By 2001, health care costs made up 10 percent of all corrections expenditures.

Why pay for corrections health care? The answer is two fold. First, most inmates will be released back into the community once their sentence is complete. A Department of Justice report found that state prisons released more than 500,000 inmates in 1999. Prison inmates have a high prevalence of communicable diseases that pose a public health risk once they return to their communities. While they are in prison, people with these conditions are often diagnosed, treated and informed about the associated risk factors.

Chad Kinsella

Second, states must provide inmates a reasonable level of health care in order to comply with the 8th Amendment to the U.S. Constitution and other court-mandated policies and to avoid lawsuits by inmates seeking adequate care.

Policy on prison health care has been created almost exclusively by judicial rulings. Corrections health care was not even an issue until the 1970s, when several court rulings found that state corrections departments violated the 8th Amendment, which prohibits cruel and unusual punishment. The landmark case of *Estelle v. Gamble* affirmed that providing inmates with health care is a constitutional requirement, making inmates the only class of people constitutionally guaranteed the right to health care.

Since that decision, corrections health care costs have grown dramatically. Several factors have contributed to this trend, including the following:

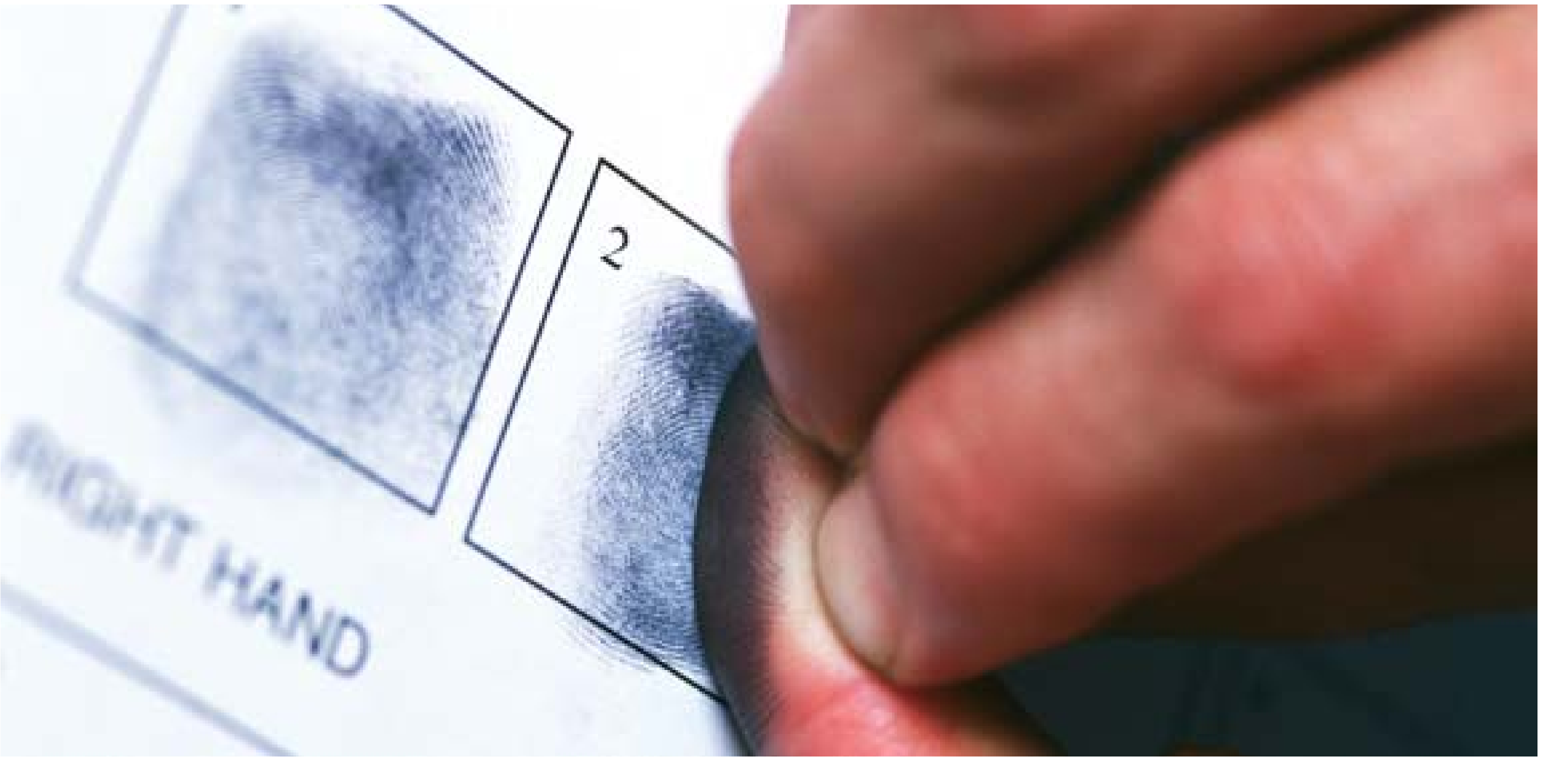
- Recent studies in states that screen prisoners for hepatitis C estimate that between 20 percent and 60 percent of state prison inmates are infected with the virus. Treatment costs range from $24,000 to $30,000 per inmate each year. The virus is easily spread and can lead to liver disease if not detected.
- Although HIV is not as prevalent as it once was, there were nearly 30,000 inmates with HIV/AIDS in 2000. The estimated cost of care and treatment for an individual with HIV is $14,000 per year. However, that cost doubles when an HIV-positive patient progresses to full-blown AIDS: the annual cost rises to more than $34,000. Due to inmates' participation in risky behaviors both in and out of prison, they are at high risk for contracting HIV/AIDS and other communicable diseases.
- It is estimated that in 1999, 16 percent of all state inmates had one or more mental illness such as schizophrenia, bipolar disorder, anxiety disorder or major depression. Inmates with mental health problems need consistent care and medication, which are increasingly expensive to provide.
- Elderly inmates – those 50 or older – currently make up 8.2 percent of the total prison population, and experts predict that this percentage will continue to rise. Corrections departments pay an average of $70,000 annually to house an elderly inmate, compared to $22,000 annually for a typical inmate.

Many states have taken measures to slow and/or manage the growth of corrections health care costs. Working together, legislators and corrections officials can implement solutions that will help offset the costs of corrections health care. Some innovative solutions include inmate co-payments, telemedicine, prevention programs, and the early release of terminal and elderly inmates.

Faced with violating the 8th Amendment to the U.S. Constitution, state policy-makers have been forced to provide adequate health care for their inmate populations. Combined with the record number of state prisoners and rising health care costs, states face an enormous budgetary dilemma. But by exploring different policy options and sharing innovative solutions, states can begin to rein in corrections health care costs while continuing to provide adequate care to inmates.

For more information on the rise of corrections health care costs and policy options, download CSG's latest *TrendsAlert: Corrections Health Care Costs* at *www.csg.org* (keyword: corrections health care).

— Chad Kinsella is a public safety and justice policy analyst at The Council of State Governments.



The changing face of corrections

Fiscal crisis drives reforms in state corrections systems

BY KAREN IMAS

Across the country, prison and jail administrators are realizing that their agencies are not immune to downturns in the economy. Severe fiscal problems are prompting many governors and state legislatures to impose spending cuts on state prison systems. Corrections officials often find that the way they can save is if the growth in the inmate population declines or is eliminated altogether.

As a result, while corrections administrators are scurrying to save money on everything from food to staff overtime, elected officials are reevaluating tough-on-crime policies, such as sentencing laws, and the use of probation and parole.

In the past two decades, states have enacted a series of measures, such as mandatory minimum sentences, “three strikes” laws, and the abolition of parole, that have caused prison populations to soar. In 1980, the inmate population was about 504,000 according to the Justice Department’s Bureau of Justice Statistics. By 1990, it had more than doubled to 1,150,000.

The trend continues as the inmate population of more than 2.1 million in 2002 represented a 2.6 percent increase from 2001, according to the BJS. In addition, 17 states had increases of at least 5 percent in their prison populations between 2001 and 2002.

At the end of 2001, more than 5.6 million adults – one in every 37 U.S. adults – were either in state or federal prison or had done prison time during their lives.

While prison populations have risen, violent and property crimes have dropped more than 50 percent in the past decade, according to the Justice Department.

While the link between falling crime rates and the increasing prison populations is uncertain, few people dispute that building, maintaining and staffing prisons is expensive. According to the Justice Policy Initiative, it takes an average of $22,000 a year to keep a person in prison. In 2000, states spent $40 billion on imprisoning approximately 2 million federal, state and local inmates. Of that total, $24 billion was spent on incarcerating nonviolent offenders. As the number of beds needed to house these inmates continues to climb, many state officials are examining how to contain the growth of their corrections systems.

In response to budget constraints, some states are making increased use of prison release programs. In Washington, for example, the Legislature and Gov. Gary Locke passed an early release law for nonviolent offenders. Washington’s Department of Corrections granted 350 releases in July 2003, the first month the law took effect. Georgia and several other states are considering “compassionate releases” for nonviolent elderly inmates. Since the elderly are particularly expensive to incarcerate and may present no clear threat to public safety, this is an appealing way to generate savings.

New York has one of the biggest prison systems in the country. Yet, the number of inmates has dropped since last year. Through

Department of Parole Programs, the state had 7,517 early releases in 2002. Nonviolent offenders earn release through academic, vocational, work or drug treatment programs.

"The governor's philosophy is that prison bed space is very expensive and should be reserved for violent, predatory and repeat offenders," said Jim Flateau, spokesperson for the Department of Corrections.

In 2003, New York passed legislation creating a new form of release. The Department of Corrections can automatically release prisoners who are eligible for "presumptive release" when they reach their parole eligibility or merit eligibility date, without their having to appear before the parole board. The department can release nonviolent inmates serving an indeterminate sentence who meet certain criteria and who receive a certificate of earned eligibility from the commissioner.

However, early release programs have prompted significant controversy in some states. In Kentucky, Gov. Paul Patton halted an early release program after several offenders committed crimes within a few days of their release.

Several states have attempted to reduce the growth rate of their prison populations through sentencing reform. According to Kansas' Sentencing Commission, reforms in the state enabled the courts to sentence 60 percent of nonviolent offenders to community corrections in lieu of incarceration for minor parole violations in 2001, keeping 774 prison beds open for more serious offenders.

In some states, officials are finding ways to close prisons or consolidate the number of corrections facilities. Ohio Gov. Bob Taft, for example, closed the Orient Correctional Institution. The Ohio Department of Rehabilitation and Correction estimates the move will save approximately $19 million annually in operating costs.

In Utah, Gov. Michael O. Leavitt, the state Legislature and corrections officials worked together to close two small correctional facilities, using some of the savings to hire more parole agents and train them to use intermediate sanctions to deal with technical violations.

Several states have attempted to reduce the growth rate of their prison populations through sentencing reform.

In addition, some states are revamping probation and parole systems. For example, in 2002, Michigan replaced lifetime probation for low-level drug offenses with a five-year probationary period, allowing the state to eliminate unnecessarily long periods of suspension, which result in expensive revocations on technical violations.

Among many conservatives and liberals, a consensus seems to be emerging that states need to reconsider their use of the most expensive punishments. In a recent speech, Supreme Court Justice Anthony M. Kennedy, known as a moderate conservative, brought attention to the issue. "Our resources are misspent, our punishments are too severe and our sentences too long," he said. Kennedy suggested revising federal sentencing guidelines and the pardons process.

Not everyone, however, is ready to revamp sentencing laws and release policies. Victims' rights groups in various states have expressed concern over some of the cost-cutting measures being considered. Fierce lobbying by victims' advocates in Washington state, for example, limited the scope of the early release legislation under consideration to nonviolent offenders only. Steve Eckstrum, the community victim liaison manager of Washington's Department of Corrections Victim Witness Program, said advocates were concerned that "sentencing was being undermined" and "a precedent was being set."

"The concern among victims' groups is that there is another shoe to drop if the Legislature expands the approach to include high risk offenders because there are budget problems," Eckstrum said.

Prosecutors, who typically wield enormous influence in state capitols, are also concerned about some of the measures being considered. At a minimum, they want to be consulted as these decisions are made. Robert Johnson, Anoka County (Minn.) attorney and former president of the National District Attorneys Association, explains that as states go down the road of prison reform, district attorneys are worried that the "concerns of law enforcement be reflected and all interests weighed."

Johnson also believes that some alternative programs have shortcomings. "The appropriate balance between public safety and these programs has not been properly addressed in states," he said.

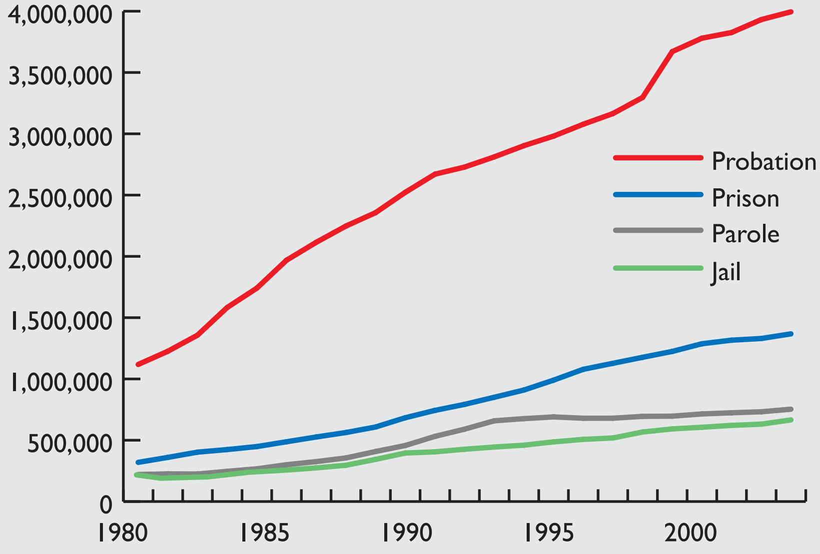
As elected officials explore options to reduce the growth of their states' prison systems, corrections administrators are looking to pinch pennies in other areas of their budgets. Virginia has cut back from three to two meals a day for inmates on weekends and Texas has reduced from 2,700 to 2,500 the calorie content of inmates' daily meals.

Several Departments of Corrections are cutting back on overtime and staff assignments. Some inmates in three California prisons, for example, were put on "fiscally driven lockdown" to reduce overtime costs. States are also saving money by cutting prison personnel, which can be hard on economically depressed areas where these prisons are important employers. Georgia Corrections Department officials recently agreed to recommend budget cuts that would close 15 facilities, possibly including some prisons, and eliminate almost 1,200 jobs. These cutbacks, however, could save the state more than $34 million.

In the Northeast, state governments and corrections departments are debating and implementing a variety of cost cutting measures.

Delaware passed into law in July 2003 a bill that will reduce mandatory minimum drug sentences. House Bill 210 would cut the mandatory minimum sentence for cocaine trafficking from

Adult correctional populations, 1980-2002



Source: U.S. Bureau of Justice Statistics

three years to two years and increase the amount of the drug needed to trigger the penalty. The changes, along with other measures in the bill, would result in 300 fewer drug offenders going to prison a year and a net gain of about 215 beds, according to state estimates.

In Massachusetts, reformed sentencing guidelines are currently stalled. House Bill 3302 would institute a comprehensive set of sentencing guidelines for all the state's statutory crimes. Judges would have more flexibility with drug crimes and could potentially sentence addicts to treatment and intense supervision.

This year, New York Gov. Pataki and lawmakers from both parties reexamined the state's controversial "Rockefeller drug laws" because of their apparent effect on prison growth rates. As part of the budget, the Legislature approved a plan to let approximately 1,300 nonviolent inmates out of prison early. The strategy would allow some nonviolent inmates imprisoned under the state's strict Rockefeller drug laws to get out after 10 years, taking one-third off their mandatory 15-year-to-life sentences. It would also end parole after two years instead of the current three and would allow more inmates to qualify for "merit-time" release. Prosecutors would decide whether low-level, nonviolent drug offenders would be diverted from prison to drug-treatment programs.

In Connecticut, the Northeastern state with the highest imprisonment rate per capita last year, the Department of Corrections is planning to open four new Community Justice Centers to provide treatment instead of prison for probation and parole violators. Parole reform options are appealing because they can be applied without new legislation.

This year, Rep. William Dyson and Rep. Michael Lawlor sponsored legislation to reduce the growth of the corrections system and to eliminate the need to transfer 2,000 inmates out of state. As nearly half of Connecticut's prison population comes from 10 neighborhoods in the state's five largest cities, the legislators also hoped to reinvest a portion of the savings in a handful of neighborhoods. Legislative leaders have yet to decide whether they will take up the bill during a special session this year.

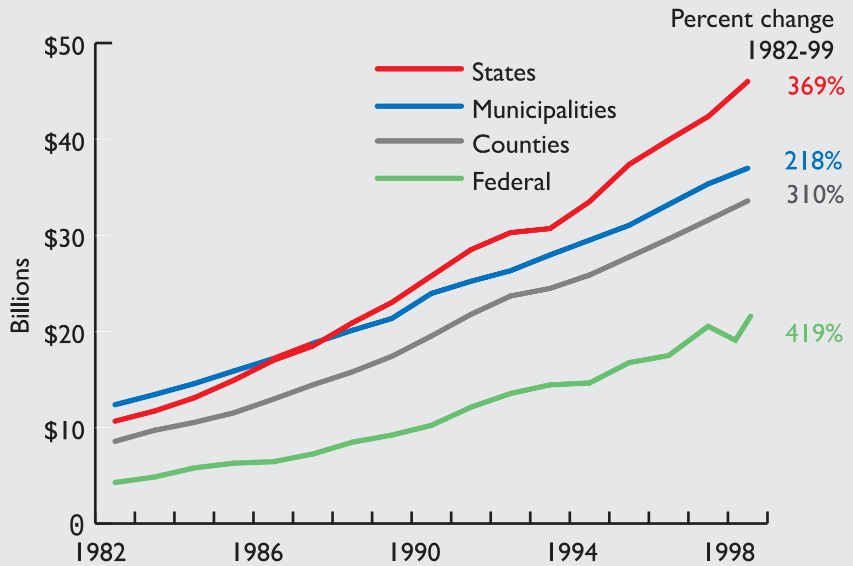
Pennsylvania legislators are examining ways to reduce corrections health care costs. Almost all funds for corrections health care come from state general funds. Since the rate of serious mental illness in state and local prisons is three times the rate of the national population, this presents challenges to cash-strapped states. State legislators in both chambers passed by unanimous consent a resolution sponsored by Sen. Robert Thompson and Rep. Tom Gannon. The resolution's purpose was to commission a comprehensive report on two county-based mental health diversion programs and one program that works with offenders with mental illnesses released from state prisons. The report is intended to demonstrate the fiscal impact of these programs and the viability of encouraging similar options throughout the state.

In Rhode Island, corrections costs have become an increasing concern to state officials as they consume a larger share of state appropriations. According to director of the Department of Corrections, Ashbel T. Wall II, there is an emerging interest among the governor and several key legislators in discharge planning and re-entry policy as ways to control prison population growth.

To learn more, please visit CSG/ERC's Criminal Justice Program at *www.csgeast.org/justice.asp.*

— Karen Imas is publications manager for the Eastern Regional Conference of The Council of State Governments.

Direct expenditure by level of government, 1982-1999



Source: U.S. Bureau of Justice Statistics

MSA: Five years later

The tobacco settlement is not living up to financial expectations

BY MELISSA TAYLOR AND IRAKLI KHODELI

On November 23, 1998, the four largest cigarette manufacturers – the Original Participating Manufacturers – reached an agreement with 46 states, the District of Columbia and six territories to recoup monies spent on tobacco-related costs. According to the Master Settlement Agreement, state lawsuits against manufacturers would be dismissed, in exchange for settlement payments. The four states not participating in the MSA – Minnesota, Florida, Texas and Mississippi – had previously settled out of court with the OPMs. A total of almost $40 billion was paid to these states.

Since 1998, more than 30 Subsequent Participating Manufacturers have signed the MSA. These manufacturers are now subject to all the terms of the agreement as well but make lower up-front payments than do the OPMs.

While much emphasis has been placed on the payments mandated by the MSA, this agreement also imposes prohibitions and restrictions on cigarette marketing and advertising practices and requires tobacco companies to fund youth anti-smoking efforts and health research.

MSA payments haven't been a panacea for state Medicaid costs and the tobacco industry hasn't gone out of business.

When it was signed five years ago, MSA proponents hailed it as a way to recover smoking-related Medicaid costs, and critics argued that it would have negative economic consequences because it would hurt farmers and cigarette manufacturers.

As we look back at the five years since the agreement was signed, it is clear that MSA payments haven't been a panacea for state Medicaid costs and that the tobacco industry hasn't gone out of business. But how has it affected some of the major players – state governments, tobacco farmers, cigarette manufacturers and tobacco retailers?

The MSA and state governments

As part of Phase I of the MSA, tobacco manufacturers that signed on to the agreement are required to make annual payments to state governments in perpetuity. It was originally estimated that over the first 25 years of the agreement, the cumulative total of those payments would be approximately $200 billion.

The base amounts are subject annually to three adjustments: inflation, accounting for the change in the value of a dollar each year; volume, ensuring that payments to the states are based on the total number of cigarettes sold by the participating manufacturers; and market share, to take account of gains in market share by companies that haven't signed the MSA.

The tobacco settlement may not be the financial windfall that states were expecting, mainly because of higher-than-expected volume adjustments. CSG predicts that between 2003 and 2010 states will receive $8.2 billion less than Standard & Poor's projections and $9.1 billion less than Moody's projections made in 1998.

Furthermore, the size of the volume reductions is growing. The MSA volume reduction has grown from 14 percent in 2000 to more than 23 percent in 2003. This has had a serious impact on the bottom line for states. After the April 2003 payment, the cumulative total of the reductions applied to tobacco payments will have reached $6.3 billion. According to CSG projections, volume reductions in 2010 may cut the size of the payment by 39 percent. By 2018, more than half of each annual payment will be lost to volume reductions.

Two trends are responsible for this volume decline. First, cigarette consumption is down. Fewer people are smoking, and those who continue to smoke are smoking less. The United States' overall cigarette consumption continues to drop at an annual rate of roughly 1.5 percent. From a public health perspective, this is good news.

The second trend, however, is less positive. Smoking statistics are down, but not

as much as sales figures would indicate. The decline in the volume of cigarettes sold is several percentage points greater than the decline in consumption. This suggests that an increasing number of cigarettes are being sold through illegitimate, unmonitored channels. These sales artificially inflate the reductions applied to MSA payments, undermining the MSA's health goals and cutting the size of states' settlement payments.

Although the original drive behind litigations that led to MSA was the financial burden of tobacco-related illnesses on state health care systems, the settlement does not specify the way states should spend the money.

The original purpose of the MSA was to compensate states for tobacco-related costs. Foremost among these costs was tobacco-related Medicaid spending. A 2002 study published in the *American Journal of Public Health* found that MSA payments covered less than one-third of past and projected smoking-related Medicaid costs.

States have not used their tobacco settlement primarily for Medicaid costs. During the past three years, the states have appropriated more than 40 percent of tobacco settlement revenue for health services and biomedical research. This figure includes much more than spending on tobacco-related Medicaid costs. It includes spending on maternal and child health care, pharmaceutical assistance to the elderly and disabled, home- and community-based care, primary care in rural America, and mental health and substance abuse treatment.

For the past four years, almost 10 percent of MSA payments have gone toward education and social services. Tobacco money has also been used to finance infrastructure projects, make up lost revenue from tax reductions and plug budget gaps. More than a third of states have securitized their tobacco settlement payments, meaning that they used future settlement payments as collateral to borrow money to deal with their current fiscal problems.

Critics have been concerned that states have invested little of the tobacco settlement money into tobacco prevention programs. The Centers for Disease Control and Prevention suggest that states spend about 25 percent of their annual tobacco settlement money for smoking prevention programs. In the current fiscal year, however, only Mississippi, Minnesota, Maine and Maryland have met this standard. Thirteen states cut funding for tobacco prevention for FY 2003. In California, tobacco prevention funding was cut by 34.3 percent. In Massachusetts, a 90 percent cut almost entirely eliminated the program. Ironically, these two states had the nation's oldest and most successful tobacco prevention programs.

MSA and tobacco farming

In addition to Phase I payments to the states, Phase II of the tobacco settlement requires OPMs to pay more than $5 billion into a national tobacco grower trust between 1999 and 2010 to be distributed to tobacco-growing states. Each state decides how to distribute the funds among eligible farmers and holders of quotas that specify how much tobacco farmers can grow.

Like Phase I payments to the states, Phase II payments have been smaller than originally expected. According to the U.S. General Accounting Office, the 14 states eligible for Phase II payments received about $1 billion between 1999 and 2001. This was $71 million less than originally estimated. Phase II contributions are adjusted for inflation, volume of cigarettes shipped and offsets for new or increased state and federal excise taxes. The GAO concludes that lower-than-estimated Phase II payments are the result of a reduction in volume of cigarettes shipped. Since 15 states increased cigarette excise taxes in FY 2003, tax offsets will also decrease future Phase II payments.

While there has been no comprehensive study of the MSA's effects on tobacco farmers, previous studies have forecasted what higher taxes would do to the tobacco economy. Since the MSA essentially imposed an excise tax on cigarettes when OPMs raised the prices of cigarettes to cover the costs of their MSA payments, these studies may shed some light on the future of tobacco farming. A 2000 USDA report, *Tobacco and the Economy*, predicted that a $1 increase in cigarette excise taxes would lead to a loss of between 75,000 and 97,000 jobs in farming, manufacturing, distribution, storage, sales and supporting industries. This includes somewhere between 11,000 and 15,000 farming jobs.

Other evidence suggests that farmers are being hurt economically by the MSA. According to the Southern Legislative Conference's *Tobacco in Transition* report released in 2002, the MSA has led to lower tobacco income for farmers. Farmers have also been hurt by higher lease rates for tobacco quotas, and part of those rate increases are due to the MSA. Most quota owners do not grow tobacco themselves but lease it to tobacco farmers. Some tobacco farmers have received Phase II money and thus quota owners are demanding higher lease rates because they know that Phase II money is available to farmers.

As a result of MSA-imposed costs on tobacco manufacturing, some U.S. tobacco companies are contracting to have discount cigarettes manufactured abroad. Rising cigarette imports hurt American tobacco growers since very few imported cigarettes contain any U.S.-grown tobacco.

A study by researchers at North Carolina State University found that while estimated Phase II payments from 1999 to 2010 will exceed losses to North Carolina tobacco growers and quota owners, estimated losses from a combination of the MSA, excise tax increases and declines in tobacco exports will outweigh the benefits of Phase II payments. In other words, the picture is not bright for many tobacco farmers.

While states have used tobacco settlement funds to bolster state budgets, cigarette manufacturers that signed on to the MSA are trying to find ways to make their MSA payments and remain profitable.

Cigarette manufacturers

On the day the MSA was announced, the participating tobacco companies raised the prices of their cigarettes. The Congressional Research Service reports that the cigarette industry has raised wholesale prices by 67 cents per pack to cover the costs associated with the settlement. According to the USDA, higher prices, together with other non-economic factors such as restrictions on where people can smoke, greater awareness of the health risks and advertisement restrictions, have reduced cigarette consumption by 7.5 percent since 1998.

MSA-related costs for the participating manufacturers have created a large price gap between premium and generic cigarette brands. In a report issued in July 2003, Moody's analysts predicted that the soaring popularity of deep-discount cigarettes will erode the operating performance and credit ratings of the "Big Four" tobacco makers' – Phillip Morris, R.J. Reynolds, Brown and Williamson, and Lorillard. The report estimated the current cigarette market share of the discount brands at 10 percent, compared with 2.5 percent in 1997. As reported in *The Wall Street Journal*, other analysts have found the discount brand market share to be as high as 15 percent.

To counter the increasing competition from the brands of nonparticipating manufacturers, the Big Four have had to boost promotional spending and pursue retail discount strategies. The need for discounts makes it difficult to cover the settlement costs through price hikes and erodes industry profitability.

The Big Four tobacco companies have taken some economic hits. Consequently, Phillip Morris eliminated more than 1,000 jobs at its Louisville, Ky. plant in 1999 and 2000. And R.J. Reynolds recently announced plans to eliminate 2,600 jobs. Because many NPMs are foreign companies, the job growth in those companies may not benefit workers in the United States.

Most NPMs are relatively unknown companies, and many of them are based overseas, making it easier for them to avoid their legal obligations. Since these companies often sidestep legitimate distribution channels, the reported size of the market does not adequately reflect cigarette consumption.

The MSA contains a provision designed to level the playing field by encouraging states to pass legislation placing certain restrictions on NPMs. This NPM Model Statute has passed in each of the states and territories that have signed the MSA. The statute requires NPMs to pay into an escrow account to create a pool of money from which any future lawsuit settlement against an NPM would be paid. It has not, however, been easy to enforce. NPMs, for instance, can do business in a state for up to 16 months or longer before a state can take action against them.

Several NPMs are finding ways to avoid escrow payments. Star Tobacco Inc., for instance, is a 1991 upstart that has shifted its distribution to the four states not participating in the MSA. In addition, language in the original MSA allows refunds of escrow payments to NPMs that restrict their distribution to a small geographic region. Consequently, 11 states have passed NPM Allocable Share legislation that requires those companies to make escrow payments in proportion to their sales volume in a given state.

Some states have taken steps to address the NPM situation. Many states have enacted Complementary Legislation designed to force NPMs to comply with the earlier laws, and state attorneys general have begun to aggressively prosecute NPMs that fail to comply. Generally, Complementary Legislation prohibits tax-stamping of NPM products that are not in compliance with the model statute; requires manufacturers to provide that it is either a participating manufacturer or a nonparticipating manufacturer that is in compliance with the model statute; requires a state's attorney general or revenue department to create a database of compliant manufacturers; and imposes penalties on violators.

Cigarette retailers

Many tobacco retailers were opposed to the tobacco settlement, and there is some evidence that increasing cigarette prices have hurt the profits of small tobacco retail outlets, such as gas stations and convenience stores. The big tobacco manufacturers are countering the threat from the discount industry with aggressive promotional strategies, sometimes asking retailers to abstain from marketing discount brands.

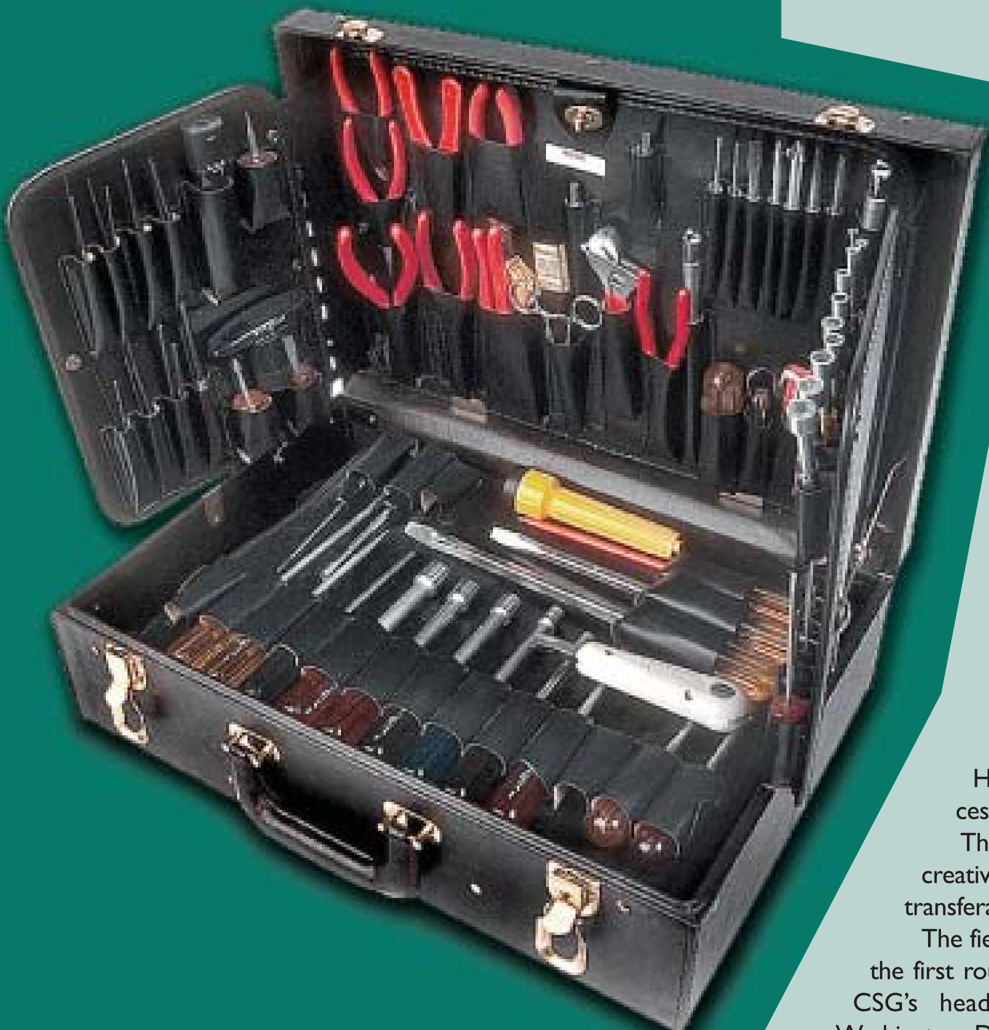
An unforeseen consequence of the MSA has been a rise in cigarette smuggling and Internet tobacco sales. The growth of cigarette smuggling has been documented in the states with exceptionally high cigarette prices. In fact, the trend in smuggling growth explains why cigarette tax revenues are not keeping pace with tax increases.

Not only do smuggling and Internet sales hurt bricks-and-mortar tobacco retailers,

Continued on page 37

	Standard & Poor's Projection	Moody's Projection	CSG's Projection (with actual payments through 2003)
2000	$5,890,008,135	$5,762,021,262	$5,633,440,273
2001	$6,295,351,266	$6,220,658,952	$6,108,905,156
2002	$7,551,537,161	$7,536,712,781	$7,175,603,532
2003	$7,626,164,095	$7,649,103,815	$7,034,756,871
2004	$6,667,122,205	$6,720,457,005	$6,006,574,411
2005	$6,733,138,411	$6,820,748,597	$5,941,060,305
2006	$6,799,875,526	$6,922,574,700	$5,892,655,596
2007	$6,867,343,339	$7,025,959,899	$5,860,862,148
2008	$7,056,057,032	$7,254,829,100	$5,946,888,377
2009	$7,126,214,503	$7,363,259,765	$5,976,950,821
2010	$7,197,146,371	$7,473,354,283	$6,007,284,676
Total	**$75,809,958,045**	**$76,749,680,160**	**$67,584,982,167**

Tools of the Trade fix problems



Solutions emerge from state capitols

When Henry Toll first envisioned The Council of State Governments, he imagined an organization that could span across the United States uniting state officials in a community of states and developing innovative solutions to fix difficult public policy problems.

For more than a quarter of a century, CSG has been a national leader in recognizing ideas and solutions that place state governments in the forefront for their ingenuity and creativity. The CSG Innovations Awards Program, which originated in 1975, is the premier program in recognizing innovative policy programs created by states and facilitating the transfer of those successful experiences to other states.

"States are leading the way on national and regional issues," said Daniel M. Sprague, CSG's executive director. "Cutting-edge policy is emerging from statehouses, which continue to serve as our best governing laboratories."

Congratulations to the 2003 CSG Innovations Awards winners from Connecticut, Pennsylvania, Iowa, Ohio, Arkansas, West Virginia, Hawaii and Washington. These selected finalists received their awards October 25 at CSG's Annual State Trends and Leadership Forum in Pittsburgh.

This year, 293 programs applied for the Awards. The categories for this year's competition were: Infrastructure and Economic Development; Government Operations; Health and Human Services; Human Resources/Education; Natural Resources; and Public Safety/Corrections.

The criteria used to judge each application were creativity, effectiveness, significance, applicability and transferability.

The field of applications is narrowed down to 50 in the first round of selections made by policy analysts at CSG's headquarters offices in Lexington, Ky. and Washington, D.C., and the staff of four regional offices in Atlanta, Sacramento, Chicago and New York. Those 50 programs are submitted to CSG's four regional selection committees comprised of elected and appointed state officials. The selection committees typically meet during the annual regional meetings, and each chooses two programs and an alternate from their region to receive the Innovations Awards.

As in years before, eight state programs were specially recognized for their uniqueness in providing innovative solutions. However, there are no losers of CSG's Innovations Awards Program. Congratulations to all applicants and thank you for generously sharing your experiences, policies and concepts. Due to such efforts, CSG continues the tradition of fostering innovative ideas and preparing state officials for an ever-changing world.

East

Connecticut reforms help elderly stay at home

Mobile labs give Pennsylvania students access to science equipment

Connecticut

Preparing for the aging boomers

Most people hope to live out their final days at home – in familiar surroundings, near people and things they cherish: family and friends, neighbors, pets and gardens. Connecticut has found a way to make that happen for a greater number of residents.

The **Home Care and Assisted Living Alternatives to Nursing Home Care Initiative** helps elderly persons in need of long-term care remain in the community and avoid, or delay, entering a nursing home. By combining and strengthening four related programs, Connecticut has made a vast improvement in serving its elderly population.

Pushing the initiative are the looming statistics of the baby boomers. Every eight seconds, someone in the United States turns 50 years old. By 2030, more than 20 percent of the nation's population will be 65 or older. Connecticut's emphasis on finding alternatives to nursing home care is early preparation for an issue that will challenge all states in the coming years.

This innovative initiative began in 2000 with expansion of the income eligibility criteria for Connecticut's State Home Care Program for Elders. This change qualifies a greater number of residents for home care coverage. If an individual's income is less than the cost of the nursing home care they are eligible for under the state-funded portion of Medicaid, they can receive home services. The state has also applied for federal approval of a similar change to the income requirements for the Medicaid waiver portion of the program.

In 2001, the Department of Social Services (DSS) and the Department of Economic and Community Development began offering assisted living services to residents of state-funded congregate housing and two federally funded HUD housing facilities. Some residents receive services from an on-site agency, while others received a service subsidy.

Earlier this year, DSS began two pilot programs to assist residents in private pay assisted living communities who have exhausted their own resources: a 50-person Medicaid pilot and a 25-person state-funded pilot.

In addition, the comprehensive Assisted Living Demonstration Project, launched in 1998, provides assisted living housing through development financing, rental subsidies and assisted living service subsidies to help low-income elders stay in the community and avoid entering a nursing home. Construction is scheduled to begin this year, with the first subsidized units available in 2004.

Since the initiative uses existing staff and resources, all associated costs are for providing services. Approximate annual costs include $1.7 million for the Income Expansion of Home Care; $700,000 for the state-funded congregate assisted living services; and $360,000 for the federally funded HUD Assisted Living Pilots. The state will contribute a total of $15 million in overall financing costs for the Assisted Living Demonstration Project, with $7.2 million for annual service and rental subsidies once the project is fully operational. Meanwhile, the Private Pay Assisted Living Pilots have saved the state $250,000 a year by keeping clients from entering nursing homes.

Because of all the reforms the state has implemented, expenditures on alternatives to nursing homes increased from $71 million in FY 1996-1997 to an estimated $179 million in FY 2004-2005. The caseload has more than doubled from 6,024 in FY 1994-1995 to more than 13,000 currently.

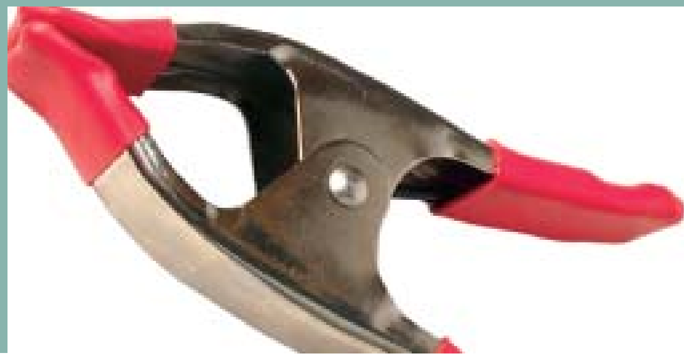
Despite some investments on the operating and capital sides, Connecticut is already seeing cost savings because of major reductions in Medicaid nursing home bed demand, and the state expects to save more in the future.

"For so long, Connecticut lacked strategic thinking on establishing a true continuum of care in the state. With the aging boom hitting and the fact that the Northeast is statistically older than the rest of the nation, we needed to get innovative quickly," said Policy and Management Secretary Marc S. Ryan, the state budget director and coordinator of the state's interagency task force to reform long-term care.

"Connecticut's experience over the past eight years can serve as a model for other states seeking to catch up as baby boomers age. It can also serve as a model for the federal government, which needs to better address these aging issues as well."

For more information, contact Marc Ryan, secretary of the Office of Policy and Management, at (860) 418-6500 or *marc.ryan@po.state.ct.us.*

— Bonnie Detzel is administrative coordinator and Eastern regional coordinator at The Council of State Governments.



Pennsylvania

'Have Lab Equipment, Will Travel'

It doesn't take a rocket scientist to understand that state-of-the-art educational experiences come with a price tag – and poorer school districts just can't afford to pay the price. Through a partnership with Juniata College and 10 other participating colleges, **Pennsylvania's Basic Education/Higher Education Science and Technology Partnership Program** has found a way to make outstanding biology and chemistry learning experiences available to secondary students throughout the commonwealth, regardless of their school district's wealth.

"Students in wealthy suburban, poor urban and isolated rural districts all have the same access to state-of-the-art science equipment and training," said Lorraine Mulfinger, director for science outreach and associate professor of chemistry at Juniata College. "We are making an important impact on work force development for industry in the state."

The program has three main goals: 1) provide access to adequate resources; 2) provide access to good professional development opportunities for teachers in the science content area; and 3) provide for the development of good science curricula.

These goals are met by partnerships between local school districts and institutions of higher education. The Basic Education Partner provides the classroom and secondary students, as well as teachers who know what their students need and what works best for them. The Higher Education Partner shares its expertise, laboratories and resources, including vans and teachers that visit partner schools on a daily basis to bring the equipment. It also provides personnel that prepare, organize, and assist in teaching the labs.

The vans bring multiple pieces of state-of-the art equipment – such as spectrophotometers, microscopes and gas chromatographs – allowing hands-on use for every student. Each mobile lab is staffed by a full-time, certified science teacher who is trained in the most current methods. Depending on the classroom's needs, the visitor may take the lead in teaching or assist the teacher. Either way, the equipment is delivered with all the samples and solutions already prepared and ready to use.

Assessments from 1999-2000 clearly indicate increased performance among students in participating schools. Studying advanced biology also better prepared students to study chemistry the following year. In addition, the mobile labs allowed some schools to offer advanced science courses for the first time.

Students also use the lab's resources to conduct experiments for their annual science fairs, relying on the higher education faculty members and mobile educators as their resource people.

In response to teachers' concerns, workshops were developed to allow science teachers to learn from leading educators about special scientific topics. These workshops enable the secondary teachers to interact with presenters and gain a greater understanding of the subject matter.

Ongoing annual operational costs for the program per subject area are $200,000 per partnership. (This amount is equal to the actual start-up costs for new equipment, a van and salaries.) There are currently 11 higher education partners, which each serve approximately 10 school districts. This figure includes funding for basic personnel, replacement of worn or broken equipment, new supplies, teacher summer workshops, and implementation of the new pick-up/delivery system. This new system allows trained teachers to use the partnership's resources on days when the mobile educator is already booked in other schools.

"Our consortium is proud to have developed the concept of the 'Science Van' beyond a simple 'oh, wow' experience into a meaningful curriculum support system for teachers and students," Mulfinger said. "We are very proud that Pennsylvania has been progressive enough to see the merits of funding this cost-effective education support system. We hope it can continue!"

For more information, contact Lorraine Mulfinger, director for science outreach and associate professor of chemistry, Juniata College, at (814) 641-3718 or *Mulfinger@Juniata.edu* or visit *www.scienceinmotion.org.*

— Bonnie Detzel is administrative coordinator and Eastern regional coordinator at The Council of State Governments.

Midwest

Iowa internship program benefits companies, students and the environment

Ohio Web portal simplifies government forms and payments

Iowa

Preventing pollution

What can a multinational corporation learn from a college student? Plenty, judging by the success of **Iowa's Pollution Prevention (P2) Intern Program**.

The program, created in October 2000, matches graduate and upper-level undergraduate students with medium to large businesses, industries and government agencies for 12 weeks. During that time, students thoroughly analyze the companies' normal day-to-day operations for ways to reduce pollution and address environmental issues. They then provide the organizations with detailed, well-developed options for reducing waste streams while saving money.

The effort is a partnership among Iowa's Department of Natural Resources (IDNR), area universities, and companies or government agencies.

Its goals are not only to reduce pollution and promote long-term sustainable development, but also to provide students with valuable professional development opportunities that could lead to permanent employment.

"The governor hopes this program will eventually help keep the best students from leaving the state," said Jan Loyson, program planner for the Department of Natural Resources.

The internship program builds on Iowa's existing pollution prevention efforts. State and federal agencies have used pollution prevention programs, sometimes referred to as P2, for a decade to help protect the environment. P2 programs are defined as efforts to reduce or eliminate pollutants prior to recycling, treatment control or disposal.

"The P2 intern program was developed as an extension of P2 services to allow us to service more customers and affect a greater impact on the environment," Loyson said.

During the summers of 2001 and 2002, interns were paired with more than 30 local governments or companies, including Alcoa Inc., Cargill Inc., DuPont, General Electric and Kraft Foods Inc. Engineers from the IDNR mentored the students and provided technical assistance.

"The things I learned in three months of the pollution prevention internship are more valuable than one year of course work," said Arindam Chowdhury, an Iowa State University doctoral candidate in engineering mechanics. Chowdhury's recommendations to reduce paint flush wastewater and paint filtering waste, and to optimize paint and energy efficiency, saved Lear Corporation $460,000.

"Students may not have a lot of field experience, but they have that unbridled enthusiasm," said Dave Knight, Chowdhury's supervisor at the company. "That's a key characteristic in looking for new solutions."

During the first two years, interns saved their host organizations more than $3 million, with an average of $88,235 per project. "We estimated that savings in excess of $15 million would have been achieved if all the recommendations suggested by the interns were implemented," Loyson said, "but some resistance is expected."

IDNR estimates that, over the next five years, the program will save Iowa companies $8.5 million a year, with potential savings of more than $24 million a year if businesses follow all of the interns' suggestions.

The program's operational costs are $204,450 per year for 20 interns, including students' salaries, housing stipends, training, administration, marketing and other related expenses. Funding is provided by grants from Region VII of the U.S. Environmental Protection Agency as well as from IDNR's Solid Waste Alternatives Program.

Although Nebraska and Minnesota have similar programs, they are both considered dormant due to lack of funding. "I think the biggest difference in our program versus other states is that we include medium to large businesses as well as government agencies and institutions," said Loyson.

In addition to benefiting the environment, the program has strengthened ties between private industry and state government. "Businesses are now more inclined to implement different environmental measures and suggestions from our agency, since they have established a bridge of trust with us during this program," Loyson said.

For more information, contact Jan Loyson, program planner, Iowa Department of Natural Resources, at (515) 281-3142 or *jan.loyson@dnr.state.ia.us.*

— David Moss is a research analyst and Midwestern regional coordinator at The Council of State Governments.

Ohio

'One-stop shop'

As every business owner knows, time is money. And filling out lots of government forms takes time. So, in order to ease the burden of paperwork for private businesses, four Ohio state agencies have joined together to streamline government bureaucracy through the **Ohio Business Gateway.**

The online portal allows businesses to comply with a variety of state tax and reporting requirements, without having to deal with a variety of state agencies. In the past, one company might have to file five separate forms with four different agencies, often having to provide the same information multiple times.

Now, through one Web site, Ohio businesses can file and pay a sales tax report and an employer withholding report with the Department of Taxation, a workers' compensation premium report with the Bureau of Compensation, a payroll withholding tax report with the Department of Jobs and Family Services, and an unclaimed funds report with the Department of Commerce.

The program, which started in 2002, builds on an idea from the 122nd General Assembly, in 1997-1998. HB 202 introduced the concept of a "one-stop shop" and instructed several state agencies to develop a single form for businesses submitting information to the state by 2001. When the deadline passed with no such form created, Gov. Bob Taft developed an interagency cabinet team to help create the new Web portal.

"Having the help of the governor provided that extra boost we needed to get this program started," said Thomas Zaino, commissioner of the Ohio Department of Taxation.

According to the department, the Ohio Business Gateway is the only operational "cross-agency" system of its kind in the country. "It took a lot of work to put this into service," Zaino said.

The portal was originally marketed toward small businesses, but in 2003 it was opened to all businesses in the state. In 2002, 6,200 users registered to files taxes on the Web site and the site collected $16 million in payments. As of September 2003, 31,752 companies had registered, with total payments of $262 million.

The large increase in collected revenue reflects increased options and continual improvements to the site. For example, the Department of Commerce's unclaimed property report was added in late 2002. Other new options include credit card payments and the "payment warehousing method," which allows taxpayers to file their taxes early, but defer their payments until the due date.

The gateway will continue to evolve as new taxes, agencies and features are added in the future. One potential new option being considered would let users' software systems interact directly with state agencies, so users would not have to re-enter data.

Start-up costs for the program were about $1.7 million, with operational costs of approximately $1.5 million a year. The program is funded through the general revenue fund.

Ohio Business Gateway
Electronic Filing

For more information, contact Thomas Zaino, commissioner of the Department of Taxation, at (614) 466-2166 or *thomas_zaino@tax.state.oh.us.*

— David Moss is a research analyst and Midwestern regional coordinator at The Council of State Governments.

South

States save millions in drug costs

Arkansas has nation's first consumer-directed Medicaid program

West Virginia

States pool purchasing power

The cost of providing health care services for public employees has risen dramatically in recent years. Pharmaceutical expenditures for the 200,000 members of the West Virginia Public Employees Insurance Agency, for example, have increased $40 million over the past three years.

Prescription costs rose more than 20 percent over the past two years for WVPEIA, and the agency expects expenditures to continue to rise for 2004 and 2005.

To meet the challenge of providing services to an aging population, the **West Virginia Multi-State Pharmacy Benefit Management Services Program** was created to negotiate a single pharmacy benefit manager.

West Virginia, like many other states, did not have sufficient market share to affect meaningful cost savings. By entering into partnerships with other states to improve collective buying power, West Virginia expects to save $25 million in pharmaceutical costs over the next three years. The partnership also includes New Mexico, Missouri and Delaware.

The selected PBM, Express Scripts Inc., provides services such as network management, formulary management and prior authorization customer management. It also set up contracts with pharmacies located throughout the state to provide prescription drug coverage for its customers.

Another notable feature of the program is the administrative services model.

PBMs are paid a percentage of the plan's drug expenditures. Generally, PBMs charge a small administrative fee to the client and keep the majority of rebate dollars from the drug companies. West Virginia officials saw that as plan members spent more on pharmaceuticals, the PBMs profits grew through rebates.

By negotiating a contract for only administrative services, WVPEIA and other participants pay a slightly higher fee for services, but receive all the rebate dollars.

"With four other states independently negotiating with PBMs, it gives Express Scripts Inc. an incentive to relinquish a greater percentage of the rebates, because the increase in fees will compensate for lost revenue," said Felice Joseph, pharmacy benefits administrator for the state of West Virginia.

While administrative fees are expected to increase by as much as $2.5 million, the state expects to recoup more than that in rebates.

For more information, contact Tom Susman, director of the West Virginia Public Employees Insurance Agency, at (304) 558-6244, ext. 225 or *tsusman@gwmail.state.wv.us.*

— David Moss is a research analyst and Midwestern regional coordinator at The Council of State Governments.

Arkansas

Medicaid recipients direct their care

Medicaid consumers in Arkansas are taking greater responsibility for their personal care through the **Independent Choices Program.**

Independent Choices allows participants of the state Medicaid program to receive a cash allowance to help pay for needed medical services rather than receiving care from a state agency. This cash allowance can be used to meet the consumer's needs such as hiring a personal care assistant, usually a family member or friend, to purchase goods and services.

Individuals who suffer from chronic illnesses or diseases usually need full-time care. Allowing those clients to choose their own personal care assistant can help ease the stress of having a stranger in the home.

Arkansas has the sixth highest percentage of elderly in the nation and 35 percent of its elderly are poor or eligible for Medicaid services. And as a predominantly rural state, bringing medical services to the elderly is difficult and costly.

The program began in 1998 with a grant from the Robert Wood Johnson Foundation. The program now receives half its money from the state's general revenue fund and half from Medicaid.

"We have a lot of support for this program," said Sandra Barrett, assistant director of the Division of Aging and Adult Services. "Arkansas is the first state to provide an alternative like this, as far as we know."

Since its inception five years ago, more than 3,000 people, or 15 percent of the state's Medicaid personal care clients, have voluntarily signed up for Independent Choices.

Independent Choices is adaptable to other states. The basic requirements for states to adapt and modify the program are: develop a centralized management operation; create a support service to provide consumer-directed counseling, skills training and limited participant oversight; and develop a service to assist consumers in complying with all state and federal regulations for employers.

These requirements may be met using existing agencies and resources or by developing new organizations to deal with the specific tasks.

For more information visit the Web site at *www.independentchoices.com*, or contact Sandra Barrett at (501) 682-8531 or *sandra.barrett@mail.state.ar.us.*

— David Moss is Midwestern regional coordinator and a research analyst at The Council of State Governments.

West

The public helps keep Hawaii's schools in good repair

Washington's facilities professionals guide local school projects

Hawaii

Volunteers improve schools

Hawaii schools are in great hands in more ways than one these days because of the **Hawaii 3R's: Repair, Remodel, and Restore Program**.

Hawaii 3R's matches public funds with volunteers from private industry to reduce the backlog of school maintenance and repairs. The mission of Hawaii 3 R's Program is twofold: reduce the $450 million of needed maintenance and repairs in the state's schools and promote community involvement in the school system.

In August 2001, U.S. Sen. Daniel K. Inouye launched the Hawaii 3 R's Program, which saves the state significant amounts of money each year. At the inception of the program, the funds were provided by the state of Hawaii Grant-In-Aid, U.S. Department of Defense Joint Venture Education Forum, the AT&T Foundation, Campbell Estate, Hawaii Community Foundation and a one-time contribution from Bonnie Fraser. These funds are used to purchase materials, pay for professional contractors who have donated significantly reduced labor costs and who supervise the volunteers, and landscape equipment. Also, these funds pay salaries for the small staff of two full-time employees and one part-time employee.

Ann-Maile Yamasaki, executive director, doesn't foresee any significant problems with this program. What is most promising, she said, is that there is no trouble finding volunteers who want to do the repairs.

Getting people to understand the program, she said, is one barrier the program is trying to overcome. The relationship between the public and private sector is difficult for people to grasp and hard for the 3 R's program to market.

Yamasaki is unaware of similar programs in other states but hopes they are providing an example to encourage other states to initiate one.

Funding is not a problem at this time but it could possibly be a problem in the future, she said. Locally, it is difficult for the state of Hawaii to provide a lot of funding. Yamasaki said, "The need for legislators and private sector assistance is critical for future funding." A similar program must have the cooperation of government, involvement of schools and school communities, and people who continue to volunteer.

Hawaii's 3 R's is able to perform repair and maintenance work efficiently and cost effectively, at a much lower cost to the state. Given today's strained state budgets, this innovation could save many states money and bring communities together

For more information, contact Ann-Maile Yamasaki or Capsun M. Poe at (808) 440-3879 or *info@hawaii3rs.com.*

— *Allison Spurrier is Toll Fellows and Western regional coordinator at The Council of State Governments.*

Washington

Experts help schools learn

Schoolchildren in the state of Washington have better school facilities thanks to the **Washington Tri-Phase Initiative**, which brings professional expertise and resources to K-12 school facility projects.

According to Bob Mackenzie, manager of the Plant Operations Support Consortium, "The outcome of this project frees educators to focus on education and leaves the repair to the facilities workers."

Washington school facilities have been deteriorating because of a lack of funding and facility expertise at the local school level. In January 2002, Washington's Tri-Phase Initiative began to change that and make a difference.

The Tri-Phase initiative helps local school officials evaluate their facilities, identify facility conditions and fix immediate needs, and provide public works law training for school administrators.

In the first phase, state architects, engineers and project managers visit the rural schools and assess what immediate repairs are needed. During this first phase assessment, 22 Washington rural districts were evaluated and 22 districts received their full grant. During the second phase, public works law training is provided to the school administrators and business managers.

In the third phase, the Department of General Administration represents the school district throughout construction. This comes from the experience and resources the department has to locate the best professionals for the job, such as architects and engineers, at a significant cost savings to the state.

"This program is client-focused," Mackenzie said. "The school's role is to educate our children. This project is in direct response to the school districts' needs."

For more information, contact Bob Mackenzie at (360) 902-7257 or at *bmacken@ga.wa.gov.*

— *Allison Spurrier is Toll Fellows and Western regional coordinator at The Council of State Governments.*

More innovative ideas

CSG recognizes the regional alternates and semifinalists in the annual Innovations competition

Eastern Alternate

The **New York** State Workers' Compensation Board's **Management Information, Research, References and Operational Reports (MIRROR)** is an application software system that automatically extracts performance data from functional systems and delivers performance measure reports for every level of the organization. The reports show how effectively and efficiently the board is providing services to its customers. Contact Thomas Wegener at (518) 486-5143.

Midwestern Alternate

South Dakota's Substance Abuse Prevention Services for At-Risk Pregnant Women Initiative offers a continuum of services for pregnant adolescents and women, as well as new mothers, who are struggling with addiction to alcohol and other drugs. The programs teach skills to overcome addiction and foster self-sufficiency through education and work, along with parenting skills. Contact Barbara Shoup at (605) 773-3123.

Southern Alternate

North Carolina's State Facilities Utility Savings Initiative provides tools to 25 state agencies and 17 universities to reduce utility expenditures and conserve energy and water through no- and low-cost measures. Savings are achieved through rate reviews of utility bills, operations and maintenance surveys and sample building monitoring, and comprehensive training in energy management. Contact Larry Shirley at (919) 733-2230.

Western Alternate

Washington's Strategic Forecast Support System is an integrated system that identifies and assesses all hazards in the state. The program seeks to integrate proven tools such as a FEMA-developed earthquake modeling program, Geographic Information Systems, the Federal Emergency Management Information System and the Internet with more experimental tools such as satellite data. Contact Ferruccio Crocetti at (253) 512-7052.

Eastern Semifinalists

The Connecticut Higher Education Asset Protection Program evaluates the condition of Connecticut's public higher education facilities through a comprehensive facility condition assessment. The program includes physical inspections of buildings and uses a Web-based database application to assist each institution with capital planning and management. Contact Thomas Mangiafico at (860) 947-1851.

Delaware's Models of Excellence in Education initiative identifies schools that improve student achievement to learn from their success, and to recognize and share their "best practices" with other schools, teachers and parents. The initiative will foster the development of a statewide education network designed to improve the performance of all schools. Contact Doug Gramiak at (302) 577-8787.

New Jersey's Law Enforcement Intervention Hotline is a statewide initiative aimed at assisting law enforcement officers and their families to achieve a better quality of life. This 24-hour, confidential "listening ear" allows law enforcement families to vent anxiety, relieve stress, and discuss personal and marital problems. Contact Janet Zatz at (609) 292-4125.

The New Jersey Intergovernmental Transfer Program allows state and local government employees with permanent civil service status to transfer between state and local employment jurisdictions while maintaining their permanent status. Contact Janet Zatz at (609) 292-4125.

New York's Clean Fueled Vehicles Program is a coordinated effort to assist state agencies, authorities, and universities in acquiring and utilizing clean fueled vehicles and to develop a statewide network of fueling stations to support the vehicles. Contact John Spano at (518) 474-5390.

The New York State Office of Public Security Counter Terrorism Network provides law enforcement personnel throughout the state with timely information on terrorism and potential terrorist threats to enhance knowledge and capabilities in the war against terrorism. Contact James Kelly at (212) 867-1280.

The **New York State Law Enforcement Counter-Terrorism Training and Local Empowerment Program** is a cost effective initiative that enhances the ability of local police agencies to prevent acts of terrorism and to respond safely when acts of terrorism do occur. Contact James DeLapp at (518) 457-6101.

Pennsylvania's Center for Workforce Information and Analysis New Hire Data Mart program provides functional access to the center's employment data to increase the effectiveness of new hire reporting in Pennsylvania. To accomplish this goal, several data sources are extracted, transformed and loaded into the center's centralized data mart. Contact Deep Gupta at (717) 787-6507.

Midwestern Semifinalists

The **Illinois After-school Initiative Task Force** brought together leaders in youth development, human services and education to evaluate and coordinate the state's after-school services. The task force, co-chaired by the Department of Human Services and the State Board of Education, issued its final recommendations to the General Assembly last November. Contact Doris Garrett at (217) 558-2663.

The **Illinois Partners for Inclusive Employment Job Match and Fair** educates employers about the Americans With Disabilities Act and helps match disabled job-seekers with employers. Contact Audrey McCrimon at (312) 793-1573 or (217) 557-1606.

Illinois' Urban Systems of Care Program of the Department of Human Services provides mental health and social services for at-risk children and their families who live in 11 Chicago Housing Authority developments. This program bridges the barriers caused by socioeconomic factors, lack of transportation, and gang boundaries that may prevent residents from obtaining needed services. Contact Peter Nierman at (773) 794-4895.

Illinois' Emission Reduction Market System, operated by the Illinois Environmental Protection Agency, allows participating companies to buy, sell or trade units of ozone-producing emissions. Designed to reduce atmospheric ozone and improve air quality, this market-based program was the first of its kind in the nation. Contact Dennis McMurray at (217) 557-9068.

Illinois' Operation Protect and Provide program gives low-interest loans to military reserves and National Guard members from Illinois who are called up for active duty. The State Treasurer's Office has pledged $10 million in low-interest loans through local financial institutions throughout the state. Contact Cory Job at (217) 557-6436.

Iowa's Tax Gap Compliance Program uses technology to help the Department of Revenue and Finance accurately collect all taxes owed to the state. Through a combination of data warehousing and a customized software application, the program has generated $26 million more in tax revenues than the baseline collections during the three-year development and implementation period. Contact Michael D. Ralston at (515) 281-3204.

Michigan Wireless Learning, previously known as **Learning Without Limits**, is designed to improve student achievement by providing K-12 students with access to 21st century learning tools and eventually achieving one-to-one access to wireless computing in all Michigan schools. The program provides funds for computers, software and related expenses. Contact David Seitz at (517) 373-8696.

The **Minnesota Fisheries Easement Formulation Process** was designed by Minnesota's Division of Fisheries to acquire stream easements to provide recreational and management access and to protect critical riparian habitat. These easements are acquired using a cost efficient and creative formula that was adopted into state law. Contact Linda Erickson-Eastwood at (651) 296-0791.

The **Minnesota Disability Health Options MnDHO** program is a managed health care program for people with disabilities. It integrates Medicaid and Medicare financing and primary, acute and long-term care. All enrollees are assigned an RN health coordinator, who helps them navigate the health care system, live more independently and maintain their health. Contact Pamela J. Parker at (651) 296-2140.

Nebraska's County eGovernment Initiative provides support for development of Web sites and online services for county governments. Nebrask@Online, the state's official Web portal and network, provides the service at no cost to participating counties. Contact Greg Lemon at (402) 471-2554.

Ohio's Project Employee is a new category of appointed state employee that allows state agencies to hire union workers to fill short-term positions created through state and federal grants. The new designation avoids some of the more cumbersome aspects of the traditional hiring process, benefiting both state agencies and unions. Contact Shelly Ward at (614) 265-6918.

The **Ohio Parks Subcontracting Process** is designed to determine when it is more economical and efficient to contract work out, and when it's best to use existing staff. The process was developed through a collaborative agreement between labor and management in the Department of Natural Resources. Contact Shelly Ward at 265-6918.

The **South Dakota Abandoned Tank Removal "Tank Yank" Program** is the nation's largest and most comprehensive abandoned tank removal program. This project provides private owners with state funds to remove inactive or abandoned underground petroleum and waste-oil storage tanks, thereby reducing the environmental risks from petroleum releases. Contact Dennis Rounds at (605) 773-3769.

The **South Dakota/Nebraska Purple Loosestrife Management Project** is a joint initiative between the two states and South Dakota's Mike Durfee Sate Prison to help stop the invasive plant purple loosestrife. Prison inmates raise approximately 250,000 Galerucella beetles each year and release them into the Missouri River to help control the purple loosestrife population, which damages wetland ecosystems and habitat. Contact Lisa Korton at (605) 369-4421.

South Dakota's Electronic Vital Records and Screening System is a comprehensive Internet-accessible data system to collect vital records, such as birth, death, marriage and divorce records, as well as newborn metabolic and hearing screening data. This system handles the business functions of the State Vital Records Office and local registrars, including issuance of certified copies, accounting, document tracking, modifications and preservation of records. Contact Kathlene A. Mueller at (605) 773-5303.

The **MicroLOAN South Dakota** program provides low-interest financing to small businesses. In this public/private partnership created by Citibank, the South Dakota Development Corporation and the Governor's Office of Economic Development, the state provides "gap financing" to encourage banks to make loans they otherwise might not make. Contact Charlie Van Gerpen at (605) 773-5032.

Wisconsin's I Owe You Campaign markets state and federal benefits to veterans. The campaign's slogan is "You served me when I called, now it is time for me to help you." Contact Andrew Schuster at (608) 264-7616.

Southern Semifinalists

Arkansas' GeoStor program is a statewide, publicly accessible geospatial information system (GIS) with the ability to deliver customized geographic data. This program allows users across the state to respond quickly and efficiently to location-based questions dealing with a host of issues, including economic development, city zoning and disaster response. Contact Shelby Johnson at (501) 682-2767.

Florida's Civil Workflow Control System is devised to provide technology that allows non-criminal justice agencies to electronically "scan" fingerprints and enter information to request criminal history record checks. Contact Lisa Hopkins at (850) 410-8513.

Florida: A Healthy State is a public-private collaboration designed to address the critical health care needs of the state's

Medicaid population suffering from diabetes, hypertension, heart failure and asthma. The initiative is investing in the care of Florida's chronically ill population through three distinct programs on disease management, health literacy and medical product donations. Contact Bob Sharpe at (850) 488-3560.

Florida's Global Match is a program of the Florida Division of Emergency Management through cooperation with the Federal Emergency Management Agency that allows the use of "global match" in lieu of cash match for disaster recovery funds from FEMA. It provides a creative and effective way for greater leveraging of existing efforts by state and local governments in pursuit of disaster relief and related projects. Contact Frank Koutnik at (850) 922-0603.

Computers for Louisiana's Kids is the state's technology training, reuse and recycling program. This multipurpose initiative takes donated computers – thereby reducing the amount of electronic waste in public landfills – refurbishes them, and distributes them to needy schools. Prison inmates and high school students learn how to refurbish the machines, providing them with marketable skills. Contact Amy Erwin at (225) 379-3577.

Missouri's Grow Native! program is designed to increase demand for Missouri-grown native vegetation and promote naturally resilient plants to increase biological diversity on public and private lands. Through a combination of education, demonstration and marketing techniques, the program boosts consumer and commercial demand for these plants and helps consumers find quality native plant materials and capable native landscape professionals. Contact Judy Allmon at (573) 751-4115 ext. 3836.

The **Texas Office of Rural Community Affairs** is designed to serve as a focal agency for the state's health, economic development, community development and leadership development programs targeting rural communities. The agency has positioned itself as the door to Texas government for rural citizens, acting as a research and policy resource for rural issues. Contact Sam Tessen at (512) 936-6701.

Western Semifinalists

California's Integrated Nonfiler Compliance System is designed to obtain tax returns from individuals and businesses that have not filed returns. The program's goals are to improve compliance with tax laws, increase revenue, improve customer service, and organize the income and income activity data for all of the California Franchise Tax Board's programs. Contact Cathy Cleek at (916) 845-9589.

The **California Mental Health Services Continuum Program** provides the state's Department of Corrections with a customized, real-time, automated database to help identify and treat mentally ill parolees. The purpose of the program is to enhance the quality and timeliness of mental health services provided to mentally ill parolees after release, with the overarching goal of reducing recidivism and improving public safety. Contact Millicent Gomes at (916) 327-4612.

The **Utah Strategy to Address Water Pollution from Animal Feeding Operations** is a partnership between the Utah Department of Environmental Quality and the state's agricultural community. Its goal is to reduce the amount of polluted surface and groundwater areas that endanger human health by issuing federal water quality permits to concentrated animal feeding operations. Contact Don A. Ostler at (801) 538-6146.

The Burn Team: Reducing Smoke in Eastern Washington State from Agricultural Burning. This Department of Ecology program seeks to reduce the amount of field crop residue that directly impacts the safety and health of citizens breathing in the smoke-filled air. The burn team makes daily burn/no burn decisions for agricultural burning permit holders and provides air quality reports and forecasts to citizens with respiratory illnesses. Contact Karen Wood at (509) 329-3502.

Washington's Barrier-Free Checklist for Leased Facilities is used by state government to make leased facilities more accessible to people with disabilities. General Administration and tenant agencies use the checklist to assess accessibility when initially leasing space, renewing leases, evaluating accessibility in existing facilities and in planning barrier removal. Contact Mark Lahaie at (360) 902-7386.

Washington's Utilization and Cost Containment Initiative was designed to find efficiencies and lower expenditures in the state's Medicaid program, without reducing benefits or eligibility. This initiative saved the state $50 million between July 2001 and June 2003. Contact Richard J. Hancock at (360) 725-1870.

Washington's DCS Secure Card allows transmittal of child support payments to custodial parents through Electronic Funds Transfer, thereby decreasing the Division of Child Support's costs of distributing payments. Custodial parents may use their card at a bank teller, ATM, or any other merchant that accepts debit or credit cards to access child support funds. Contact Lynnie Larsen at (360) 664-5121.

States change with technology

No force is more pervasive in defining how government delivers services to its citizens than technology. From the simplest applications, such as automated mail routing, to advanced applications such as sharing public safety information across jurisdictional boundaries, technology is changing not only the way government operates, but the way in which we think of government's role.

This month, CSG's Trends Research and Response Group looks at the impact technology is making in various areas of public policy.

Agriculture

Probably no industry has seen greater technological innovations in the past two decades than agriculture. Agriculture technology has allowed greater production at lower prices with lower labor requirements. Even though the food and fiber system is 17 percent of the total domestic economy, fewer people are producing more food, so that farmers and ranchers now comprise less than 3 percent of the total American work force. Technology allows them to produce more food than ever.

Today, for example, a cloned cow could produce milk containing insulin or another vital human pharmaceutical, and be milked in a robotic parlor with little human intervention. She could be receiving Bovine Growth Hormone to maximize her production. A computer chip in her ear could provide quick monitoring and access to her milk production, feed consumption and health records. She might be consuming herbicide-tolerant genetically modified (GM) corn that allows maximum soil conservation because no tillage was required for weed control.

Rapid advances in technology promise to **revolutionize** the structure of American agriculture.

The corn might contain additional genes that make it higher in protein or more easily digested and it could have been planted and harvested by driverless tractors, guided by global positioning systems.

The chemicals used on the crop could have been automatically and selectively sprayed by a variable-rate spray rig that changes the amount it sprays every foot based on the presence of weeds. In fact, all equipment used to produce the feed the cow is eating might be capable of modifying the application rates of all inputs such as tillage, seed, fertilizers and even irrigation water.

The carcass of her male calf, produced by artificial insemination using sexed semen, will be processed into consumer-ready beef in a state-of-the-art facility that uses real-time imaging to detect contaminants that might compromise food safety. Science fiction? No, all of these agriculture technology efforts take place today.

These technological advances are most beneficial to larger farms, a fact that is driving changes in the structure of American farms as the number of farmers continues to decline while farm size continues to increase.

The advent of cheaper, more reliable transportation along with improvements in food processing and packaging have resulted in lower shipping costs. When food can be shipped around the globe, international competition controls price and profitability and agricultural global trade comes under intense scrutiny. America exports one-fifth of all of its agricultural products and one-

Agriculture continued

fourth of the food we consume is imported. The distance between production and consumption continues to increase, resulting in consumers with little knowledge about their food.

Rapid advances in technology promise to revolutionize the structure of American agriculture. The adoption of emerging technologies has important policy implications for public officials. It will become increasingly difficult to gauge the unintended consequences of policies, legislation and regulation of an industry that has stakeholders at both ends of the technological spectrum.

Making new technologies and training in the use of them available to smaller farms may help to slow the decline of the moderate-sized farm. All farm operators may need insurance safety nets to weather price instability. Agricultural policy of the future may even need to be tailored to particular groups or regions.

As agricultural policies related to tax incentives, siting, zoning, odor and runoff control are developed and implemented, policy-makers should consider unintended consequences for both the large farms that can afford technology and small farms that cannot.

— Carolyn L. Orr, chief agriculture and rural policy analyst, corr@csg.org

Education

Hand-held electronic devices and laptop computers are the heirs apparent to the computer lab and the clusters of desktops that can be found in almost any classroom today, says Glenn Cook in a July 2002 *American School Board Journal* article entitled "Laptop Learning."

Carts with portable computers now move from class to class, where students work at their desks on the Internet rather than waiting their turn to gain access to a desktop computer. In May 2001, the 40,000-student district outside Richmond, Va., agreed to lease 23,000 Apple iBook laptop computers – one for every middle school and high school student and teacher. The laptop project, the first and largest of its kind in the nation, became a major test of the effectiveness of wireless technology, Cook wrote.

Since then, local districts nationwide have begun similar projects. Clovis Unified School District in California implemented the "Anytime, Anywhere, Anyone Learning" laptop initiative for middle and high school learners, with elementary schools adding students to that initiative as well.

The Daviess County Public School system in Kentucky began its e-Learning Project this fall, providing laptops to a pilot group of high school freshmen and their teachers in all three of its high schools, acknowledging that kids are learning differently in today's digital age and seeking to meet their needs and increase student achievement with access to computers 24 hours a day. "It's a decision-making tool to help us decide where to go from here," said Superintendent Stu Silberman. "We are addressing the questions of how, when and where today's kids learn." Chief Financial Officer Tom Shelton is building a financing package that the system hopes will allow the project to continue. If the project is fully implemented, all high school students will have the opportunity to participate as the district begins to phase in the program with all incoming high school freshmen.

In Maine, every seventh grade student receives a laptop computer. The Maine Learning Technology Initiative is the largest educational technology project in the state's history. Maine was the first state to embark upon a plan to eliminate the digital divide by providing a laptop to each seventh- and eighth-grade student and teacher.

In August, Michigan Gov. Jennifer M. Granholm signed a bill providing $39 million for the state's one-to-one wireless computing program that targets middle school students. "Learning without Limits," a semifinalist in CSG's 2003 Innovations Awards program, started in 14 school districts. Michigan Virtual University, in conjunction with the Michigan Department of Education, coordinated the pilot phase of the program.

— Charlotte C. Postlewaite, chief education policy analyst, cpostlewaite@csg.org

Environment

Technological innovations can play a significant role in improving the environment; however, new environmental technologies often face resistance from potential customers and regulators who are uncertain about manufacturer claims about their effectiveness. A few states have sought to reduce the uncertainty surrounding these new technologies by developing programs that verify technological performance and provide potential users and regulators with credible independent data.

The state of California operates the California Environmental Technology Certification Program (CalCert) that provides an independent scientific and engineering evaluation of an environmental technology's performance. Manufacturers describe their performance claims and provide supporting data to California's EPA. CalCert assesses the information and, if necessary, will require additional testing to confirm claims. Approved technologies receive certification verifying performance claims. CalCert is voluntary and self-supporting, with participating companies paying for the cost of evaluations. CalCert tests, evaluates and verifies technologies for pollution prevention, treatment, emission control and monitoring.

The Minnesota Office of Environmental Assistance offers an Environmental Assistance Loan Program to small and mid-sized businesses to reduce pollution at the front-end of production rather than treating or disposing of pollutants after the product has been produced. In a recent round of funding, for example, loans of up to $100,000 at 0 percent interest were made to businesses and institutions involved in such activities as wood finishing, metal painting and coating, printed circuit, plastic and fiberglass, and manufacturers of products that include lead, mercury and other known toxic chemicals.

Massachusetts has operated the Strategic Envirotechnology Partnership since 1994. STEP is a partnership between the University of Massachusetts and the Massachusetts Executive Office of Environmental Affairs formed to help businesses develop and market innovative, technology-based solutions to environmental problems. STEP advances promising technologies through stages of development. The partnership increases the amount of private investment in environmental technologies, by reducing the risk and uncertainty associated with bringing environmental technologies to market.

On the federal level, U.S. EPA has managed the Environmental Technology Verification (ETV) program, which develops testing protocols and verifies the performance of innovative environmental technologies. The goal of ETV is to accelerate the entry of new environmental technologies into the marketplace. ETV, through public and private testing partnerships, evaluates the performance of environmental technology in all media: air, water, soil, ecosystems, waste, pollution prevention and monitoring.

— Scott Richards, chief environmental policy analyst, srichards@csg.org

Fiscal Policy

Any technology that improves state government operations contributes to sustaining or improving the fiscal capacity of the states. This includes technology that enables state employees to be more productive in their workplace and technology that enables states to more efficiently deliver services to the public. It means simple things such as a jig that Illinois transportation department employees invented to reduce the expense of repairing broken augers. It also means complex technology such as computers that states use to process massive amounts of data concerning public benefits such as welfare "smart cards," licenses, vital statistics and taxes.

California and Iowa have developed similar programs recently that are examples of using technology innovatively to help the fiscal bottom-line. Both involve data mining, which Kurt Thearling, director of Advanced Data Mining Capital One, defines as "the automated extraction of hidden predictive information from (large) databases."

California's Integrated Nonfiler Compliance System (INC) electronically matches data from W-2 forms, 1099s, real property sales, K-1 partnership returns and related records against filed returns to identify entities that do not file tax returns. Once non-filers are identified, the system creates and manages their cases, calculates their potential tax liability, chooses the best cases to pursue and places questionable cases in a review status. The system also generates and sends notices of non-compliance and requests-to-file-a-return to entities that it identifies as non-filers.

California's Franchise Tax Board developed and operates the program. INC improves compliance with state tax laws, increases revenue, improves customer service to taxpayers, organizes the data and activity within the board such as filing, collections and auditing. The system has processed more than 160 million records and is credited with bringing in $182 million since it began. INC was a semifinalist in the CSG's 2003 Innovations Awards program.

Iowa's Tax Gap Compliance Program, also an Innovations Awards semifinalist, uses customized software to:

- identify entities that fail to file tax returns;
- identify entities that file but don't pay their taxes; and
- streamline the auditing process of the state department of revenue and finance.

The basic component in Iowa's program is an electronic data warehouse containing more than 2,550 elements from 10 major systems. The program uses business logic and query software to compare and match data from the source systems to identify areas of tax non-compliance. Each match generates a list of audit leads. The leads are loaded into a Web-based audit component application for assignment and further investigation. Depending upon the outcome of an investigation, the system can generate tax due notices or issue refunds.

The Iowa Department of Revenue and Finance credits the program with generating $26 million in tax revenue above and beyond the baseline collections during the program's three-year project development and implementation period.

— William Voit, senior project director, bvoit@csg.org

Health

Computerized prescription writing can provide tremendous benefits to both the healthcare provider and the patient. Electronic communications between doctors' offices and pharmacies significantly reduce medical errors associated with handwritten, fax and telephone prescriptions, minimizing misunderstandings based on illegible handwriting and medications with similar sounding names. Other important benefits include preventing fraud and forgeries, providing patient education, and saving time for patients, pharmacists, and physicians.

Electronic prescribing has the potential to improve the quality of health care, decrease costs, manage risk better, and increase efficiency. In addition to eliminating errors stemming from illegible handwriting on paper prescriptions, handheld electronic devices supply the prescribing physician with several key pieces of patient-specific data, including the patient's history and drug interaction warnings, enabling doctors to closely monitor compliance and dosing regimens. Electronic prescribing also points to the greater efficiencies that online information can provide physicians and pharmacists by enabling physicians to send prescriptions directly to the retail pharmacy or the mail order facility.

A number of states have developed statutes or taken positions regarding electronic prescribing. Florida is one of two states in the country to legislate legibility on prescriptions. On July 1, 2003 a law went into effect for Florida physicians requiring that their written prescriptions to be legibly printed or typed; that the prescription's date be written out; that the quantity and strength of the drug be written in text and number; and that the prescription be signed by the prescribing practitioner on the day when issued.

In Florida, the new law's greatest impact could be in motivating doctors to switch to electronic prescribing to eliminate problems with illegible handwriting.

Another state making great strides in electronic prescribing is Rhode Island, which recently signed legislation that amends the current law referring only to oral or written prescriptions to include the word electronic. This amendment's intent is to protect patients, physicians and pharmacies. Since the beginning of 2003, Rhode Island has been participating in a statewide electronic prescribing program. After pilot testing in early spring, the system was activated statewide in May, and now any prescriber in the state is able to connect with nearly 120, or 70 percent, of the state's pharmacies. The Rhode Island Quality Institute, the group responsible for developing the program, has called the statewide initiative "an opportunity to promote and protect the health of the citizens of Rhode Island" because electronic communications between doctors and pharmacies are expected to increase formulary compliance; simplify pharmacy administration; reduce dispensing and other errors related to illegible handwritten prescriptions; and ultimately improve patient satisfaction.

— Regan Hunt, health policy intern, rhunt@csg.org

Public Safety

With more than 4.6 million adults and 670,000 juveniles under some form of community supervision today, probation and parole officials nationwide continue to struggle with providing adequate supervision within current budgetary constraints. States are also confronted with growing inmate populations and crowded prisons and jails. To help meet these challenges and address this supervision dilemma, many states are turning to Global Positioning Systems or GPS technology as well as other electronic supervision methods as effective supervision tools.

According to a 2002 report by the American Probation and Parole Association, the crux of the GPS tracking system is a portable battery-operated tracking device worn by offenders under supervision. The light-weight device is normally worn on the offender's ankle. Multiple satellites track the device through signals and calculate the offender's location accurately within a few feet. These locations are relayed to the offender's supervisor, who has the option of either tracking the offender in real-time or saving the data for later analysis. The ankle devices also include a tamper-resistant feature that alerts the supervisor if the device is being removed or otherwise made inoperable.

One feature of this technology is the capability to enforce restrictions placed on offenders without having to physically supervise the person 24 hours a day. Supervisors, for example, can place exclusion zones around areas such as schools, playgrounds, and neighborhoods that may be off-limits to an offender. The system immediately alerts authorities by page, fax or e-mail when there are violations.

According to the *Journal of Offender Monitoring*, about 3,500 people are under GPS surveillance in 27 states. And 50 percent of those under GPS watch are under supervision for a sex crime. Washington is undergoing a pilot program to track approximately 30 offenders from the state's Special Commitment Center on McNeil Island. The state currently releases about a dozen sex offenders each month who require special supervision.

Likewise, Wisconsin is negotiating with manufacturers to expand their current GPS capabilities. So far, the system has demonstrated a 90 percent success rate for inmates who qualified for work-release privileges. Probationers and parolees are deemed a "success" if they satisfy all conditions of their release.

— Chad Foster, public safety & justice policy analyst, cfoster@csg.org

MLC 58TH ANNUAL MEETING

Close to 600 people traveled to Milwaukee in August to take part in the 58th Annual Meeting of the Midwestern Legislative Conference, where attendees heard from engaging speakers, participated in numerous public policy sessions and interacted with peers at entertaining social events.

The four-day conference culminated with a speech by presidential historian Michael Beschloss, who discussed with state legislators the importance of courageous political leadership in times of crisis. Luncheon events included a presentation by NBC chief Pentagon correspondent Jim Miklaszewski. He discussed the U.S. role in global politics along with some of the key changes in international relationships resulting from the Sept. 11 terrorist attacks and the war in Iraq.

Public policy sessions examined key issues such as attempts to contain Medicaid costs, environmental protection, the future of state energy policy, education reform, state fiscal conditions and economic development opportunities in the Midwest. In addition, each of the MLC's five public policy committees met.

The MLC approved 10 resolutions at this year's meeting. One called on the conference to partner with education organizations to develop ideas on enhancing the region's P-16 education system to improve the Midwest's competitive edge in the new economy. The MLC urged the U.S. Congress to provide more funding, clarity and flexibility in the No Child Left Behind and Individuals with Disabilities Education acts.

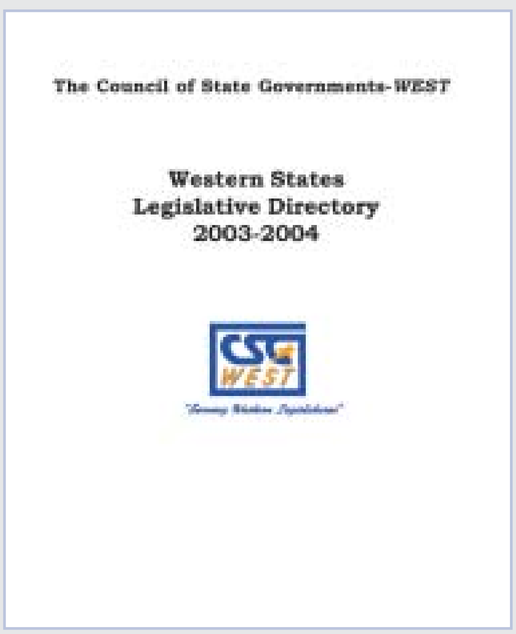
Two health care-related resolutions were approved as well. One urges the federal government to make disease management and chronic illness a higher priority, while the other voices support for various changes that would modernize the nation's Medicaid system.

Michael Beschloss addresses Midwestern legislators.

Other resolutions receiving MLC support dealt with the integration of the North American beef industry; improvements to passenger rail in the Midwest; the development of a comprehensive transportation plan for shipments of spent nuclear fuel to Yucca Mountain, Nevada; and the full-scale testing of shipping casks for spent nuclear fuel. Finally, conference attendees endorsed the establishment of a Great Lakes Legislative Caucus and offered a resolution of appreciation to the state of Wisconsin for its hospitality.

Wisconsin Rep. Sue Jeskewitz, chair of the MLC, presided over this year's meeting. The MLC's 59th Annual Meeting will be held July 11-14, 2004, in Des Moines, Iowa.

NEW LEGISLATIVE DIRECTORY



A new directory of Western legislators is now available from the Council of State Governments-*WEST*. Lawmakers and staff who want to contact colleagues in the states of Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming will find it especially helpful. CSG-*WEST* mailed the new address book to all state legislators in the region.

For most states, the Western Legislative Directory contains both "in session" and "out of session" contact information. The publication will be updated regularly online. To view or print the directory online, visit *www.csgwest.org*. Complimentary directories are available to Western state government officials and staff. For others the charge is $8.00 a copy. Call the CSG-WEST office at (916) 553-4423 or fax your request to (916) 446-5760.

NATIONAL FOCUS ON LIEUTENANT GOVERNORS

National news outlets are asking, "Until now, how many people knew who their lieutenant governor was?'' The office has been in the limelight recently as two lieutenant governors have been tapped to become governor.

In Utah, Lt. Gov. Olene Walker will become governor if Gov. Michael Leavitt is confirmed to head the U.S. Environmental Protection Agency. Indiana Gov. Joe Kernan succeeded to office September 13 upon the death of former Gov. Frank O' Bannon.

As lieutenant governor, Kernan headed the Department of Commerce and was the commissioner of agriculture. He also headed the state's anti-terrorism efforts and chaired the 21st Century Research and Technology Fund.

Many governors seem to agree on the importance of the role of lieutenant governor in their state.

"As governor and as a former lieutenant governor, I believe the position of lieutenant governor has been an important one for Delaware," said Delaware Gov. Ruth Ann Minner.

All 42 lieutenant governors share the duty of being first in line of succession to governor. In five states, the Senate president succeeds to governor and in three states, the secretary of state does.

"The lieutenant governor is an important part of Idaho's government and serves a needed role in our unique political dynamic," said Idaho Gov. Dirk Kempthorne.

Gov. Tim Pawlenty elevated the role in Minnesota this year by naming Lt. Gov. Carol Molnau head of the Transportation Department in a precedent-setting move.

Nebraska Gov. Mike Johanns said, "I believe the role and importance of the lieutenant governor in Nebraska is increasing and expanding." Johanns assigned "major responsibilities to the lieutenant governor," including naming him director of homeland security, chairman of the state's Information Technology Commission, liaison to the state's congressional delegation, and chairman of the Early Childhood Interagency Team.

"Though the role of lieutenant governor changes depending on the administration, its importance does not," said Ohio Gov. Bob Taft. "The lieutenant governor is an important official performing a wide range of duties and playing a variety of roles vital to the interests of all Ohioans." Lt. Gov. Jennette Bradley is director of Ohio's Commerce Department and liaison to county and local governments and small business.

Utah Gov. Michael Leavitt said the lieutenant governor is an integral part of his administration. "The partnership between governor and lieutenant governor allows us to more effectively address the broad needs of the citizens of Utah." Lt. Gov. Walker's duties include oversight of elections and serving as the governor's liaison to the Legislature and local governments. She is active on human service issues including health, workforce services and education.


Utah Lt. Gov. Olene Walker


Indiana Gov. Joe Kernan

STATEMENT OF OWNERSHIP, MANAGEMENT AND CIRCULATION

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NEW JUVENILE COMPACT BUILDS MOMENTUM

The Interstate Compact for Juveniles, new legislation that replaces a nearly 50-year old agreement for tracking and supervising juveniles, has been adopted by 11 states in 2003 and is picking up momentum going into the 2004 calendar year.

"This legislation will tremendously improve public safety in all member states and we are proud to be the first to enact this compact," said Rep. Duane DeKrey, primary sponsor of the bill in North Dakota, the first state to adopt the new compact.

Each year, states transfer more than 20,000 juveniles who are on probation or parole, or who have escaped, absconded or run away from home to another state. Many more undocumented juveniles pass between states unsupervised and neglected, ultimately leading to an increase in crimes committed by that population as juveniles and later as adults.

Since 2000, The Council of State Governments and the federal Office of Juvenile Justice and Delinquency Prevention have led the effort to draft the new Interstate Compact for Juveniles. This updated compact addresses many deficiencies within the current juvenile compact system, including enforcement, administration, finances, communications, data sharing and training. Specifically, the new agreement will provide for:

- the establishment of an independent compact authority to administer compact activity;
- a rule-making authority and a provision for significant sanctions to support compact operations;
- the establishment of state-level councils to provide oversight into compact operations; and
- the collection of standardized information and information sharing systems.

Completed in 2002, the legislation is the result of years of deliberation by stakeholder groups such as court administrators, crime victim advocates, district attorneys, juvenile and family court judges, law enforcement, probation and parole officials, and state legislators.

In addition to the 11 states that have adopted the new agreement, 10 others have active legislation pending, mainly due to short legislative cycles and carryovers to the 2004 sessions. The new agreement will be activated after 35 states or other jurisdictions (the Commonwealth of Puerto Rico, the District of Columbia, or U.S. territories) enact the new legislation.

The Interstate Compact for Juveniles provides the framework for promoting public safety, ensuring the welfare of juveniles, and protecting victims within the states. "This is real legislation for a real problem, not just headliner information," said DeKrey.

For more information, please visit *www.csg.org (keyword: juveniles).*

SPECIAL CAUCUS ENDORSED

In August, the Midwestern Legislative Conference endorsed a plan to create a special caucus of regional lawmakers that addresses key Great Lakes-related issues.

With support of the MLC, the establishment of a Great Lakes Legislative Caucus will now move forward. The caucus will include state and provincial lawmakers from the eight Great Lakes states and two Canadian provinces. It is designed to provide a forum for the exchange of information and the pursuit of cooperative solutions to common problems facing lawmakers who represent the Great Lakes states and provinces. The invasion of non-native species, water withdrawals and water quality, and land use patterns are just a few of the critical issues facing the region, many of which can be best addressed through cooperative, multistate efforts. Once fully established, the caucus will strengthen the collective role of state and provincial legislators in developing policies related to the Great Lakes.

INTERSTATE COMMISSION HIRES FIRST EXECUTIVE DIRECTOR

The Interstate Commission for Adult Offender Supervision, located within The Council of State Governments, has recently appointed Don Blackburn as its first executive director. The Interstate Commission, formed in 2002, is composed of the 47 member states to the new Interstate Compact for Adult Offender Supervision. Mr. Blackburn has more than 30 years experience in law enforcement and corrections, both as an officer and administrator. During his career, he has served as a deputy sheriff, probation and parole agent, and a corrections administrator. Mr. Blackburn recently retired as Utah's adult compact administrator, where he served for nine years.

During his tenure in Utah, Blackburn served as president of the Parole and Probation Compact Administrators Association (PPCAA). He has received numerous awards, including the Utah Department of Corrections Executive Director's Award, Director's Achievement Award, three Utah DOC Medals of Merit and the PPCAA William Frederick Award. Mr. Blackburn is a graduate of Weber State University with a B.S. in criminal justice and communications. He can be reached at (859) 244-8229 or *dblackburn@csg.org*. For more information on the Interstate Compact for Adult Offender Supervision or the Interstate Commission, please visit *www.adultcompact.org.*

Don Blackburn

The ABCs of PBMs Continued from page 9

than on the drug with the highest quality or lowest price for the purchaser. Unlike a managed care company, PBMs are not responsible for a patient's overall care and do not incur the increased costs if conditions are managed improperly. Managed care companies have an incentive to provide the best quality medication at the lowest price, whereas PBMs may be more likely to make decisions based exclusively on price.

Often, the specifics of rebate arrangements between the PBM and the pharmaceutical companies are not public. Maine Senate Majority leader, John Richardson voices concerns of many state leaders stating that, "the public deserves to understand what they are paying for." Several court cases have highlighted the close ties between the PBM industry and pharmaceutical companies, raising questions about whether PBMs are offering purchasers the best deal. However, a recent Government Accounting Office report examining the practices of PBMs that contracted for federal employee benefits found no improprieties.

To control drug costs, states have either contracted directly with PBMs or have attempted to emulate PBM cost-control strategies. State policy-makers need to consider a number of factors to determine what will work best for their state.

When electing to use a pharmacy benefit management model, most states have opted to contract with a private company instead of building their own internal programs. Contracting for services allows states to reap more immediate savings and use the established technology, networks and expertise of PBMs.

When contracting with PBMs, states might consider including language that requires the companies to pass rebates back to government agencies. While this may increase the administrative fee, a state may feel more comfortable with an arrangement where the PBM receives all revenue up front. Industry leaders note, however, that it is not easy to pass rebates on to purchasers because over time the exact amount varies by drug and by volume.

Also, PBMs and manufacturers guard information about rebate amounts closely and having these levels revealed in each transaction might discourage manufacturers from offering steep discounts. States that want to monitor the spread may also include a provision for frequent detailed accounting reports to examine the transactions between the PBM and the pharmacy or the customer. Following the money trail of rebates may also be important for states that want more oversight.

Another option is to contract with companies that charge for administrative services only. A group of second-generation PBMs is emerging that offers clients greater flexibility, giving states more control over the pharmacy benefit management.

Other states are looking to form their own nonprofit PBMs that the government would operate for state employees and Medicaid beneficiaries. States must recognize that they would need to invest staff time and resources to develop internal expertise to operate such programs. They would also need to network with other government entities to generate a larger purchasing pool to cover administrative costs. Kentucky, Tennessee and Ohio have considered creating a PBM group that would keep all discount savings and rebates. The states, however, have not solved the problem of how to get the drugs distributed under existing law. The Northeast Legislative Association on Prescription Drug Prices has also endorsed the idea of establishing an independent, nonprofit pharmacy benefit administrator.

Mirroring PBM strategies used in the private sector, a number of states, including Florida, Michigan and Oregon, have developed their own preferred drug lists. Federal Medicaid law prohibits using price alone as the determining factor for which drugs receive preferred status by states. Thus, states that want to establish a preferred drug list usually establish a committee of physicians and pharmacists that takes into account a number of factors including efficacy, cost, and use of drugs in a given therapeutic class. The state then develops a set of preferred drugs in each category, meaning that doctors can prescribe them without receiving approval first. Doctors can still prescribe drugs not on the preferred list, but they must first receive approval.

Preferred drug lists and PBMs continue to be hotly debated in Medicaid and within health care in general. Critics contend that such schemes get in the way of the doctor-patient relationship and may hurt the quality of care. A sudden switch in a drug brand can have detrimental health effects, especially for chronically ill patients who have been on a medication for a long time. Many states have attempted to deal with this by providing for an adequate patient-appeals process and by exempting mental health medications from prior approval to ensure consistent treatment.

Some people see a role for greater regulation of the PBM industry to curb potential abuses. Creighton University's Garis, for example, believes more states will begin to regulate the industry and PBMs will be held to greater accountability. He urges state officials to raise awareness of various business practices so that the market can be more diligent in using state dollars to support PBMs that promote themselves as being upfront and transparent.

Maine Rep. Thomas Shields, a physician, believes that these private businesses are being excessively regulated. "If I am a PBM who says I can get you drug X for 75 cents but then I later find a way to get it for 60 cents, why should I have to pass the savings on to you?" he asked. "Other businesses do not operate this way – we don't legislate that they pass on savings to customers."

In the long run, the collected efforts of states, PBM companies and patients may ultimately have the effect of using the market system to bring the health care system into some form of equilibrium, resulting in more manageable pharmaceutical costs throughout the nation.

— Sally Sue Brown is a health policy analyst at The Council of State Governments.

States' estimated and actual phase II distributable amounts for 1999-2001

STATE	1999		2000		2001		Total	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
Alabama	$190,000	$190,000	$140,000	$124,059	$200,000	$180,434	$530,000	$494,493
Florida	4,294,000	4,294,000	3,164,000	2,803,727	4,520,000	4,077,805	11,978,000	11,175,532
Georgia	22,230,000	22,230,000	16,380,000	14,514,871	23,400,000	21,110,761	62,010,000	57,855,632
Indiana	4,408,000	4,408,000	3,248,000	2,878,162	4,640,000	4,186,065	12,296,000	11,472,227
Kentucky	112,708,000	112,708,000	83,048,000	73,591,636	118,640,000	107,033,362	314,396,000	293,332,998
Maryland	2,356,000	2,356,000	1,736,000	1,538,328	2,480,000	2,237,380	6,572,000	6,131,708
Missouri	1,596,000	1,596,000	1,176,000	1,042,093	1,680,000	1,515,644	4,452,000	4,153,737
North Carolina	144,210,000	144,210,000	106,260,000	94,160,573	151,800,000	136,949,296	402,270,000	375,319,869
Ohio	5,168,000	5,168,000	3,808,000	3,374,397	5,440,000	4,907,801	14,416,000	13,450,198
Pennsylvania	1,634,000	1,634,000	1,204,000	1,066,905	1,720,000	1,551,731	4,558,000	4,252,636
South Carolina	26,372,000	26,372,000	19,432,000	17,219,351	27,760,000	25,044,219	73,564,000	68,635,570
Tennessee	28,766,000	28,766,000	21,196,000	18,782,491	30,280,000	27,317,685	80,242,000	74,866,176
Virginia	25,004,000	25,004,000	18,424,000	16,326,128	26,320,000	23,745,095	69,748,000	65,075,223
West Virginia	1,064,000	1,064,000	784,000	694,729	1,120,000	1,010,430	2,968,000	2,769,159
TOTAL	**380,000,000**	**380,000,000**	**280,000,000**	**248,117,450**	**400,000,000**	**360,867,708**	**1,060,000,000**	**988,985,158**

Source: U.S. General Accounting Office

MSA: Five years later Continued from page 16

CSG estimates that between 2003 and 2010 states could lose between $10.1 billion and $15.6 billion in cigarette excise taxes from Internet sales. This figure does not include sales taxes, which would make these revenue loss estimates even bigger.

There are hundreds of Internet cigarette retailers, and very few of them comply with the Jenkins Act that requires retailers to submit to states their purchase records so that states can collect appropriate taxes. Few Internet retailers comply because violation of the Jenkins Act is only a misdemeanor and the federal government does not actively enforce the law. Another problem is that buying cigarettes off the Internet is relatively easy for underage smokers because few Internet retailers verify the age of their customers. While OPMs must fund programs to prevent youth smoking as part of the MSA, Internet cigarette sales are undermining these efforts.

Looking back and looking forward

In the five years since the MSA was signed, states have received billions of dollars in settlement money. These settlement funds, however, have been adjusted downward because of the declining volume of cigarettes manufactured and sold in this country. Some tobacco farmers have gone out of business, but many have survived through these years of declining demand. The original participating tobacco manufacturers that signed the MSA remain relatively sound financially, but companies that did not sign the MSA are gaining market share. And there is some evidence that declining tobacco sales have hurt small tobacco retailers.

If current trends continue and tobacco consumption declines, tobacco-related illnesses should also decline. This is good from both a public health and a financial perspective for the states. The financial health of tobacco farmers and major tobacco companies, however, may not fare as well. MSA-related costs in addition to other factors may combine to decrease the profitability of many small tobacco farms, mostly in the South. And the future of many large tobacco companies may depend, in part, on the actions states take to address issues related to the rising market share of companies that have not signed on to the MSA. The economic impacts of the MSA will continue to play out over the next several years.

— Melissa Taylor is chief research analyst and Irakli Khodeli is a research intern at The Council of State Governments.

States' use of tobacco settlement funds

Fiscal year	Budget shortfall	Tobacco control	Assistance to tobacco growers and economic development	Health	Education and social services	Tax reductions	Infrastructure	General purposes/ reserves	Unallocated
2000-2001	NR*	6.8%	5.6%	41.3%	9.3%	3.6%	2.5%	10.6%	20.2%
2002	14.4%	5.2%	4.1%	48.0%	9.6%	0.5%	2.0%	9.8%	6.5%
2003	14.5%	5.1%	5.0%	50.7%	9.8%	1.4%	1.5%	8.6%	3.5%

Source: U.S. General Accounting Office *Not Reported

conference calendar

This calendar lists meetings as designated by CSG's Annual Meeting Committee. For details of a meeting, call the number listed. "CSG/" denotes affiliate organizations of CSG. Visit *www.csg.org*, for updates and more extensive listings.

Other meetings have value to state officials. Purchase a meeting listing by calling 1 (800) 800-1910 or by emailing *sales@csg.org*. Announce your meetings to thousands in the state government market through an advertisement, a Web listing, or a banner ad in *In the News*, CSG's weekly electronic newsletter. Get your free subscription to *In the News* at *www.csg.org*.

NOVEMBER 2003

November 6-7 — **CSG/Midwestern Governors' Conference** — St. Louis, MO — Renaissance Grand Hotel. Contact Ilene Grossman at (630) 810-0210 or *igrossman@ csg.org*

November 7-11 — **CSG/SLC Fall Legislative Issues Conference** — Point Clear, AL — Marriott Grand Hotel Resort and Golf Club. Contact Nai Vienthongsuk at (404) 633-1866 *nai@csg.org* or visit *www.slcatlanta.org*

November 12-14 — **CSG Regional Rural Development Summit** (IN, KY, TN) — Louisville, KY — Contact Carolyn Orr at (859) 244-8221 or *corr@csg.org*

November 23-25 — **CSG/National Association of State Treasurers Issues Conference** — New York, NY — The Waldorf-Astoria Hotel. Contact Adnee Hamilton at (859) 244-8174 or *ahamilton@csg.org* or visit *www.nast.net*

DECEMBER 2003

December 6-9 — **CSG/Eastern Regional Conference Annual Meeting** — San Juan, PR — Ritz Carlton. Contact Pamela Stanley at (212) 912-0128 or *pamela@csgeast.org* or visit *www.csgeast.org*

December 9-11 — **CSG/Midwestern Radioactive Materials Transportation Committee** — Chicago, IL — Embassy Suites Chicago, Downtown Lakefront. Contact Lisa Sattler at (920) 803-9976 or *lsattler@csg.org*

JANUARY 2004

January 16-18 — **CSG/Rural Policy Research Institute/National Conference of State Legislatures: 2nd Annual Legislative Agricultural Chairs Summit** — New Orleans, LA. Contact Carolyn Orr at (859) 244-8221 or *corr@csg.org*.

January 30-February 1 — **CSG/ National Association of State Personnel Executives Annual Mid-Year Meeting** — Arlington, VA — Crystal City Courtyard by Marriott. Contact Leslie Scott at (859) 244-8182 or *lscott@csg.org*

January 31-February 3 — **NASTD—The Association for Telecommunications and Technology Professionals Serving State Government Southern Region Winter Seminar** — Biloxi, MS — Beau Rivage Resort. Contact Karen Britton at (859) 244-8187 or *kbritton@csg.org*

FEBRUARY 2004

February 8-11 — **CSG/American Probation and Parole Association Winter Training Institute** — Reno, NV. Contact Kris Chappell at (859) 244-8204 or visit *www.appa-net.org*

February 10-13 — **National Lieutenant Governors Association Winter Meeting** — Washington, D.C. — The Madison Hotel. Contact Julia Hurst at (859) 244-8111 or *jhurst@csg.org* or visit *www.nlga.us*

February 13-15 — **CSG/National Association of State Election Directors Winter Conference** — Washington, D.C. — Hyatt Regency Washington. Contact Melinda Glazer at (202) 624-5460 or *mglazer@csg.org*

February 14-18 — **CSG/National Emergency Management Association Mid-Year Conference** — Washington, D.C. — Hotel TBA. Visit *www.nemaweb.org*

February 21-24 — **National Governors Association Winter Meeting** — Washington, D.C. — Hotel TBA. Contact Susan Dotchin at (202) 624-5327

MARCH 2004

March 7-10 — **CSG/National Association of State Treasurers Legislative Conference** — Washington, D.C. — Willard InterContinental Hotel. Contact Adnee Hamilton at (859) 244-8174 or *ahamilton@csg.org* or visit *www.nast.net*

MAY 2004

May 3-7 — **CSG/USEPA: The EMAP Symposium 2004: Integrated Monitoring and Assessment for Effective Water Quality Management** — Newport, RI. Contact Amanda Mays at (859) 244-8236 or *amays@csg.org*

JUNE 2004

June 26-30 — **CSG/National Association of State Facilities Administrators 17th Annual Conference & Resource Expo** — Norfolk, VA — Norfolk Waterside Marriott. Contact Alecia Lohaus at (859) 244-8121 or *alohaus@csg.org*

June 26-July 1 — **CSG Henry Toll Fellow-ship Program** — Lexington, KY — Hilton Suites Lexington Green. Contact Allison Spurrier at (859) 244-8249 or *aspurrier@csg.org*

JULY 2004

July 7-11 — **CSG/National Lieutenant Governors Association Annual Meeting** — Big Sky, Montana — Big Sky Resort. Contact Julia Hurst at (859) 244-8111 or *jhurst@csg.org*

July 11-14 — **CSG/Midwestern Legislative Conference 59th Annual Meeting** — Des Moines, IA — Marriott. Contact Mike McCabe at (630) 810-0210 or *mmccabe@csg.org*

July 19-23 — **National Conference of State Legislatures Annual Meeting** — Salt Lake City, UT — Hotel TBA

July 25-28 — **CSG/American Probation and Parole Association 29th Annual Training Institute** — Orlando, FL — Orlando Marriott World Center. Contact Kris Chappell at (859) 244-8204 or visit *www.appa-net.org*

July 28-August 1 — **American Legislative Exchange Council Annual Meeting** — Seattle, WA — Hotel TBA

July 30–August 3 — **CSG/Midwestern Legislative Conference 10th Annual Bowhay Institute for Legislative Leadership Development** — Madison, WI — Fluno Center for Executive Education. Contact Laura Tomaka at (630) 810-0210 or *ltomaka@csg.org* or visit *www.csgmidwest.org*

July 31-August 3 — **National Governors Association Annual Meeting** — Seattle, WA — Hotel TBA. Contact Susan Dotchin at (202) 624-5327

July 31-August 4 — **CSG/National Association of State Personnel Executives Annual Meeting** — Biloxi, MS — Beau Rivage Resort. Contact Leslie Scott at (859) 244-8182 or *lscott@csg.org*

AUGUST 2004

August 8-11 — **CSG/Eastern Regional Conference Annual Meeting** — Springfield, MA — Sheraton. Contact Pamela Stanley at (212) 912-0128 or *pstanley@csg.org*

August 14-18 — **CSG/Southern Legislative Conference Annual Meeting** — Little Rock, AR — The Peabody Little Rock and the Doubletree Hotel. Contact Nai Vienthongsuk at (404) 633-1866 or *nai@csg.org* or visit *www.slcatlanta.org*

August 21-26 — **NASTD Annual Conference and Trade Show** — Providence, RI — Westin Providence & RI Convention Center. Contact Karen Britton at (859) 244-8187 or *kbritton@csg.org*

SEPTEMBER 2004

September 11-15 — **CSG/National Emergency Management Association Annual Conference** — New York, NY — Hotel TBA. Visit *www.nemaweb.org*

September 12-14- — **CSG/Southern Governors' Association Annual Meeting** — Richmond, VA — Hotel TBA. Contact Liz Purdy at (202) 624-5897 or *sga@sso.org*

September 25-29 — **CSG Annual State Trends and Leadership Forum** — Anchorage, AK — Egan Convention Center. Visit *www.csg.org* or contact Wanda Hines (859) 244-8103 or *whines@csg.org*

September 25-29 — **CSG-*WEST* Annual Meeting** — Anchorage, AK — Hilton Anchorage Hotel. Contact Cheryl Duvauchelle at (916) 553-4423 or *cduvauch@csg.org*

FEBRUARY 2005

February 12-16 — **CSG/National Emergency Management Association Mid-Year Conference** — Washington, D.C. — Hotel TBA. Visit *www.nemaweb.org*

February 26-March 1 — **National Governors Association Winter Meeting** — Washington, D.C. — Hotel TBA. Contact Susan Dotchin at (202) 624-5327

JULY 2005

July 8-12 — **CSG/Midwestern Legislative Conference 11th Annual Bowhay Institute for Legislative Leadership Development** — Madison, WI — Fluno Center for Executive Education. Contact Laura Tomaka at (630) 810-0210 or *ltomaka@csg.org* or visit *www.csgmidwest.org*

July 24-27 — **CSG/Eastern Regional Conference Annual Meeting** — Connecticut — Hotel TBA. Contact Pamela Stanley at (212) 912-0128 or *pstanley@csg.org*

July 24-27 — **CSG/American Probation and Parole Association 30th Annual Training Institute** — New York, NY — Marriott Marquis Hotel. Contact Kris Chappell at (859) 244-8204 or visit *www.appa-net.org*

July 30-August 3 — **CSG/Southern Legislative Conference Annual Meet-ing** — Mobile, AL — Hotel TBA. Contact Nai Vienthongsuk at ((404) 633-1866 or *nai@csg.org* or visit *www.slcatlanta.org*

July 31-August 3 — **CSG/Midwestern Legislative Conference 60th Annual Meeting** — Regina, Saskatchewan, Canada — Delta Regina Hotel. Contact Mike McCabe at (630) 810-0210 or *mmccabe@csg.org*

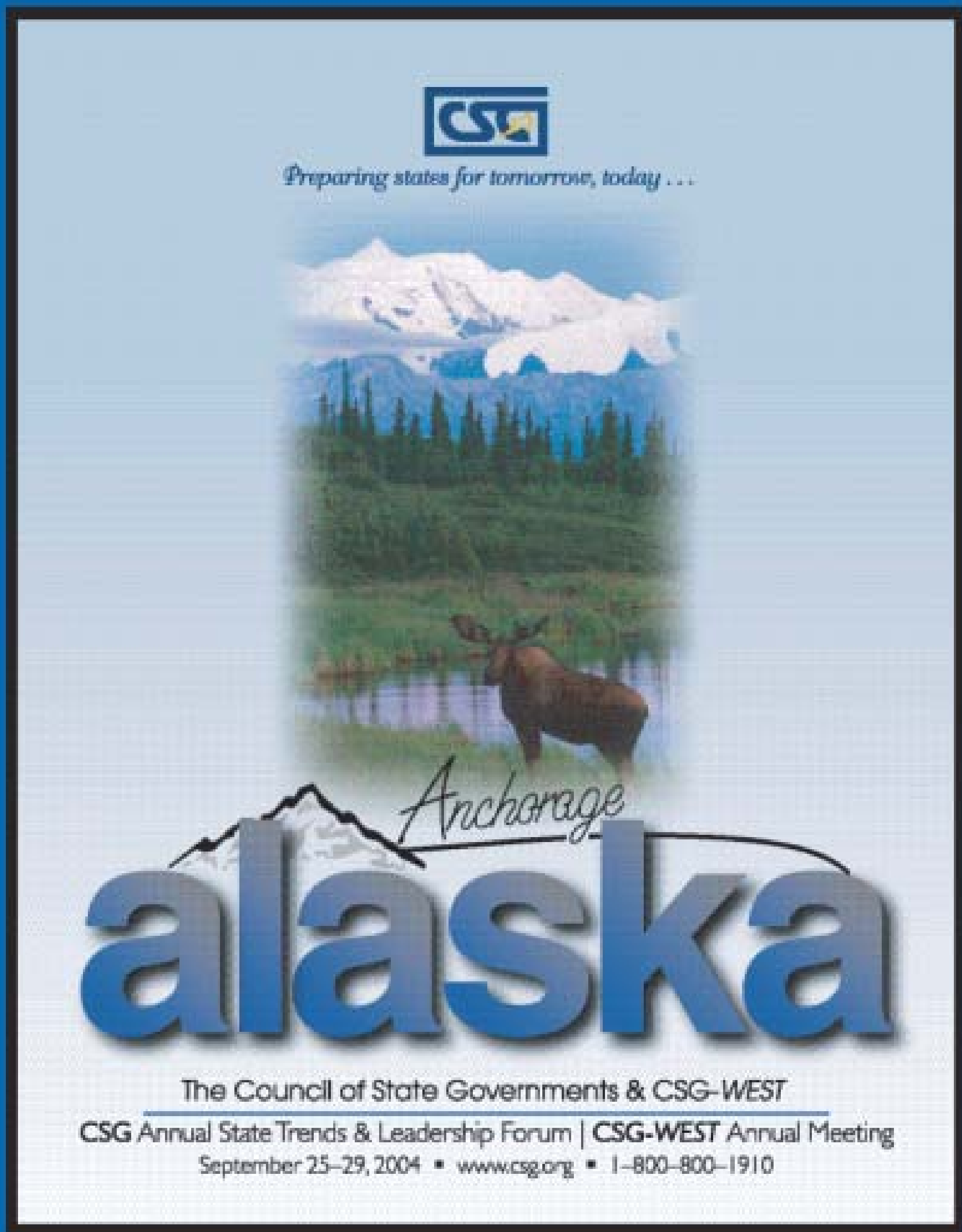
AUGUST 2005

July 31- August 3 — CSG/Eastern Regional Conference Annual Meeting — Connecticut — Hotel TBA. Contact Pamela Stanley at (212) 912-0128 or *pstanley@csg.org*

August 14-21 — **National Conference of State Legislatures Annual Meeting** — Seattle, WA — Hotel TBA

DECEMBER 2005

December 1-4 — **CSG Annual State Trends and Leadership Forum** — Wilmington, DE — Hotel TBA. Visit *www.csg.org* or contact Wanda Hines at (859) 244-8103 or *whines@csg.org*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