HOT TOPIC: What's Next?

What You Can Expect In 2013

Health Exchanges: Is Your State Ready?

Federal Budget 101

Lessons From 2012 Elections

PLUS: The Macroeconomics of Microbreweries
The Henry Toll Fellowship Program, named in honor of CSG’s founder, is the nation’s premier leadership development program for state officials. Every year, the program convenes in Lexington, Ky., home of CSG’s national headquarters, for one inspiring week of introspection, group dynamics and adaptive leadership training. Designed to help state officials from all three branches learn more about themselves as leaders, how teams function, how to communicate more effectively and how to reignite their passion to govern, the CSG Toll Fellows program brings individual state leaders together in a way that no other program can.

In photo at left are 2012 Toll Fellows Mildred Edwards, executive director of Kansas’ African American Affairs Commission, and Joyce Campbell, an Ohio municipal court judge. In photo at right are 2012 Toll Fellows James Collins, Delaware’s secretary of state, Owen Lefkon, a Delaware deputy attorney general, and Cheri Beasley, now a North Carolina Supreme Court justice.
JANUARY/FEBRUARY 2013

ON THE COVER
Chairs of The Council of State Governments’ regions are featured on zoned editions of the January/February Capitol Ideas.

CSG EAST | CO-CHAIRS
Puerto Rico Senate President Eduardo Bhatia
Puerto Rico House Speaker Jaime Perelló
Photo by Tammy Olivenica

CSG MIDWEST | CHAIR
Minnesota Rep. Alice Hausman
Photo by Tom Olmscheid

CSG SOUTH | CHAIR
Alabama House Speaker Mike Hubbard
Photo by Jeffrey Etheridge

CSG WEST | CHAIR
Nevada Sen. Kelvin Atkinson
Photo by Nathaniel Kemp

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The fiscal picture is improving in most states, but many still will be facing challenges, particularly with lingering budget issues such as sustainable revenue, Medicaid, public pensions and unemployment—both in terms of high numbers and unemployment insurance trust fund solvency.

States that have planned to operate health insurance exchanges, as well as those that are still considering a joint exchange with the federal government, have a long way to go to be ready by October, when the exchanges should be ready for open enrollment.

Some interesting tidbits about the 2012 state elections, as well as party control maps.

Here are things you should know as a state policymaker about the federal budget.

With the new year comes changes for The Council of State Governments. Learn about the new governance structure approved by the Governing Board in December.

The CSG Justice Center has developed a new mental health courts curriculum.

CSG’S National Center for Interstate Compacts is beginning the education process for a new electric transmission line siting compact, which sets timelines for when action must be taken when building interstate transmission lines.

Some states are trying to maximize the potential of microbreweries for jobs and tax revenue, not to mention the tourism potential.

Rick Mattoon, senior economist and economic adviser at the Federal Reserve Bank of Chicago, discusses what states can expect on the revenue front as the economy improves.

Politico’s chief political correspondent believes state officials can learn a lot from the 2012 presidential election. He shares his thoughts on what the re-election of President Obama and the congressional elections will mean for states.

Each state receives federal funding for certain programs—some receive more per capita than others.

Longtime lawmakers share tips on what new legislators should know about certain policy areas.

News from The Council of State Governments and its affiliates

Rep. Maxine Bell has learned a lot about budgeting as chair of the Idaho House Appropriations Committee, the most important of which is this: “It’s never about the numbers.”
The Torch is Now in Our Hands

As I sit down to put these words on paper, the nation has just commemorated the victims of the senseless violence in Newtown, Conn., with a national moment of silence. I have also just read in the morning papers the news of the U.S. House of Representatives’ failure to embrace the speaker’s plan for moving the nation off the fiscal cliff.

It would be easy to despair. The names and ages of the victims in Newtown rip through your heart and the gravity of the violence strikes at the core of our need for security in our schools and communities. The federal government seems wholly incapable of resolving a problem entirely of its own making. I write this on the day the Mayan calendar predicts the end of time and it would be easy to look around and think maybe they knew where the world would be today.

Perhaps it is just my prairie state upbringing reflected in my home state’s motto, “Ad Astra Per Aspera,” or, for those who don’t read Latin, “to the stars through difficulties,” but I refuse to be pessimistic about the future of our nation. The choices that define our nation have seldom been easy, yet the values that guide those choices have always been clear.

With the new year, hundreds of new legislators will take their seats in state capitols. These new and inspiring leaders will join a dedicated group of veterans and together they will work with passion and intelligence to govern the states. These new legislators come from all walks of life, their biographies are a fascinating reflection of the many paths to public service, and they will make significant sacrifices to serve in public office. These new legislators inspire me and renew my hope in our future just as their presence will bring new energy to the process of self-government.

At The Council of State Governments, we take as our most sacred duty the opportunity to assist these leaders in achieving excellence. We do this in many ways and our programs and services always reflect the priorities and interests of our members, the elected and appointed officials of the states. We know the talents and dedication of our members are equal to any problem, no matter how complex or intractable. We also know that state leaders look to CSG to help them craft solutions. We pledge our continued best efforts to do just that.

In this issue we focus on “what’s next” to help you navigate the future. You’ll find information about the implications of the 2012 elections and an interview with Politico’s chief political correspondent sharing his views on what’s ahead. We have prepared a legislator’s guide to the federal budget and we share some interesting ways to better understand just how much a trillion dollars actually is. There are stories about advancements in mental health courts and what’s up with health insurance exchanges. If all that makes you want to relax with a frosty brew, you will also find a story about how states are maximizing the opportunity of microbreweries. Cheers!

2013 will be CSG’s 80th year of providing state leaders with a forum and with resources to work toward a more perfect Union. We know the new year will have its share of challenges and disappointments—bring them on, and its share of victories and accomplishments—let them come. CSG stands ready to help state leaders achieve their highest aspirations for their states and our nation.

If you are a newly elected official, receiving this magazine for the first time, I want to offer you my sincere welcome to The Council of State Governments. You are now part of the CSG family. We encourage you to participate in all we have to offer. CSG was created by state leaders to help them learn from each other, share the best ideas, and craft solutions to the problems facing their state. We do this best by having a strong, proven, regional focus. You will find in this issue more information on how to access the CSG region that serves you.

The dawn of a new year, the start of a new biennium always holds great promise. Let us all work to make the most of the opportunities in the new year, to do the hard work necessary to successfully lead our states and nation through our current challenges, and to seek new ways to honor our collective responsibility to serve the common good. America remains a bright beacon for the world. The torch is now in our hands. May it burn ever brighter in 2013!
“We should do everything we can to keep creating good middle-class jobs that help folks rebuild security for their families.”

—President Obama, in a Dec. 10 speech at the Daimler Detroit Diesel plant promoting his jobs plan

“I don’t think we have a responsibility to create a certain kind of job, but I think we do have a responsibility to create jobs.”

—Apple CEO Tim Cook, in a December announcement that the company will move manufacturing of one of its lines to the U.S., as quoted on CNN

“What works so well about apprenticeships is that workers can gain tailored skills for the workplace along with critical academic learning, all while they earn a paycheck.”

—U.S. Sen. Patty Murray of Washington, on the recent re-emergence of apprenticeships, as quoted in The Hechinger Report

“We have to generate a critical mass and an energy, and we have to change the dynamics and it’s going to take a billion dollars to do it.”

—New York Gov. Andrew Cuomo, discussing the need for funding for Buffalo to create jobs, before the Western New York Regional Economic Development Council at the Buffalo Niagara Convention Center, as quoted on WBFO, an NPR affiliate, in early December

“We don’t have any Fortune 500 companies, we don’t have tremendous wealth. But there’s something special here that’s making this work.”

—Tim Williamson, co-founder of the Idea Village, a nonprofit that nurtures New Orleans entrepreneurs, to CNN in December about the spike in entrepreneurship the Crescent City is experiencing since Hurricane Katrina

“I am not prepared to say we are remotely close to substantial improvement on the employment front.”

—Dennis P. Lockhart, president of the Federal Reserve Bank of Atlanta, in a speech as quoted in The New York Times in December
INFRAsTRUCTURE
“The last two years saw the Eastern region affected by the impact of severe weather damage from Hurricanes Irene and Sandy on our infrastructure. Our aging infrastructure has long been difficult to modify or protect and it is imperative that our energy, communications and transportation networks be able to function in this new environment.”

FISCAL CHALLENGES
“State and provincial treasuries depend on a strong tax base, and pensions depend on strong markets. It is important that we spur the creation of new enterprises and industries to revitalize the economy. The Northeast region needs to create an environment where we can all draw on a well-educated workforce and to be able to offer new entrants into the workforce good opportunities after graduation.”

BORDER ISSUES
“Both the Canadian and Caribbean borders are extremely important points of entry for people and goods coming into and out of the U.S. More attention should be paid to formulate a sensible policy that maintains security while promoting good relations and trade between neighbors.”

Puerto Rico Senate President Eduardo Bhatia & House Speaker Jaime Perelló

Puerto Rico Senate President Eduardo Bhatia and House Speaker Jaime Perelló are co-chairs of The Council of State Governments Eastern Regional Conference. Bhatia was first elected to the Senate in 1996 and served until 2000. He was elected to a second term in 2008. Perelló, who became House speaker in January, began serving his first term as a Puerto Rico representative in 2009.

What are your goals as ERC co-chairs?
“We want The Council of State Governments Eastern Regional Conference to continue building on its strengths in fostering a regional dialogue on a variety of issues relating to strategies to promote economic development, strengthen our regional and transportation infrastructure, improve access and affordability of health care, and cope with the impact of severe weather. We are also interested in increasing awareness of the importance of America’s Caribbean border and ensure adequate resources are provided to facilitate trade while protecting our citizens from transnational drug and other criminal networks.”

How does the ERC help policymakers in your region?
“ERC provides access to policymakers and resources in other states and provinces so that we can share ideas and information. Much like the Northeast, Puerto Rico’s $63 billion economy was hit hard by the recession, leading to rising unemployment. We are interested in the work of CSG and ERC on the effective use of tax incentives and other strategies to strengthen Puerto Rico’s industrial base. We have also taken great advantage of ERC’s Eastern Leadership Academy program held in Philadelphia each year as it provides policymakers with critical leadership skills and strengthens our capacity to govern in these challenging times.”

What are the five biggest issues affecting your region?
“The need for updated, upgraded infrastructure, development of a new industrial base, the impact of climate change on the economy and quality of life, the fiscal challenge of doing more with less and the need for better understanding of cross-border security and trade issues.”
Alabama House Speaker Mike Hubbard
Alabama House Speaker Mike Hubbard serves as chair of CSG’s Southern Legislative Conference. He was first elected to the Alabama House of Representatives in 1998 and elected speaker in 2010.

What are your goals as SLC chair?
“In keeping with the tradition of SLC chairs, it is my hope that we can continue to provide services and programs to our members that are relevant to their needs as policymakers. At a time when issues have become so much more complex and the volume of information almost unmanageable, the SLC offers legislators and legislative staff quality research and extensive analysis on issues. An issue dear to me is food security, and I am proud that we continue to focus on this issue at our annual meetings. At these meetings, members come for a morning of fellowship on Sunday, don hairnets and gloves and, remarkably, package more than 20,000 meals in less than 90 minutes. We work in conjunction with local food banks to distribute the meals.”

How does the SLC help policymakers in your region?
“The regional structure of The Council of State Governments is key to the success of the organization as a whole. Policymakers in our region are particularly fortunate to have the wide range of resources available to them from our office in Atlanta. The SLC is able to provide opportunities for small legislative delegations to travel to both domestic and international venues to observe innovative industries, public-private partnerships and a host of other potential job-creation opportunities.”

What are some of the biggest issues affecting your region?
“Job creation, energy, workforce development and education.”

The South

JOINF CREATION
“The South, and Alabama, in particular, has been quite successful in attracting new jobs, new industries and new economic development investments to the area. Given the continuing downturn in the national economy, competition for those jobs and industries is becoming even more fierce among the country’s various geographic regions, especially since more investment translates into more revenues for state budgets. Maintaining and expanding the South’s success in landing economic development projects is, by far, the biggest issue we face in the current economic climate.”

ENERGY INDEPENDENCE
“The South plays a huge role in our nation’s quest for energy independence and contributes greatly to satisfying the energy needs of the United States. Of the total domestic oil refinery capacity, 53 percent is located in the South. We also are home to five of seven operating LNG (liquid natural gas) terminals in the contiguous United States. Eleven of our 15 member states are coal producers, including Alabama. In addition, we have hydropower, biofuels, wind, solar and nuclear. All of this contributes to the nation’s energy security, and managing this has huge relevance to each of our member states.”

TRANSPORTATION
“Our region has approximately 1,565,393 miles of roads, of which about 491,294 miles are state-maintained roads. To put this in perspective, the Southern region has about 39.7 percent of the total road-miles in the nation and nearly 60 percent of the total state-maintained roads nationally. With an aging infrastructure and such vast expanses of rural area, addressing the needs of our rural citizens becomes quite a challenge.”

EDUCATION
“Improving public education at all levels is an area of particular personal interest, and it is something I have focused upon during my years in the Alabama legislature and as speaker of the house. When studies showed that Alabama had among the highest high school dropout rates in the nation, we passed legislation and devoted time, attention and resources to solving the epidemic, and our efforts have begun to produce results. Because Alabama, like many states in the South, has large swaths of rural areas, we created, funded and continue to support an innovative program named ACCESS Distance Learning. Through ACCESS, Advance Placement instruction, foreign language classes and other electives are broadcast via satellite into schools across the state, each of which are equipped with interactive computer terminals.”
The Midwest

EDUCATION
“Part of it is funding, but also part is policy and reform discussion. That strong, strong focus on the two ends we’re talking about. K–12 we’ve become committed to, we are slowly getting to early childhood education. … (Another issue is) higher education where we’ve been pulling back from strong support. This is discussion that Apple had recently when they announced that one of reasons they take work to other countries is they are looking for highly skilled workers. That ought to scare the heck out of us so that we are really training highly skilled workers.”

HEALTH CARE
“I believe that the crisis in our country is health care. I have a bias and that is we eventually will have to do what every industrial country has done and that’s universal health care, everyone is covered. Anything else is too expensive … I do think that that’s an area we have to come to grips with, but it’s so hard to even have a conversation about it because of how we’ve labeled the discussion. … It affects us more than everything else because the costs are an increasing burden to every state.”

PARTISANSHIP
“How do you get beyond those party and ideological boundaries for us to work with each other? It’s clear the public longs for us to work together in a different way. It does seem to me that CSG could be a great catalyst (because) the nature of the organization is nonpartisan, bipartisan and that’s how I think we ought to be working together in our states. It kind of connects that if we don’t change the way we work together, we can do damage to our democratic institutions.”

INFRASTRUCTURE
“National voices have sounded the alarm; we all feel it in our states. I think where we are failing again as a country, and particularly in the Midwest, is in better use of multiple modes, alternatives to transportation. We’re big on roads and bridges, but the business community is starting to understand alternatives, mass transit and rail, are all going to be essential to them to draw business, industry and workers.”

ENVIRONMENT AND ENERGY
“It is absolutely an issue of importance; I think water even more than air right now. Wrapped up in the environment and energy issue is this issue that has been so volatile, controversial and seen as ideological and that is climate change. We kind of tiptoe around some of those debates. When we need to be nonpartisan and some issues have become partisan, it’s hard to tackle them.”

To learn more about these and other developments in the Midwestern Region, visit: capitolideas.csg.org and www.csgmidwest.org.
IMPROVED RELATIONS
“We can be open-minded, first of all. We’ve become a bit partisan and not listening to everyone’s ideas. We have got to get back to that common ground. We can look at the great legislation other states have implemented. There are some great opportunities out there. There’s great legislation that other states have done.”

FORECLOSURES
“We’re actually in the middle of dealing with foreclosures. We’ve put together some foreclosure groups. We are looking at legislation in other states. (We’re going to) put together some working groups (about) expanding our workforce and not relying on the old way of doing business.”

CREATING JOBS
“As far as creating jobs, look at (the) new resources out there, energy and manufacturing jobs. We need to explore those through legislation and through partnerships and individual opportunities throughout the U.S. We’re trying to do that.”

EDUCATION
“We’ve got to do more for education in our state and I believe that will help grow our economy. (In Nevada) we were headed in the direction of providing a lot more funding for Head Start and all-day kindergarten until the economy tanked. I think that’s where we should be (with increased funds).”

HIGHER EDUCATION
“Higher education ends up with most of the cuts, we don’t do a whole lot to fund them. I think the philosophy in higher education is you have to pay to go. In our state, we don’t want our students to have to make a decision to go to UNLV (University of Nevada-Las Vegas) or Reno or USC (University of Southern California) because we’re charging just as much as they are. We’ve had to raise fees so much because we’ve cut and cut in higher education.”

To learn more about these and other developments in the Western Region, visit: capitolideas.csg.org and www.csgwest.org.
THE U.S. ECONOMY IN 2013: IMPLICATIONS FOR STATE REVENUE VOLATILITY

After economic growth proved slower than anticipated in 2012, the key question most economists have been asking is this: Will growth in 2013 accelerate to a point that the U.S. will begin to make a meaningful dent in unemployment and close other gaps in the economy that emerged after the so-called Great Recession? Most economists expect a stronger level of growth in 2013, but few are calling for real gross domestic product growth of more than 2.5 percent to 3 percent. While this level of growth would certainly help, it would still continue the trend of the economy only slowly returning to pre-recession growth levels. For states, this will likely lead to revenue growth that will be moderate at best.

WHAT PARTS OF THE ECONOMY WILL DO WELL?
Manufacturing and agriculture have led the way during the current recovery. A resurgent auto industry and growth in demand for construction and capital equipment kept factories busy and supply chains humming. In the farm belt, high prices for corn and soybeans, as well as livestock, pushed up farm incomes. Farmland values have continued to soar partially in response to these gains. Even in light of last year’s devastating drought, farm incomes have been largely protected through crop insurance.

During this time, other sectors of the economy that usually are robust participants in recoveries largely stayed on the sidelines. In particular, real estate—suffering from a glut of supply, foreclosures and financial issues—continued to drag the economy. By the fall of 2012, however, some evidence indicated real estate may have bottomed out and was turning the corner, with limited evidence that prices are actually turning up. If this continues in 2013, it will significantly add to growth prospects.

WHAT KEEPS ECONOMISTS UP AT NIGHT?
The threats to better growth in 2013 are significant. A slowdown in Asia’s economies, particularly in China, will dampen demand for many heavy manufacturing products. Continued turmoil in the Eurozone will find negligible growth in European markets. Even if the federal government avoids a fiscal cliff, the continued impact of high federal deficits and likely spending reductions will crimp growth. Local governments continue to feel the impact of declining property values straining local property tax bases.

WHAT WILL THIS MEAN FOR STATE REVENUES?
Some recent work that I have done with colleague Leslie McGranahan found that state revenues have become more volatile in responding to national economic cycles since about 2000. Specifically, personal income tax revenues are more than twice as volatile as they were in earlier periods due primarily to changes in personal income dynamics.

As nonwage, investment income has grown in importance, personal income tax receipts have tended to exhibit greater boom and busts and are far less predictable. Some of this has been amplified by tax policy choices that often have given favorable treatment to investment income, but most can be accounted for by a higher share of income being derived from investments and other forms of capital gains related income.

The issue for states is that it often is up to the individual taxpayer when they choose to recognize these types of income. For example, if investment income is subject to higher tax rates in 2013, it might lead to a rush to recognize investment income in 2012 to avoid the rate increase. Similarly changes in federal tax policy might impact other forms of tax preferences, such as mortgage deductibility, that in turn might change taxpayer behavior.

IN SUMMATION . . .
If some of the headwinds—poor real estate performance, sluggish consumer spending—that have characterized the slow nature of the current recovery can turn into tailwinds, the economy may see a lift in 2013 relative to 2012. However, few predict a sharp upward turn; most believe it will be a gradual acceleration that has legs into future years.
What’s Next for States?

2013 is likely to be better than expected for state budgets, but policymakers still will face challenges. The possibility of expansion for Medicaid, as well as the lingering problems with pensions and unemployment, will garner a lot of attention. Policymakers also will be faced with getting health insurance exchanges operational. States also will feel the cuts in grant funding, if not in 2013, sometime down the road.
STATE BUDGET OUTLOOK BETTER BUT NOT AS GOOD AS BEFORE

by Mary Branham

When legislators return to their statehouses, the usual suspects of concern will be waiting for them—and some new areas that have been waiting in the wings will rear their heads as well.

States face looming fiscal problems in Medicaid, public pensions and budget gaps, as well as unemployment issues—both in the number of unemployed people who won’t receive benefits after federal extensions end and continued unemployment trust fund insolvency. That doesn’t even touch the problems of funding the everyday services constituents have come to expect.

“A lot of state budget officers are concerned that we will have growth, which is good, but over the next 10 years, the growth will be below normal,” said Scott Pattison, executive director of the National Association of State Budget Officers.

Current spending levels, he said, are about where states were in 2007 before the Great Recession. Most economists thought states’ pre-recession spending levels would return in 2014.

“We’re coming back to pre-recession spending about a year before we thought,” Pattison said.

While that’s good news, the total economic fallout from how the federal government deals with the fiscal cliff could impact states’ bottom lines in the year ahead. The cuts are a concern, Pattison said, but the overall hit to the economy would affect states even more.

State revenues always respond to economic cycles, said Rick Mattoon, senior economist and economic adviser for the Federal Reserve Bank of Chicago.

“As the economy is growing, revenues grow faster,” he said. “As the economy shrinks, revenues decline.”

But federal funding cuts eventually will come, and states must be prepared.

“The consensus is, outside of Medicaid, you’re going to see a lot of grant programs decline—that’s going to have an impact,” Pattison said.

Like the federal government, the biggest drivers of spending at the state level are related to health care. Medicaid spending has spiked in the last few years, although states have gotten it under control in the past year or so—a 3 percent increase versus previous growth of 13.5 percent.

That smaller increase is still a problem, Pattison said.

“You have a huge part of your budget growing faster than the amount of money you have coming in,” he said. “I’ve had budget directors say they’re thrilled that Medicaid slowed to a 4 percent growth, but their budget was growing at 2 percent so all their new money is still going to Medicaid.”

That will keep funding levels for every other program—except, possibly, K–12 education—flat, Pattison said.

States face another problem as Congress tries to address funding at the federal level.

“We’ve got this great big red bull’s-eye on us,” Barry Anderson, deputy director of the National Governors Association, said during The Council of State Governments’ 2012 National Conference.

That’s because of the top 10 tax breaks the federal government offers, two provisions that benefit states rank number two in cost. Those benefits—the deductibility of state and local income, sales and property taxes, as well as the exclusion of interest on public purpose state and local bonds—will likely be targeted by federal lawmakers.

Anderson said those provisions are unlikely to get preferential treatment over things like exclusion of employer payments for health.
insurance, which is the top tax break, or even deductibility of mortgage interest on owner-occupied homes, at number three, and deductibility of charitable contributions, at number eight.

NGA is stressing to Congress that states need to be at the table when changes to tax breaks are discussed. Anderson hopes Congress will consider these expenditures in the aggregate, not on an item-by-item basis when looking for deficit reduction.

“Don’t put balancing the budget on the backs of state and local governments,” Anderson said. “It’s a shared thing and we can help, but you (Congress) have to involve us in the process.”

Here’s a look at four major fiscal issues states will be facing in 2013, as well as the top 5 issues in various policy areas.

**TOP 5 Policy Issues**

**Education**
- College- and Career-Readiness
- Assessment and Accountability
- Preparing Teachers and School Leaders
- College Completion and Degree Attainment
- Postsecondary Education Funding Options

**Energy and Environment**
- The Future of Coal
- Clean Water Act Legal Action and States
- Energy Infrastructure
- Effectively Managing the Energy Wave
- EPA Air Regulations

**Fiscal and Economic**
- Fiscal Threats from Above
- Slow Revenue Recovery—but Recovery
- Medicaid
- Current and Retired Employee Health Care Costs
- Rethinking Economic Development

**Health**
- Medicaid: Affording the Programs States Already Have in Place
- Medicaid: Expanding Eligibility to 138% of Federal Poverty Level
- Health Insurance Exchanges
- Health Workforce Adequacy
- Promoting Healthy Behaviors

**Transportation**
- Implementation of MAP-21
- A Post-MAP-21 Game Plan for Financing Transportation
- State Governments Seeking New Revenues for Transportation
- Preparedness for the Panama Canal Expansion
- Convincing a Skeptical Public

Read more about these issues from The Council of State Governments’ policy experts at the CSG Knowledge Center, [www.csg.org/top5in2013](http://www.csg.org/top5in2013)
Arizona Rep. Russ Jones thinks the “new normal” for state revenues may not be so bad. “It’s an old adage that when there’s a boom, there’s a bust,” he said during The Council of State Governments’ 2012 National Conference. “The bigger the boom, the bigger the bust.”

The new normal—with more modest but more stable growth rates—“is a lot more manageable for states than the kind of growth we had before and our reactions to it, both good and bad,” he said.

Rick Mattoon, senior economist and economic adviser for the Federal Reserve Bank of Chicago, said the Great Recession put the U.S. economy—and state revenues—on a recovery path different from the past. “If you have a very sharp downturn, you usually have a very sharp recovery,” Mattoon said. “What we’re getting (now) is a check-shaped recovery; it takes longer to get back to normal.”

By most accounts, the economy is on the upswing of that checkmark. As such, so are state general fund expenditures, according to Scott Pattison, executive director of the National Association of State Budget Officers. Since 2011, state spending has increased between 2 and 3 percent. While it’s lower than the 35-year historical average of 5.7 percent, it’s still growth and state budget officers are planning for this slower growth over time.

“They’re strategically planning for that instance, which I think is good because then they’re planning more cautiously,” Pattison said. “We’d rather have money be better than expected.”

That’s been the case the past few years. In 2009, 43 states had to make cuts to their budgets after legislators had passed them and governors had signed them. That dropped to eight states in 2012, and probably two or three in 2013, Pattison said.

While state balance levels are recovering, Pattison said policymakers are spending more cautiously and putting more money into rainy day funds.

“I think this financial decline really spooked state officials and there’s been an incentive to put more money back into the rainy day funds,” he said.

While some debate the decision to build rainy day funds when, as Pattison said, “it’s still raining,” he encourages states to think long-term when budgeting. Think about how a budget decision will affect things five years out, and don’t spend one-time money on recurring expenses, he said.

“States are realizing that if you have money that is one-time only, you spend it on something one-time only,” he said. “If it gets in the base, we’re going to have a real headache putting that budget together in a couple of years.”

Mattoon said putting more money into savings is a good idea. The problem, he said, is that states need a significant amount of money in savings to truly address problems during recessions.

The historical amount—5 percent of general fund balance—came from credit rating agencies. It’s enough to make bond payments and isn’t based on fiscal stability, Mattoon said.

“(States) would have to save 20 to 25 percent of fund balance to have a rainy day fund to actually carry them through a significant recession,” he said.

While states are putting more into savings, they’re also still pulling out of the recession. As the two programs that pull the lion’s share of state funding—Medicaid and K–12 education—continue to grow, other programs will see less or stagnant funding.

“We have obligations to spend money on Medicaid and K–12 combined that we just can’t meet,” said Colorado Sen. Greg Brophy. He pointed out that higher education in his state is funded at the same level as 10 years ago, and he suspects other states are seeing the same kind of thing.

“It’s a tough deal in every state,” he said.
When it comes to budget problems, Medicaid may be the monster in the room. Not only is it growing faster than other budget areas, but it also faces the potential to gobble up even more state funds. That’s because states will have to decide whether to expand the program for low-income residents as allowed in the federal Affordable Care Act.

If states do expand Medicaid to cover residents up to 138 percent of the federal poverty level, many experts predict people who are eligible now, but not enrolled, will join the rolls. While the federal government will pick up the entire tab for newly eligible enrollees for three years, this woodwork effect will increase Medicaid rolls without the enhanced match rate. Experts expect publicity around the new program will bring in people who haven’t sought Medicaid benefits in the past even though they were eligible. States will receive only their regular match rate for them.

Nearly 20 percent of the population nationwide is enrolled in Medicaid, according to the Kaiser Family Foundation, with total spending in the states ranging from $537.6 million in Wyoming to $52.1 billion in New York for the joint state-federal program.

Scott Pattison, executive director of the National Association of State Budget Officers, pointed out that about 43.5 percent of all funds states get from the federal government go to Medicaid. He expects that number will increase to more than half of federal funding as costs for Medicaid rise.

“That’s really going to change the intergovernmental conversation between the feds and the states,” Pattison said. “It’s going to be really, really focused on health care and less on other areas because that’s where the money is.”

Medicaid is about 24 percent of state budgets, topping K–12 education’s 20 percent, which had always been the biggest percentage of state budgets. K–12 still leads in state general fund spending at 35 percent, Pattison said, but Medicaid has grown to 17.5 percent. General fund Medicaid spending was in the single digits, percentage-wise, 20 years ago.

That fact has states taking a hard look at their Medicaid programs and, especially, at the provision in the federal Affordable Care Act that asks states to expand coverage.

Arkansas is changing from a fee-for-service to an outcomes-based system for provider reimbursement, Arkansas Surgeon General Dr. Joseph Thompson said. For instance, now Arkansas pays one fee for a normal pregnancy and birth and tracks outcome data. This replaces the old system where doctors were paid for each service they rendered for a patient, which many experts think leads to unnecessary services and higher costs.

“We can’t afford the fee-for-service payment system any more,” Thompson said. “We don’t believe we should expand Medicaid unless we are changing the payment system concurrently to be able to have an affordable system over time,” Thompson said. Thompson’s department is combing through every health program to see what can be eliminated if services are covered through expansion of Medicaid.

Texas, meanwhile, is not considering expansion, said Dr. Kyle Janek, executive commissioner for Texas Health and Human Services. What Janek would like, however, is broad latitude to design a system specifically for Texas that would allow the state to bend the cost curve.

“The more latitude they can give us, the better system we can develop,” Janek said.

He’ll be seeking waivers from the U.S. Department of Health and Human Services to be able to design a system that works for Texas.

The Pew Charitable Trusts is studying state cost-containment measures that have reduced costs but at least maintained health outcomes. One major measure is Medicaid program integrity, said Matt McKillop, senior associate for research for Pew’s State Health Care Spending Project.

An annual survey found 8.1 percent of total state payments deemed improper; that number has actually been dropping for four years since the federal government began tracking, McKillop said.

“We think — and I think every state would agree — as Medicaid becomes a larger and larger budget item for states, anything above zero is unacceptable,” McKillop said.
Oklahoma had an unfunded pension liability of $16 billion before the 2011 legislative session.

After the state legislature enacted reforms, the liability fell to $10.6 billion. Much of that drop, Sen. Randy McDaniel said in a Council of State Governments webinar, can be attributed to the fact that any cost-of-living adjustment must be paid for up front.

“By saying you don’t get one or you have to pay for them upfront means that would no longer be unfunded,” McDaniel explained.

Oklahoma is one of 45 states that have made meaningful changes to their public pension plans since 2010. And some that have made changes are facing lawsuits challenging those changes.

While those changes have helped, states still face an unfunded liability for the pension programs for retirees. That means even though those changes are cutting into the unfunded liability levels, states are continuing to look at how to increase solvency for state pension plans.

Keith Brainard, research director for the National Association of State Retirement Administrators, believes the aggregate in public pension funding levels has hit its low mark. Public pensions as a whole were funded at 100 percent in the early 2000s, and dropped steadily to about 76 percent in 2010.

“I think we’ll begin to move upward from here,” Brainard said.

He stressed that there is no national public pension crisis. That doesn’t mean some states and localities don’t have major problems, but some plans are doing just fine, he said.

States began making changes in the mid-to late-2000s. Among other things, they’re requiring employees to make higher contributions, decreasing benefits by setting a higher retirement age, increasing years of service, lengthening the vesting period, reducing or eliminating cost-of-living adjustments, shifting some risk to employees, and increasing the use of hybrid plans—part defined benefit, part defined contribution.

While many states applied those changes to new hires, some used them on current employees and retirees as well. That’s when the lawsuits come.

Colorado, Minnesota and South Dakota, for instance, reduced COLAs almost simultaneously in 2010. They were met the next day with lawsuits. While two are still in flux, Minnesota won the lawsuit on appeal and was able to make cuts.

That broke ground for such changes, and other states are considering them, Brainard said.

A 2010 Pew Research study, “The Trillion Dollar Gap,” brought renewed attention to the problem. The report concluded state policy choices—such as expanded benefits and free retiree health care—were the chief contributors. Brainard highlighted another major contributor: “The chronic failure by plan sponsors to make contributions in an adequate and timely manner—that’s really what has gotten some of these funds into trouble.”

Some states are looking into pension obligation bonds to retrofill their required contributions. Brainard said that’s not a bad idea for some. The problem, he said, is that plans that shouldn’t be issuing such bonds are the ones doing it.

Brainard predicts states will continue to try to figure out ways to fix the pension systems, and not just because of the impact to their bottom lines.

“We have a moral, legal responsibility to keep the retirement promises that have been made,” McDaniel said. “Reforms are necessary to achieve this goal.”
State unemployment trust funds—the funds used to pay out unemployment benefits—took a hit during the Great Recession. Sustained high unemployment rates exhausted those funds, and many states borrowed from the federal government to cover their obligations. By the end of December 2011, 26 states and the Virgin Islands were borrowing money from the Federal Unemployment Account to help pay growing claims for unemployment insurance benefits; outstanding loans totaled more than $36.4 billion, according to a January 2012 Capitol Research brief, “Unemployment Insurance Trust Fund Loans.”

“States in general lowered taxes when times were good, leaving them particularly vulnerable during the recession,” said Jennifer Burnett, economic policy analyst for The Council of State Governments, who authored that report. “Too much demand and too few reserves just strained state resources to the breaking point.”

As the economy has improved, so have the unemployment insurance trust funds in some states. That, said Burnett, can be attributed to state actions to bring solvency back to those funds. Many states raised taxes and cut benefits; some even turned to the private bond market.

South Carolina, for instance, is slowly increasing its taxable wage base to the first $10,000 of a worker’s wages in 2011, to $12,000 in 2012 and to $14,000 in 2014—the first such increases since 1983, according to a report by the South Carolina Department of Employment and Workforce to the General Assembly. The state also changed its tax system for funding unemployment benefits; policymakers now set new rates each year to ensure the tax schedule raises enough money to fund benefits. The state expects the fund, which became insolvent in 2008, to regain solvency in 2015.

That’s just one example of the changes states are making.

“Digging out of the financial hole will be slow, and costly,” said Burnett.

Many states are still paying back the money borrowed from the federal government, and now they’re paying billions in interest, Burnett said. Those loans were interest free, but only through 2010.

A Stateline.org article in October said 18 states and the Virgin Islands had paid about $2 billion in interest on those loans as of Sept. 30, 2012. According to the Department of Labor, 19 states and the Virgin Islands still have $26.6 billion in debt on their unemployment trust funds. Among the largest outstanding debt: California, at $10 billion; New York, $3.3 billion; North Carolina, $2.5 billion; and Ohio and Indiana, more than $1.7 billion each.

A 2010 Government Accountability Office report found that a big part of the insolvency problem in unemployment insurance trust funds lay with tax policies and practices in many states.

“While benefits over this period have remained largely flat relative to wages, employer tax rates have declined. Specifically, most state taxable wage bases have not kept up with increases in wages, and many employers pay very low tax rates on these wage bases,” the GAO report found.

Trust fund solvency isn’t the only issue tied to unemployment that could affect state economies. While unemployment rates have been dropping steadily since July, the national average is still over 7 percent. Some states—like California, Rhode Island and Nevada—all had rates higher than 10 percent in October 2012, according to figures released in November, and long-term unemployment remains stubbornly elevated.

“State leaders have learned a tough, hard lesson over the past few years when it comes to saving and planning for the worst, but those lessons are starting to pay off,” Burnett said. “Fund solvency is beginning to stabilize in many states, thanks to the difficult changes states have made, although the debt accrued during and since the recession will continue to impact some states for the next half decade or more.”
Destination Health Exchange:
A Long Way to Go and a Short Time to Get There
by Mary Branham

Terms to Know

**Essential Health Benefits**—This is the core package of services offered in a health plan. The Affordable Care Act requires plans to include 10 essential health benefits: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services and chronic disease management; and pediatric services, including oral and vision care.

**Qualified Health Plan**—These plans should provide high-quality coverage like that of a typical employer plan. To be certified by the exchange, health plans must meet minimum standards that are primarily defined in the federal law.

**Small Business Health Options Program**—This program, commonly called SHOP, will provide small employers with new ways to offer employee health coverage, better information, easier administration and access to tax credits that make coverage more affordable. It will allow employers to choose the level of coverage they will offer and offer the employees choices of all qualified health plans within that level of coverage.
Paula Flowers uses lyrics from a popular trucking song to describe the current situation on the establishment of health insurance exchanges.

"States, she said, “have a long way to go and a short time to get there.”

Flowers, a former Tennessee insurance commissioner who now works as a consultant, said states can choose from three options under the federal Affordable Care Act—a state-based exchange, a federal exchange or the partnership model—but they’ll all arrive at the starting gate at the same time.

By mid-December, 18 states and the District of Columbia had opted to set up a state exchange, 18 defaulted to the federal exchange and six had opted for the partnership model, according to the Kaiser Family Foundation. That leaves nine states undecided with deadlines approaching fast.

While states may have missed their opportunity to operate a state-based exchange at this point, Chiquita Brooks-LaSure, director of coverage policy for the U.S. Office of Health Reform, said such an exchange is not completely off the table.

“If states are not ready in the first year but want to come in in future years, they certainly have that opportunity to do so,” she said.

But states still have the option of working with the federal government for a partnership exchange if they make the decision soon and submit a blueprint by Feb. 15.

Flowers thinks states, at the very least, should consider the partnership model because it allows states to maintain some control over not only the exchanges, but also other insurance-related issues.

In fact, Brett Graham, a partner with Leavitt Partners, which has a specialty practice on health insurance exchanges, argues that exchanges will not be the decision point on health care in the future—other rules coming out likely will pack a bigger punch.

“As we go forward,” Graham said, “these other insurance reforms are likely to have even more impact on your markets and the cost of insurance in those markets.”

States that defer to a federally facilitated exchange, he said, will have significantly less ability to control many of these other insurance reforms.

On top of that, Flowers said, insurers in each state will prefer some state connection to the exchange.

“Get ready for the hard-court press for a partnership exchange if you didn’t do a state exchange,” she said.

“This is an extraordinary amount of activity that is about to go on in the next eight months,” Flowers said. “It’s going to impact your insurance companies, your insurance regulators, the insurance brokers in your state and you as regulators.”

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**What’s Next**

**State-Based Exchanges**

Jan. 1 — The Department of Health and Human Services will approve or conditionally approve state-based exchanges. Conditional approval means the exchange is not ready now for operation, but should be ready when enrollment begins.

Oct. 1 — Exchange Enrollment Period Begins

Jan. 1, 2014 — Exchanges are Operational

**Under this Model** — States will manage the exchanges, contract with health plans, provide consumer outreach and assistance and build the IT infrastructure to assess eligibility and enroll people for coverage. They can use federal services to determine eligibility for premium tax credit and cost-sharing programs and to operate the risk adjustment and reinsurance programs. A state-based exchange may determine eligibility for advance payments of the premium tax credit and cost-sharing reductions.

**States Participating** — California, Colorado, Connecticut, District of Columbia, Hawaii, Idaho, Iowa, Kentucky, Maryland, Massachusetts, Minnesota, Mississippi, Nebraska, New Mexico, New York, Oregon, Rhode Island, Vermont, Washington

**State-Federal Partnership Exchanges**

Feb. 15 — States that plan to use the partnership model must submit blueprints to the Department of Health and Human Services.

March 1 — The Department of Health and Human Services will begin a rolling approval of partnership exchanges.

Oct. 1 — Exchange Enrollment Period Begins

Jan. 1, 2014 — Exchanges are Operational

**Under this Model** — States will manage the exchange with the federal government; it will make it easier for states to transition to a state-based exchange in the future. States can choose to operate certain plan management functions, consumer assistance functions or both. States also can choose to determine eligibility for Medicaid or the Children’s Health Insurance Program or allow the federal government to do so.

**States Pursuing Partnership Exchanges** — Arkansas, Delaware, Illinois, Michigan, North Carolina, Ohio

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**Federally Facilitated Exchanges**

Feb. 15 — States that do not submit blueprints for partnership models will defer to the federal government to operate the health exchange in their states.

Oct. 1 — Exchange Enrollment Period Begins

Jan. 1, 2014 — Exchanges are Operational

**Under this Model** — The Department of Health and Human Services will assume all primary responsibility for operating the exchange. But the federal government will work to coordinate with state agencies on things such as plan certification and oversight functions, consumer assistance and outreach, and streamlining eligibility determinations for the exchange and Medicaid. This exchange will adopt a clearinghouse model and contract with any health plan that meets all certification standards as a Qualified Health Plan.

**States Deferring to Federally Facilitated Exchanges** — Alabama, Alaska, Arizona, Georgia, Kansas, Louisiana, Maine, Missouri, Nebraska, New Hampshire, North Dakota, Oklahoma, South Carolina, South Dakota, Texas, Wisconsin, Wyoming

**Undecided States (As of mid-December)** — Florida, Indiana, Montana, New Jersey, Pennsylvania, Tennessee, Utah, Virginia, West Virginia
What did the 2012 election say about what is going in the American electorate?

“What we saw in the election results is people really pay attention to the candidates. We knew it was a 50-50 nation. If you were to look at a map of the results, either county-by-county or state-by-state, it would look very red. It would look like the country, as far as land mass, was Republican. If you were to look at the results, you'd think, ‘oh, this is kind of a blue country.’ … What I look at is the split between how we vote for state officials and how we vote for house members and senators and governors and president, then it starts to look like a 50-50 nation again. … Elections are still very much retail, person to person exercise. We now do it more efficiently with technology. And the campaign that is smarter with that has a huge advantage.”

What is different about state and national level politics that makes the electorate behave differently?

“In state politics, we are more likely to have a personal connection with the person that we’re voting for and that makes a huge difference. Very often in state government at all levels, we are voting for someone that either we have a personal connection to or we know somebody who knows them, and we’re less dependent, perhaps, on a portrayal of them. We’re more likely to know what they’ve done, maybe what they’ve done for us and what they stand for. That’s why you see voters distinguishing among candidates. People vote for who they know and who they like and trust and who they think understands them.”

You mentioned the technology in the election. What did social media do in this election?

“The success of social media in this election is very encouraging because it shows that individual voters can participate, do have a voice and, perhaps more importantly, have a real window into what’s happening. If you want to, you can follow a campaign, whether it’s for statewide office or for a state legislator or for (U.S.) House or Senate, you can follow any campaign almost minute by minute through social media. State officials tell me that they can’t give their constituents too much information. The people really want specifics. Constituents really love a link to a position paper or a bill. So we have a more informed electorate than we’ve ever had.”

What about money in the campaigns?

“I think the super PACs had a little different effect this year than was expected and I think there will be as much money in politics than there ever has been. … There’s a frustration for campaigns because even if the super PAC is on your side, it may not be on your message. … I think super PACs are going to look at how they spend their money, but there’s no chance that we’re going to put the toothpaste back into the tube and have less big money in politics.”

Do you think that the results will bring changes to the parties nationally?

“You can argue that the 2012 election was more historically important than the 2008 election and that’s because it’s provoking profound changes in both parties. On the Democratic side, they saw the success of their engagement campaign, of their technological efforts, of their very precision targeting of voters. And liberal groups feel more empowered. … On the Republican side, more so than after past losses, we see party officials say, ‘yes we need to make a fundamental change in our brand. We’re not going to change our principles.’ Republicans say they are still going to be for cutting taxes, cutting spending, conservative values. They recognize that they need to talk about it in a more relevant way.”
Mike Allen, Politico’s chief political correspondent, believes state leaders can learn a lot from the 2012 elections. Although the 2013 Congress is likely to be even more polarized, he offers some hope for states still trying to rebuild after the Great Recession.

**What did this election say about the Tea Party?**

“The Tea Party still showed its muscle in some key races. The Tea Party, I think, will remain a force, especially in the Republican primaries. In Republican primaries, you’ll continue to see a group of activists who are promoting the most conservative potential nominee, tugging the candidate to the right. In Washington, even in the first couple of days after the election, you saw an effort to curtail the influence of the Tea Party in primaries. Republicans lost a lot of key U.S. Senate races this year because the nominees had been pushed by the Tea Party rather than being the most viable or the most likely nominees to succeed.”

**One storyline of this election was gridlock and the approval rating of Congress. Are we going to see a change or a softening toward compromise?**

“That’s one of the great questions of our time. I’d be inclined to say yes, because voters clearly want that and if you believe in political markets, you believe that voters will eventually get what they want. But I’ll tell you, there aren’t signs of it now. The House Republican conference in January 2013 will be more conservative than it was in December 2012. The new members are going to make the conference more conservative. The House Democratic caucus will be more liberal, will have less independent or moderate members than the last one did. So that suggests, hard as it is to believe, hard as it is to visualize, perhaps even more polarization.”

**What does this mean for state governments?**

“An encouraging note for states is that the last thing Washington wants is to provoke another recession and that is a significant driver toward making the government work. That helps states that are so dependent on what happens in Washington. And it’s encouraging for citizens who maybe worry about the effect on their businesses or their employers if there’s another big economic recession in this country.”

**What is your message for state leaders?**

“I have a message of great hope for them. That in the new digital age, if you’re a state officeholder and you have a message to deliver, there’s never been a better time because you have more avenues to deliver it, more chances of reaching people than ever. I also think it’s one of the best times to be in the news business because more people are consuming more information, more often in more ways. So that’s encouraging both for people who are covered and who do the covering.”
In 38 states, one party will control both the governor’s office and state legislature. Republicans control 24 states, while Democrats control 14 states.

Maine became the first state to legalize same-sex marriage by popular vote. 9 states now allow same-sex marriage.

West Virginia has a new attorney general for the first time in 20 years. Republican Patrick Morrisey defeated incumbent Darrell McGraw, who was first elected in 1992.

6 state chambers switched back to Democratic control two years after switching to Republican majorities—the Colorado House, Maine Senate and House, Minnesota Senate and House and New Hampshire House.

New Hampshire is the first state to have an all-woman federal delegation and governor.

The Wisconsin Senate switched party control for the third time in two years.

Only 3 states have split legislatures: Iowa, Kentucky and New Hampshire.

Pat McCrory is North Carolina’s first Republican governor in 20 years.

The South Carolina Senate will have one female member—Katrina Shealy.
While Democrats have a numeric majority in the New York Senate, the Independent Democratic Conference, which gained recognition as a permanent conference in the state Senate, will have a bipartisan partnership with the Republican Conference that allows the two to share leadership.

Virginia’s Senate is split 20-20 but the Republicans act as the majority because Republican Lt. Governor Bill Bolling serves as the tie-breaking vote.
Federal grants to states increased by 3.1 percent in the 2011 fiscal year, according to the Federal Funds Information for States, which tracks more than 200 federal grant-in-aid programs. The $587 billion in grants amounts to $1,861 for every U.S. citizen. The District of Columbia held the top per capita rank in 2011 at $5,017 per resident, while Nevada received the least per resident at $1,111; both held the same position in 2010. The grants include everything from Medicaid to transportation to community and regional development.

Medicaid and other mandatory spending drives the total per capita funding provided to states, according to the report, “FY 2011 Per Capita Federal Spending on Major Grants.” Federal grants often have small-state minimums, which benefit states with relatively small populations on a per capita basis. Many of the programs are driven by federal formulas, so demographics and economic well-being play a significant role in the amount of funding received.

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<thead>
<tr>
<th>Highest Per Capita</th>
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<tr>
<td>$5,017 » District of Columbia</td>
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<tr>
<td>$1,522 » Maryland</td>
<td>3.5%</td>
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<tr>
<td>$1,523 » New Jersey</td>
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INCOME INEQUALITY GROWS
The poorest U.S. households had an average income of $20,510 from 2008 to 2010, while the richest households brought in eight times as much—$164,490. The top to bottom ratio was more than eight times as much in 15 states, according to a new report from the Center on Budget and Policy Priorities. The study looked at the incomes of the top 20 percent of households and compared them to the bottom 20 percent.

POOREST 20%   RICHEST 20%

$16,300 New Mexico » 9.9 $161,370
$20,500 Arizona » 9.8 $200,900
$19,400 California » 9.5 $184,300
$17,300 Georgia » 9.3 $160,890
$19,300 New York » 9.2 $177,560
$16,900 Louisiana » 8.8 $148,720
$17,900 Texas » 8.6 $153,940
$24,600 Massachusetts » 8.3 $204,180
$20,800 Illinois » 8.3 $172,640
$16,100 Mississippi » 8.3 $133,630
$24,300 New Jersey » 8.3 $201,690
$18,700 Florida » 8.3 $155,210
$27,100 Connecticut » 8.2 $222,220
$22,500 Colorado » 8.2 $184,500
$23,700 Virginia » 8.1 $191,970
$19,800 Oklahoma » 8 $158,400
$19,000 North Carolina » 7.9 $150,500
$18,700 Alabama » 7.8 $145,860
$18,800 Tennessee » 7.8 $146,640
$18,000 Kentucky » 7.6 $136,800


Indiana had the biggest jump in federal funds from 2010 to 2011. It received 11.3 percent more per capita from year to year.

PROTESTING INEQUALITY
WASHINGTON, D.C.—Carol Gay, of Brick, N.J., was among people at Freedom Plaza in Washington in 2011 protesting the growing income gap between the rich and everyone else. The income gap is large and getting larger, while middle-class incomes stagnate. That’s raised concerns that the nation’s middle class isn’t sharing in economic growth as it has in the past.
© Jacquelyn Martin/AP/Corbis
Discussion on the fiscal cliff and the impact it would have on the economy raised major concerns for states. State officials also recognized they would likely see cuts in federal funding—whether it was under sequestration or sometime in the future. Here are some things you should know about the federal budget and the process in which it is enacted.

Source: National Priorities Project

Key Terms

Continuing Resolution
If Congress hasn’t passed a new appropriations bill before the federal fiscal year starts on Oct. 1, this legislation allows government agencies to continue to operate at existing levels. The U.S. government is operating on a Continuing Resolution passed in September 2012; it will last through March.

Debt
The accumulated total of annual deficits and surpluses over the years.

Deficit
When spending exceeds revenues in a given year.

Discretionary Spending
The money Congress appropriates each year through its annual process. It amounts to about one-third of the federal budget.

Gross Domestic Product
This is the combined dollar value of all the spending by individuals, businesses and government, along with the value of products exported to foreign countries. The value of products imported from other countries is subtracted to determine the GDP.

Mandatory Spending
This covers entitlement programs like Social Security, Medicare and SNAP, formerly the Food Stamp Program. Spending fluctuates based on the number of people eligible for the programs. It bypasses the annual appropriations process. This is about two-thirds of the federal budget.

Office of Management and Budget
This office is part of the executive branch. The OMB instructs federal agencies how to prepare their strategic plans and budget.

Sequestration
The Budget Control Act of 2011 included a series of automatic spending cuts set to take effect in January. Congress was discussing action during its lame-duck session to avoid sequestration.
The Budget Process

The federal budget process goes through five basic stages. The third and fourth stages can occur simultaneously.

1. The President’s Budget
   The president submits a comprehensive budget request to Congress on or before the first Monday in February. The budget typically outlines the administration’s policy and funding priorities, taking into account the economic outlook for the upcoming fiscal year. The Office of Management and Budget compiles the president’s spending plan, which is broken down into 20 budget function categories. It includes estimates on spending, revenue and borrowing levels.

2. Congressional Hearings
   House and Senate budget committees hold hearings on the president’s budget and those committees report a concurrent budget resolution that sets each committee’s allocation of spending authority for the next fiscal year, as well as aggregate spending and revenue levels for five years. This is the framework for spending and revenue bills. It is supposed to be passed by April 15, but often takes longer.

3. House and Senate Consider Budget
   The House and Senate divide the discretionary spending in the budget resolution among 12 subcommittees in each chamber. Each subcommittee holds hearings on programs and votes out a bill. The full committee in each chamber marks up the bill and sends it to the floor, where the full House and Senate vote on the bills. Any differences between the two pieces of legislation go to a conference committee including members of both chambers to iron them out. Those changes must then go to both chambers for final approval.

4. Reconciliation Legislation
   If existing law needs to be changed because of spending and revenue levels, the budget resolution would include instructions to committees to report legislation containing such statutory changes. This could be required because of tax hikes or cuts, deficit reduction, mandatory spending increases or decreases, or adjustments in the federal debt limit.

5. Presidential Signature
   Once both houses of Congress have approved the budget, it goes to the president for his signature or veto. The president is supposed to sign the appropriations bills by Oct. 1 each year.
The area covered by 1 million $1 bills measures 111,287.5 square feet. This would cover an area approximately equal to the size of two football fields.

The area covered by 1 billion $1 bills measures about 4 square miles. This would cover the city of Berwyn City, Ill., just outside Chicago.

The area covered by 1 trillion $1 bills measures 3,992 square miles. This would cover an area equal to twice the size of the state of Delaware.

Money Comes From

Federal Receipts by Source
in billions, fiscal year 2011

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<th>Source</th>
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</table>

Federal receipts totaled $2.3 trillion in 2011

(Note: Social insurance and retirement receipts include Social Security and Medicare taxes and unemployment insurance. "Other" includes estate and gift taxes and customs and duties fees.) Source: “Budget of the United States Government: Fiscal Year 2013,” February 2012, Office of Management and Budget.

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“If you’ve been around here long enough, you know there’s going to be some give on both sides.”

—Illinois Sen. Dick Durbin, predicting both cuts in entitlement spending and increases in tax hikes, in a December Bloomberg article about federal budget negotiations

<table>
<thead>
<tr>
<th>Time</th>
<th>Equivalent Time</th>
</tr>
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<tbody>
<tr>
<td>1 million seconds</td>
<td>11.5 days</td>
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<tr>
<td>1 billion seconds</td>
<td>32 years</td>
</tr>
<tr>
<td>1 trillion seconds</td>
<td>32,000 years</td>
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</table>

Source: http://www.time.com/time/business/article/0,8599,1870699,00.html
Spending Growth  
Annualized Growth of Federal Spending (By presidential terms)

- **Reagan**  
  1982–85: 8.7%  
  1986–89: 4.9%

- **Bush**  
  1990–93: 5.4%
  1994–97: 3.2%
  1998–2001: 3.9%
  2002–05: 7.3%
  2006–09: 8.1%

- **Clinton**  
  1994–97: 3.2%
  1998–2001: 3.9%

- **Obama**  
  2010–13: 1.4%

Money Goes To


- **10.3%** Health ($372,500)
- **20.3%** Social Security ($730,811)
- **3.6%** Retirement & Disability ($131,147)
- **6.4%** Interest on the Debt ($229,968)
- **1.3%** Energy ($12,174)
- **1.3%** Natural Resources & Environment ($45,420)
- **1.5%** Housing Assistance ($55,440)
- **2.9%** Food & Nutrition Assistance ($103,199)
- **13.5%** Medicare ($485,653)
- **2.6%** Transportation ($92,965)
- **19.6%** National Defense ($705,625)
- **5.2%** Other Income ($187,010)
- **7.9%** Medicaid ($283,597)
- **3.5%** Veterans Benefits & Services ($127,189)
- **.82%** General Science, Space & Technology ($29,466)
- **1.1%** International Affairs ($45,686)
- **1.3%** Unemployment Compensation ($120,556)
- **2.8%** Education, Training, Employment & Social Services ($101,233)

Income Tax Receipt
Based on a $50,000 income for a married couple with one child.

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>National Defense</td>
<td>24.9%</td>
<td>$247.75</td>
</tr>
<tr>
<td>Health Care</td>
<td>23.7%</td>
<td>$235.81</td>
</tr>
<tr>
<td>Job &amp; Family Security</td>
<td>19.1%</td>
<td>$190.05</td>
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<tr>
<td>Net Interest</td>
<td>8.1%</td>
<td>$80.595</td>
</tr>
<tr>
<td>Other Government Programs</td>
<td>7.9%</td>
<td>$78.61</td>
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<tr>
<td>Veterans Benefits</td>
<td>4.5%</td>
<td>$44.77</td>
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<tr>
<td>Education &amp; Job Training</td>
<td>3.6%</td>
<td>$35.82</td>
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<td>Energy &amp; Environment</td>
<td>2.0%</td>
<td>$19.90</td>
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<tr>
<td>Immigration, Law Enforcement</td>
<td>1.6%</td>
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<tr>
<td>National Defense</td>
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<tr>
<td>Science, Space &amp; Technology</td>
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<tr>
<td>Agriculture</td>
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</tr>
<tr>
<td>Community Development</td>
<td>0.4%</td>
<td>$3.98</td>
</tr>
<tr>
<td>Natural Disasters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>$805.95</td>
</tr>
</tbody>
</table>


The Fiscal Cliff

**Tax breaks**—including those enacted under President George W. Bush in 2001 and 2003 and the payroll tax holiday under President Barack Obama, as well as a host of others—were set to expire Dec. 31, 2012.

Automatic spending cuts from the 2011 deal to raise the debt limit kick in Jan. 1, 2013—they were scheduled to be phased in over a decade.


Mississippi gets **49 percent** of its general revenue from the federal government, while Alaska gets only **24 percent** of its general revenue from the feds. Those two states are on opposite ends of the spectrum with regard to dependence on federal funds for budgets.

WHAT ADVICE WOULD YOU GIVE NEWLY ELECTED LEGISLATORS ON …?

EDUCATION: LISTEN AND LEARN

“This is truly an exciting time to be in the legislature. There is much to learn about how the legislative process works—the leadership team’s ability to guide legislation, the committee process and how much authority is given committee chairs, and the seniority process within the legislature. Public education is one the most important issues in most states. My advice would be to find a senior member of your education committee and listen and learn from that person. Also, it is important to know the educational issues in your local school districts. Ask questions, take notes and know how public education impacts your constituents.”

VERN SWANSON
Representative, Kansas
Elected in 2010
Vice-Chair, CSG Education Policy Task Force

TRANSPORTATION: VITAL TO ECONOMY

“Transportation issues have long been nonpartisan issues. I believe that is because policymakers understood that transportation infrastructure is vital to our economic health and competitiveness. Getting products to market and people to work in an efficient way requires us to plan together as we design and construct those systems. Today, the business community and the environmental community have come together around an agenda that includes safe places to walk and bike, buses and rail that provide a seamless public mass transit system, and inter-city rail that connects us as regions. I am hopeful that policymakers who plan and fund this new transportation future will find that this multimodal agenda is also a nonpartisan issue.”

ALICE HAUSMAN
Co-Chair, CSG Transportation Policy Task Force
**HEALTH: SEEK RESOURCES FROM OUTSET**

“When it comes to health care policy, my advice is to seek out resources from the outset that can help you better understand the issues from different perspectives. Consider making appointments with the health care organizations in your state, including associations that represent pharmacists, physicians, nurses, dentists, hospitals and nursing homes. Find out which issues are most important to them and what data/resources they have available to help you become more knowledgeable about health care trends and data. Taking initial steps to understand the issues and establish working relationships with the health care professionals in your state will prove to be a valuable resource in the years to come.”

**FINANCE: LEARN TO SAY NO**

“The best advice I could give is learn how to say no. You can always change your mind later and say yes if the project is worthwhile, but if you say yes at the start, it’s awfully hard to back away from that position. If you do, people who counted on you will remember that you didn’t stick with them. I found that constituents are well informed and thoughtful, so if you explain your reasoning they understand. Sometimes I had to remind people they elected me as a fiscal conservative, and that’s how I intend to vote. They respect that.”

**ENERGY AND THE ENVIRONMENT: PREPARE FOR A BUMPY RIDE**

“Fasten your seat belts and prepare for a long, often bumpy ride. Regardless of whether or not you know where you want to go, anticipate traffic jams, dead ends, detours and drivers that may require you to employ defensive moves to avoid head-on collisions. Additionally, the energy and environmental landscape has been changing at a pace that makes maps that might have guided you a few years ago less and less accurate. That said, the territory you are about to navigate is incredibly interesting and you now have the privilege and responsibility of shaping the landscape others will travel.”
Report Focuses on Police Responses To People With Mental Illnesses

The Council of State Governments' Justice Center will be releasing a report in January highlighting state initiatives for stimulating and supporting local-level specialized policing responses for people with mental illnesses. The specialized responses help individuals in crisis connect to community-based treatment and support, when appropriate, instead of becoming involved in the criminal justice system.

"Statewide Law Enforcement/Mental Health Efforts: Strategies to Support and Sustain Local Initiatives" is the result of a project supported by the Bureau of Justice Assistance at the U.S. Department of Justice.

It examines how states have developed structures and standards to make police encounters with people with mental illnesses safer and to produce better mental health and criminal justice system outcomes. The report focuses on Connecticut, Ohio and Utah. These three states represent differently structured initiatives with extensive experience with specialized responses. It also includes program examples from other states—Colorado, Florida, Georgia, Illinois and Maine.


NAST Pinnacle Achievement Awards

The National Association of State Treasurers recently launched the NAST Pinnacle Achievement Awards program to assist state treasurers in recognizing organizations and businesses that have a record of promoting the association's goals and providing service to the nation's state treasurers.

The award is the brainchild of Tennessee Treasurer David Lillard Jr.

"The award provides a mechanism to allow treasurers to recognize exemplary service of organizations and businesses that promote NAST's goals, especially in the areas of financial literacy and support of our network organizations," said NAST Executive Director Jon Lawnickz.

For more information visit www.nast.org

Group Explores Deeper Learning

CSG's Deeper Learning Focus Group met in the spring of 2012 to examine how education systems can be improved to support more rigorous, student-centered instruction. The focus group is comprised of more than 20 legislators, state and local education leaders, and officials from national education agencies.

The discussions included ways instruction, assessments, accountability, teacher and leader effectiveness, and technology should change to ensure students master core content, think critically, solve complex problems, work collaboratively, communicate effectively and direct their own learning. CSG will use recommendations made by the group in a policy framework to incorporate the principles of deeper learning in public education.

The work of the focus group is made possible through funding from The William and Flora Hewlett Foundation.

Barbara A. Chow, education program director for the William and Flora Hewlett Foundation, was the keynote speaker at the Council of State Governments' 2012 National Conference Education Legislative Briefing in Austin, Texas.
Increasing Public Safety, Reducing Corrections Spending

In 2012, CSG Justice Center staff assisted state leaders in Hawaii, Oklahoma, and Pennsylvania in efforts to reduce corrections spending and generate savings to be reinvested in strategies that increase public safety. Reinvestments included increased services and support for victims, targeted grants to law enforcement and training for probation/parole. Sixteen states have designed justice reinvestment strategies since the effort began in 2007.


Discover Corrections Website Now Available


2012 Toll Fellow Named to North Carolina Supreme Court

North Carolina Gov. Bev Perdue in December appointed Cherri Beasley, a 2012 CSG Toll Fellow, to the state Supreme Court. Beasley served as 12th Judicial District Judge from 1999 to 2008, when she was elected to the state Court of Appeals. She had previously served as an assistant public defender in Fayetteville.

Learn more about these stories at capitolideas.csq.org. Click on “Stated Briefly” under Departments.
“Since our founding in 1933, CSG has seen unprecedented change in America’s states, and today’s fiscal and policy challenges require us as an organization to look inward and reflect on the ways CSG can better connect with state leaders around the country as they wrestle with these tough issues.”

—Deputy Speaker Bob Godfrey, Connecticut Chair, CSG National Governance Working Group
Building a Better State

State officials have found new ways to serve constituents through the use of specialty courts, like mental health courts. The growing reliance on these specialty courts has created a need for an accessible training resource. Recognizing that need, the Bureau of Justice Assistance commissioned The Council of State Governments Justice Center to build on its previous work and develop a curriculum on mental health courts.

CSG’s National Center for Interstate Compacts is beginning the education process for a new electric transmission line siting compact, which sets timelines for when action must be taken when building interstate transmission lines.

In a different form of economic development, some states are trying to maximize the potential of craft beer within their borders.
Research shows people with mental illnesses and co-occurring substance abuse issues enter local jails three to six times more often than the general population. That creates a challenge for the nation’s criminal courts.

“The cycling of individuals with mental illnesses through our criminal justice system is a critical issue with implications for public safety, health and expenditures, not to mention the lives of millions across the country,” said Ruby Qazilbash, associate deputy director of the Bureau of Justice Assistance at the U.S. Department of Justice.

The use of mental health courts, which combine mental health and, often, substance use treatment with court supervision, is a popular approach to address this issue. Some 300 jurisdictions have launched new programs since 2000. Nearly every state has a mental health court.

Developing a Mental Health Court

The growing reliance on these specialty courts has created a need for an accessible training resource. Recognizing that need, the Bureau of Justice Assistance commissioned The Council of State Governments Justice Center to build on its previous work and develop a curriculum on mental health courts.

“By partnering with the CSG Justice Center on this project, we hope to provide state leaders with an affordable, accessible training option that combines the best of available research and practice in this area in a format that is flexible to the needs of diverse jurisdictions,” said Qazilbash.

The result of that partnership is a training curriculum called Developing a Mental Health Court. The curriculum features self-paced online presentations and quizzes, group activities and additional resources that translate the experience of experts and practitioners into engaging learning materials. The free curriculum also features multimedia content that includes interviews with a range of experts, as well as a multi-part video case study following a real mental health court team through common situations. The project was guided by a steering committee of national organizations and practitioners from mental health courts around the country.

While the curriculum is a comprehensive resource on starting a mental health court, it also can be adapted for new team members or as a tune-up for existing programs. Introductory lessons on criminal justice and behavioral health are useful for any collaboration between these disciplines, with content on assessment of criminogenic needs—that is characteristics or circumstances research shows are associated with criminal behavior—and mental health, as well as introductions to these systems.

“This curriculum provides the important fundamentals, and it links us to existing research and innovative programming,” said Steven Canterbury, administrative director of West Virginia’s Administrative Office of the Courts and a CSG Justice Center board member. “It also offers flexibility to tailor the content based on our own state rules and local resources.”

The curriculum begins with material on the mental health court model and how to consider whether a mental health court is appropriate for a given community.

“We aimed to give policymakers the tools to make decisions informed by research and practice, whether it is the decision to start a mental health court, develop another program, or start meeting regularly and improve information sharing,” said Hallie Fader-Towe, director of the CSG Justice Center’s Courts Program.

The Justice Center also worked with the Center for Social Innovation on the training strategy.

“Their expertise in adult education and blended learning helped us develop an approach that shares national expertise through online presentations, while using live activities to apply the concepts locally,” said Fader-Towe.

At a time when budget constraints affect every branch of government, the curriculum provides a great value to state and local jurisdictions.

“We’re always looking for cost-effective ways to bring national expertise to West Virginia, and this free curriculum provides a means to do so without paying for dozens of flights and conferences,” said Canterbury.

Piloting the Curriculum

State-level coordinators in Colorado and Delaware piloted the curriculum, as did local teams in Iowa and Washington. These

“This free curriculum provides the important fundamentals, and it links us to existing research and innovative programming. It also offers flexibility to tailor the content based on our own state rules and local resources.”

—Steven Canterbury, administrative director, West Virginia’s Administrative Office of the Courts, CSG Justice Center board member
pilot sites included urban, rural and suburban jurisdictions with varying experience with problem-solving courts and criminal justice/mental health collaboration.

With the current economic climate limiting opportunities for face-to-face training, Colorado was eager to use the curriculum, State Problem-Solving Court Coordinator Brenidy Rice said. Rice considers the curriculum’s blend of online and live components “the best way to handle the budget limitations, as well as people’s busy schedules.” The varied formats—including audio, video and graphics—“can meet the needs of several types of learners,” she said.

Rice piloted the curriculum in five jurisdictions throughout Colorado, tailoring it to each team.

“Each was unique in its needs and stage in the planning process,” said Rice.

One team in the early stages of starting a program used the curriculum to complete its policies and procedures.

Another team that was already maintaining a specialized probation caseload for individuals with mental illnesses was not sure how its jurisdiction could benefit from a problem-solving court.

Taking the curriculum’s suggestion, the team reviewed local data to determine if additional programs would be beneficial. After the data revealed that individuals with mental illnesses were still spending more time in jail and faring worse on probation than others, the team decided to establish a mental health court.

“Mental health courts are one of the fastest-growing types of problem-solving courts in the state right now, but there isn’t as much information available on these programs as there is on drug courts, which have been around for twice as long,” Rice said. “Developing a Mental Health Court is a great resource in helping us fill that need.”

**CREATING THE CURRICULUM**

Developing a Mental Health Court includes input from experts involved in programs in more than 20 states.

The steering committee included representation from the National Center for State Courts, the National Judicial College, the Substance Abuse and Mental Health Services Administration’s GAINS Center, the Center for Court Innovation, the American Probation and Parole Association, the Association of Prosecuting Attorneys, the Justice Management Institute, the National Drug Court Institute, and the National Legal Aid & Defender Association. Committee members came from California, Illinois, New York and Ohio.

Problem-solving court coordinators and judicial educators from Colorado, Delaware, Idaho, Illinois, New York, Utah, Virginia and West Virginia contributed to the curriculum’s trainers’ materials.

**GET THE CURRICULUM**

Developing a Mental Health Court: An Interdisciplinary Curriculum is available, free of charge, at learning.csgjusticecenter.org.
A new transmission line siting compact developed by The Council of State Governments’ National Center for Interstate Compacts is ready to be introduced in state legislatures across the country.

The compact sets timelines for when action must be taken on proposed interstate transmission lines, such as when public hearings and evidentiary hearings must be held. Three states must adopt the compact to trigger it, but nine states must adopt it to begin commission business, such as creating rules.

The compact will be in effect only if the proposed transmission line runs through at least three states that also are members of the compact. If a state is a member of the compact but the proposed line does not run through that state, it will not be involved with the project.

“All we’re doing is saying when you have states adopt the compact, it applies only to their immediate needs,” said Kansas Rep. Tom Sloan, co-chair of the compact’s national advisory panel. “You don’t have any costs, don’t have any responsibilities if the line is outside your area.”

The need for the compact has grown as the utility industry has grown from a local to a state and, now, a regional issue, said Bill Smith, executive director of the Organization of MISO States. The nonprofit organization coordinates regulatory oversight among states in the Midwest Independent System Operator Inc.

About 15 years ago, he said, Midwestern states began thinking of energy as a regional issue. That idea has only grown over the years.

“As we’ve watched national attention be focused on regional changes in the industry,” he said, “the industry is becoming more regional in geography as opposed to the utility-by-utility islands throughout the country.

“As regions knit together individual utility systems, trying to change the planning process for transmission and generation into a regional viewpoint has been something we have worked on and will continue to be something we need to work on.”

Sloan agreed the changing nature of the utility industry means states must also change, and the compact recognizes that.

“It provides, I think, the optimum opportunity for state siting commissions to recognize we are dealing with a world of regional and national interests,” he said. “Most of the time, we’re happy to confine ourselves to make decisions affecting people inside the borders of our states. When we’re talking energy policy, we’re talking about a much larger animal.”

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**Timeline for Electric Transmission Line Siting Compact**

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<tr>
<th>Year</th>
<th>Advisory Committee</th>
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<tr>
<td>2010</td>
<td>Convened in July 2010</td>
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<tr>
<td>2011</td>
<td>Met in person twice</td>
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<td></td>
<td>Formally endorsed the creation of an interstate compact and the drafting team in March 2011</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Drafting Team</th>
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<tbody>
<tr>
<td>2011</td>
<td>First convened in October 2011</td>
</tr>
<tr>
<td></td>
<td>Met in person three times</td>
</tr>
<tr>
<td></td>
<td>Met electronically three additional times</td>
</tr>
<tr>
<td></td>
<td>Finalized compact language in October 2012</td>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Education Phase to be Conducted by CSG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Began with legislative briefing at CSG’s Annual Meeting in Austin, Texas, in November 2012</td>
</tr>
<tr>
<td></td>
<td>Webinars will begin in January 2013</td>
</tr>
<tr>
<td></td>
<td>State consideration expected as early as January 2013</td>
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</tbody>
</table>
### About NCIC
Learn more about CSG’s National Center for Interstate Compacts at www.csg.org/NCIC.

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### WHAT THE COMPACT DOES
The Interstate Transmission Line Siting Compact establishes common applications, timelines and uniform public comment periods. Here is the new timeline established by the compact. The 270-day timeline can be altered if all involved parties agree to a modified timeline.

#### By 90 Days
- Convening state will notify other impacted member states;
- Convening state will assemble the Combined Multistate Siting Authority;
- Involved member states will assemble a State Project Review Panel; and
- The siting authority will meet and review the application and assess its completeness.

#### By 120 Days
- The siting authority will hold a second meeting to assess the merits of the application, including, but not limited to, the proposed route, regional and national energy needs and costs; and
- The siting authority will hold at least one public hearing in each of the involved member states.

#### By 270 Days
- The siting authority will conduct an evidentiary hearing;
- The siting authority will grant conditional or final approval on the proposed line; and
- If conditional approval is granted, the siting authority will outline additional required actions.
Although they live on opposite sides of the country, Oscar Wong and Van Havig had similar problems when they were in college. They both liked beer and neither could afford it.

“Like I joke around and say I got into home brewing for the Canadian reason,” said Havig, who attended college in Portland, Ore. “In Canada, beer taxes are really high, (so they brew their own). In the late ‘80s, I was a graduate student at the time and I had no money. I liked to drink good beer and I couldn’t afford it.”

Wong was an engineering graduate student at Notre Dame when he and a friend began home brewing.

“In grad school, we were not very well off and we did not want to cut back on our beer,” Wong said. “We had to eat, so we couldn’t cut back on food that much. … It (home brewing) is a lot less expensive and it wasn’t very good, but it still had alcohol in it.”

It’s safe to say that both men have gotten better at brewing beer since their college days.

Havig is co-owner of Gigantic Brewing in Portland. Wong is owner of Highland Brewing in Asheville, N.C. They’re beer lovers, entrepreneurs and job creators—just the kind of people more policymakers are hoping to find in their own states.

Weathering the Storm

With the country still recovering from the Great Recession, beer sales declined by 1.3 percent overall in 2011, according to the Brewers Association, an organization dedicated to protecting small and independent American brewers. Craft beer, however, has been a different matter. In 2011, sales of craft beer rose 13 percent by volume and 15 percent by dollars as compared to 2010.

According to the Brewers Association, craft brewers are ones that produce less than 6 million barrels of beer a year, with less than 25 percent of the company owned or controlled by a large alcohol producer or brewer.

Business for craft brewers is good, said Paul Gatza, director of the Brewers Association.

“This year, we’re seeing a record number of breweries opening, (the most) since Prohibition was lifted,” Gatza said. “It looks like we’re seeing breweries opening about one a day on average now. We’ve gone from 1,500 (breweries) seven or eight years ago; right now, we’re closing in on 2,300. Things are definitely booming.”

Those breweries also can mean big business for states. Craft brewers provided almost 104,000 jobs and created $8.7 billion in retail sales across the country in 2011. According to state brewing associations, craft brewing contributed $3 billion in total economic impact in California in 2011. In Texas, it generated almost $76 million in sales and $16 million in state and local tax revenue.

Here’s how three states—all in different stages of development—are trying to maximize the potential of craft beer within their borders.
GROWLER SUCCESS

PORTLAND, MAINE—Around the country, hundreds of brewpubs, breweries and even grocery stores are cashing in on the growing popularity of growlers, a microbrew shown at Gritty McDuff’s in Portland.

© Pat Wellenbach/AP/Corbis
“They’re (microbrewers) doing something they love, they’re doing something in the community they love and they’re making an investment. It’s a win-win for everybody.”

— Alabama Sen. Bill Holtzclaw, co-sponsor of Alabama’s Brewery Modernization Act

## Portland—Still Going Strong

Craft beer, in Portland, is big business. “We’ve got over 120 brewing companies in Oregon, operating over 150 facilities,” said Nathan Buehler, marketing and communications manager for Business Oregon, the state’s business development department. “Portland itself has 51, more than any other city in the world. It really started in the ’80s, when brewing made a comeback and people started to appreciate craft beer as a craft.”

Craft brewers have been setting up shop in Portland for almost 30 years.

Buehler said Portland became home to a beer culture for a number of reasons. Oregon and Washington are the nation’s biggest producers of hops—the grain that gives beer its bitter bite. Portland’s live-off-the-land and buy-local attitude also have helped craft brewing thrive, Buehler said.

“I live in northeast Portland,” he said. “I’ve got three brewpubs within a 20 block radius. That’s just an average neighborhood that I live in. Now you’re really seeing restaurants adding on brewing facilities to make a unique product. … It’s truly become this unique craft.”

Havig, of Gigantic Brewing, said his company started brewing in April 2012 and already has sales of about $70,000 a month. Although craft breweries typically are fairly small, he said, they’re good employers.

“Craft is what I like to call delightfully inefficient,” Havig said. “There’s a lot of tiny producers, all have really inefficient brewing processes. With those delightfully inefficient processes, we require a lot of people, a lot of time and lot of materials and we produce really interesting $5 bottles of beer. … These are good, solid, family-wage jobs.”

Brian Butenschoen, executive director of the Oregon Brewers Guild, said the state has done two things that have helped brewers to thrive. Oregon has a low excise tax and the state legislature passed a beer pub law in 1985, which lets breweries sell their product over a bar. That law went into effect Oct. 31, 1985, Butenschoen said, and the first brewpub opened later that year. Now, Oregon is home to more than 200 brewpubs.

Havig said small producers also thrive in Oregon because of strict regulations on alcohol producers and distributors. Producers can’t give bar owners so much as a coaster, which is designed to give all brewers a fair shot at entering the market.

“It’s the right kind of regulation,” he said. “It’s the kind of regulation that guarantees a level playing field. We’re selling beer based on our merit.”

## Asheville, N.C.—The Up and Comer

Examiner.com has named Asheville, N.C., Beer City USA four years in a row. Wong, of Highland Brewing, was the first legal brewer in the area since Prohibition when he set up shop in 1994 in the basement of a pizza place.

Wong had sold his design business in Charlotte, N.C., and was looking to retire to his mountain home in Asheville when he was introduced to an award-winning brewer with a business proposition. Now, his company produces about 1 million gallons of craft beer each year and employs 38 people.

“One of the advantages (to Asheville), I tell people we get first crack at the water up here in the mountains,” he said. “I would like to think I had this grand plan. In actual fact, a lot of it was just good luck. To quote my mother, ‘Son, you’re above average intelligence, you’re quite lazy, but you’re very lucky.’”

Highland may have been the first brewery, but it wasn’t the last. Sierra Nevada and New Belgium—two of the largest craft brewers—are building new plants in Asheville. Sam Powers, economic development director for the city of Asheville, said each company will be investing $150 million to $175 million and will be employing 150 people.

Powers said one of the reasons why brewers are attracted to Asheville is because of its location near the Biltmore Estate, the Great Smoky Mountains and the Blue Ridge Parkway. The town—which has a population of just under 85,000—gets 10 million visitors each year.

The city, local businesses and independent groups also have highlighted the city’s beer culture. They have beer festivals, a beer week, an Oktoberfest, the BrewGrass festival and the indoor Winter Warmer Beer Festival. The state even has gotten into the act, Powers said. A new fermentation sciences program is being developed at Appalachian State University to ensure a steady workforce. Local community colleges are developing a 2-plus-2 program that prepares students for the fermentation program.

Wong said although alcohol laws can be peculiar, that doesn’t matter as much as how fast the system moves. He canceled plans to build his plant in another town because it took too long to get approval; the cost of building supplies rose dramatically while he was waiting.

“One of the primary rules (for attracting businesses) is a streamlined regulatory system,” Wong said. “In other words, it doesn’t matter what the rules are. They should be clear and they shouldn’t be hung up in committee. Once somebody decides to go ahead, businesses really have a very difficult time waiting.”
Alabama—Paving the Way

In the past four years, the Alabama legislature has passed a variety of bills that make it easier for craft breweries to succeed. In 2009, the limit on alcohol by volume content in beer was raised from 6 percent to 13.9 percent; craft brews often contain more alcohol than other beers. In 2011, the Brewery Modernization Act made it easier for breweries to set up brewpubs. And in 2012, the container size limit for beer was raised from 16 ounces to 25.4 ounces.

Advocating for each of these measures was Free the Hops, a nonprofit, consumer-driven organization dedicated to bringing high-quality beer to Alabama. Danner Kline, founder of Free the Hops, said the past four years have been instrumental to the increase of craft breweries from one in 2009 to eight in 2012.

“All of these things combined took the environment from being extremely hostile towards brewing to being quite friendly towards brewing,” Kline said.

Dan Roberts, executive director of the Alabama Brewers Guild, said there was some opposition to changing the state’s alcohol laws.

“The main opposition we had to some of these changes definitely had a religious component to it,” Roberts said. “It really wasn’t as strong as you might think. We’re not talking about selling beer on Sunday with these laws. We’re not talking about anything that gets more people to drink.”

Alabama Sen. Bill Holtzclaw was one of the sponsors of Senate Bill 192, the Brewery Modernization Act. He said the bill was about letting a burgeoning industry grow.

“This falls into deregulation of an industry,” Holtzclaw said. “It’s not creating anything new. … This was going to enable a niche market of a segment to expand.

“At the end of the day, we have entrepreneurs who are willing to step out there. They’re doing something they love, they’re doing something in the community they love and they’re making an investment. It’s a win-win for everybody.”

While craft brewing can mean big money for a state’s economy, experts say legislators should carefully consider whether it is a good fit for their state.

In Oregon, beer has a total economic impact of $2.4 billion annually. Nathan Buehler, marketing and communications manager for Business Oregon, said the craft beer industry has developed slowly and it meshes well with the state’s outdoorsy, do-it-yourself mentality.

“How are you attracting folks to your state?” Buehler asked. “For us, a lot of our tourism brand and the messages we put out there is all about culinary experiences, outdoor experiences. … It’s that local craft chef, working with local farms to create a local meal, and having craft beer to pair with them.

“Just be wary. If it’s not a really easy fit, … don’t try to force something.”

Sam Powers, economic development director for the city of Asheville, N.C., said craft brewers are not your typical entrepreneurs. Asheville is becoming one of the country’s hottest new locations for craft beer. Sierra Nevada and New Belgium—two of the country’s largest craft breweries—are setting up shop in the city.

“It is not your traditional manufacturer,” Powers said. “You will find companies that are extremely oriented toward sustainability. The New Belgium folks are looking to redevelop and make transformational changes to a brownfield site. They wanted to do that. They were willing to spend more money to do that.

“They (craft brewers) also believe strongly the consumers of their product, partially, are supporters of their company’s philosophy—paying a living wage, supporting environmentally sustainable policies. … I think local and state governments, if you want to be successful, have to be willing to support those kinds of initiatives.”

Oscar Wong, owner of Highland Brewing—Asheville’s first brewery since Prohibition—said while craft beer sales are experiencing double-digit growth, policymakers can’t assume that trend will continue.

“I think it should be treated with a little more caution, but that’s not the way in which we live in the U.S.,” he said. “When things have momentum, everybody gets on the train. Well, you know what? There’s always a caboose. People who didn’t get on early enough get snookered. There will be a shakeout.”

ASHEVILLE BREW

Carl Melissas, front, and Dave Missom work at Wedge Brewing, one of several new breweries opening in Asheville.

© AP Photo/Asheville Citizen-Times, John Coutlakis
Delaware House Majority Leader Pete Schwartzkopf chairs several committees, including House Administration and Rules committees. He served in the minority party for years and learned lessons in that role. A former state police officer in Dover, Schwartzkopf believes the no-nonsense approach to police work also applies to chairing a legislative committee.

DO YOUR HOMEWORK.
Any committee member, but especially the committee chair, must have a good working knowledge of the bills that come before the committee. “You have to understand the issues and try to understand both sides of the issues, any opposition to the bill, that type of thing,” Schwartzkopf said. “Try to put yourself in their shoes to try to figure out where the argument is going to come from.”

RECOGNIZE THE PURPOSE.
A committee hearing, Schwartzkopf said, is held primarily for committee members to get the information they need to make a decision. “There is a difference between a committee hearing and a public hearing, and I run committee hearings,” he said. He asks the bill’s sponsor to make a presentation about the bill, then asks the committee if they have questions or comments. The public also is allowed to speak, but Schwartzkopf said any additional questions or comments from the committee will come after everyone in the public has had their say. “We try not to have any confrontation or direct back and forth between the public and committee members,” he said.

STAY ON TOPIC.
In Delaware, the public is invited to speak before committees. Schwartzkopf doesn’t deny anyone in the public the opportunity to speak, but if anyone states anything that he or other committee members know to be blatantly false, he will stop them. “I try to keep people on topic and, as long as they’re on topic, they pretty much have free rein to say what they want to say, as long as it’s not being personal against any member of the committee or House,” he said.

STAY ON TASK.
While committee members can take as much time as they like in examining issues around the bill, Schwartzkopf typically puts a time limit on members of the public, simply to keep the meetings from going over allotted time. “We get a lot of bills through my committee that have a lot of emotion on both sides,” he said. Usually, he’ll limit people to about three or four minutes, depending on the number of people signed up to speak. “We want people to tell us what they feel, but we don’t need it to be embellished or surrounded or confused by things that don’t pertain to the issue.” Committee members often are running between meetings and it’s important to start and end sessions on time, he said.

KNOW WHEN TO TABLE A BILL.
Schwartzkopf likes to give a bill’s sponsor every opportunity to make a successful pitch. “Some bills come in with very good intention and they’re not thoroughly written,” he said. When the presentation starts to unravel, he may stop in the middle and make suggestions to the sponsor on getting with an attorney to make the bill better. The committee hearing also might give the sponsor an idea where the opposition might be, and he or she can work with those in opposition to reach common ground.
National and Regional Meetings

Registration and application deadlines may apply. Visit www.csg.org/events for complete details.

NAST 2013 Legislative Conference

The National Association of State Treasurers (NAST) will hold its 2013 Legislative Conference in Washington, D.C., March 18–20. This conference enables state treasurers to meet with members of the U.S. Congress and the administration to discuss the impact that federal tax and fiscal legislation might have upon state treasuries. Discussions will focus on issues such as tax reform, long-term prospects for the federal budget and global security issues. Additional topics will include an update on efforts to reform the tax code, implementation of federal rules and regulations and the importance of preserving college savings plans.

The conference is open to government officials and NAST Corporate Affiliate members. It will take place at the Mandarin Oriental Hotel. For details, visit www.nast.org.

For more information, visit www.csg.org.

State Technology Directors To Meet in Region Seminars

The National Association of State Technology Directors will kick off its region seminars with the Southern region in March. The NASTD region seminars focus on issues of importance in state technology particular to a specific region. The Southern Region Seminar will be March 3–6 in Lake Buena Vista, Fla. The Midwestern Region Seminar will be April 21–24 in Detroit; the Eastern Region Seminar will be May 13–16 in Pittsburgh; and Western Region Seminar will be June 9–12 in Juneau, Alaska.

For more information, visit www.nastd.org.
MAXINE BELL
Idaho State Representative / House Appropriations Chair

Idaho Rep. Maxine Bell went from being a middle school librarian to the state legislature, then to chairing the House Appropriations Committee a few years later. She never believed she was good at math, “but you find out you just have to add zeroes.” Bell has learned a lot in her 12 terms in the House. Her most important lesson: “It’s never about the numbers. It’s about people and their lives,” she said. “Everything we do up there has an impact on the people we come home to and then have to explain ourselves to.” Bell, a 2006 CSG Toll Fellow, advises new legislators to listen to each other. “Don’t fall on your sword over one issue. Look for ways to work with others, and listen and learn. There is so much to be learned,” she said.

Do you know someone in state government who deserves a shout out? Email Mary Branham at mbranham@csg.org.
The Council of State Governments West (CSG West) provides a nonpartisan platform for regional cooperation among the legislatures of the West, creating opportunities for legislators and staff to share ideas and experiences as well as institutional linkages with other elected political leaders throughout the region.

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Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. The Canadian provinces of Alberta and British Columbia, as well as the Pacific islands of American Samoa, the Commonwealth of the Northern Mariana Islands and Guam are members of CSG West.

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CSG West 66th Annual Meeting
July 30–Aug. 2, 2013 | Las Vegas, NV
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