HOT TOPIC: Fiscal Issues

States Doing More with Less

States Take Up War on Poverty

Bernanke Sees Role for States in Economic Recovery

How 4 States Are Weathering the Economic Storm

Montana Governor Brian Schweitzer on Surviving Recession

“Politicians talk about change. Politicians don’t change the world. Engineers and innovation change the world.”
—Montana Governor Brian Schweitzer

PLUS: What You Need to Know About Health Insurance Exchanges
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—Georgia Office of Customer Service Administrator Joe Doyle | Class of 2009
ON THE COVER
Montana Gov. Brian Schweitzer, the 2011 president of The Council of State Governments, may have a budget surplus in his state, but he knows the next few years are going to be tough. His number one priority—and, he believes, the number one priority for most state officials—is attracting jobs to help pull states out of recession.

COVER PHOTO COURTESY OF THE GOVERNOR'S OFFICE

JANUARY / FEBRUARY 2011

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Meet one of the youngest legislators in the country.
Fifty years ago this month a new, young president inspired the nation and spoke to the world in his inaugural address. On that cold winter day, President John F. Kennedy urged his fellow countrymen to, “Ask not what your country can do for you, ask what you can do for your country.”

A half century after those words were spoken, a new and inspired cadre of citizens has answered the call to give back to their states and nation. Over the past year or more these patriots have put themselves in the arena, campaigning, raising funds, soliciting votes, attending town hall meetings, walking blocks, knocking on doors, subjecting themselves to the scrutiny of anonymous bloggers and an angry public—all for the chance to serve. They have listened, learned and are now ready to lead.

This month thousands of new state leaders will take their oath of office and begin their journey of public service. They come from all walks of life and hold a myriad of views on how best to serve the public, but they all share a passion to take a risk, pursue a dream and make a difference. The decision to become a candidate and to serve in public office carries with it a considerable sacrifice. The Council of State Governments commends those who offer their time and talent to help govern the states of our nation. We are honored to work for you.

Having met many of the newly elected officeholders, I am convinced the energy they bring to our state capitols will help generate new ideas, lasting solutions and transform state government for the better.

We congratulate and welcome the new members of The Council of State Governments—the elected and appointed state leaders in all three branches of state government—and we look forward to helping you make a difference during your tenure in public office. We remain committed to providing you with the resources and insights you need to address the challenges confronting state government.

This month also marks a special anniversary for those of us born or raised in the Sunflower State. Kansas, the nation’s 34th state, and the state I served as a legislator, celebrates 150 years of statehood on Jan. 29. Kansas entered the Union on the eve of the Civil War and its birth as a state was intertwined in that great conflict. The early leaders of the state selected as the state’s motto, “Ad Astra Per Aspera,” which in Latin means “To the Stars Through Difficulties.” Kansas has certainly known its share of challenges whether Civil War, tornados, dust storms, droughts or floods. Yet through it all, the resolve of Kansans only became stronger. Each setback was just a dare to do more and do better.

I cannot help but think that the history of Kansas provides a useful metaphor for the challenges facing nearly all of the states today. Yes, state leaders are facing complex and complicated problems—many of the most pressing are the subjects of the articles found in this issue of Capitol Ideas—but I also believe that from this adversity new and better ways will be found to govern our states. I believe the crisis of the moment will only serve to strengthen the resolve of state leaders and will ultimately provide the impetus to discover entirely new ways to deliver government services and design government programs.

A new year is full of exciting possibilities—things that have never been. 2011 is just such a year for the states of this nation. State leaders can look to CSG as their partner in making the most of all of the possibilities the new year holds. Together, with one eye on the horizon, let us begin the work of exploring those possibilities. Ad Astra Per Aspera indeed!

Very truly yours,

David Adkins

Ad Astra Per Aspera

“And now let us welcome the new year—full of things that have never been.”

—Rainer Maria Rilke
“People want **jobs** more than they want a deficit to be dealt with. They want to stop losing their **homes**. They want **food** on the table for their kids.”

—Former New Mexico *Gov. Bill Richardson*, at CapitolBeat conference in November

“It doesn’t say ‘voice of the powerful’ or ‘voice of the special interest’ or ‘voice of the campaign contributors.’ It says ‘**voice of the people.**’”

—Incoming Alabama *House Speaker Mike Hubbard*, following his election to the leadership post in December, referring to the words on the seal of the House of Representatives—“**vox populi**” or “voice of the people”

“The **bipartisan framework** that we’ve forged on taxes will not only **protect** working Americans from seeing a major tax increase on Jan. 1, it will **provide** businesses incentives to invest, grow and hire.”

—*President Obama*, in December discussing the deal he struck on extending the Bush-era tax cuts that were set to expire Dec. 31, 2010

“For the past nine months, we’ve been **arguing** about the **constitutionality**. Today, we won that argument, but we still have an unknown number of months ahead of us.”

—Virginia *Attorney General Ken Cuccinelli*, speaking to reporters Dec. 13 after a U.S. district judge struck down the heart of the Obama administration’s health reform law, ruling that the individual mandate to buy health insurance is unconstitutional

“Our **economy** is increasingly powered by a **highly mobile work force**.”

—*Stephen Fehr*, Pew Center on the States project director and senior staff writer, *Stateline*, at CapitolBeat conference in November, discussing changes states are making in state pensions
The East

LAWSER BY MAIL
New Jersey legislators are considering a bill that would make lawyers wait 30 days to solicit business from defendants or accident victims through the mail, The Philadelphia Inquirer reports. Although the state prohibits attorneys from soliciting clients over the phone or in person, there has been no prohibition against using the postal system. Bar associations generally support such measures as a way to reduce the ambulance-chasing image the profession sometimes has. Some lawyers, however, contend that insurance companies could get victims to sign away their rights before the 30 days are up.

FOOD INSECURITY UP
The statewide Vermont FoodBank has reported a 40 percent increase in the number of people asking for help in the past three years. Like many states across the country, donations to the FoodBank have fallen as the economy soured and the need for services expanded. Vermont, along with Alabama, had the biggest increases in the number of families facing food insecurity over the past 10 years, The Washington Post said. The number of Vermont households experiencing food insecurity rose from 12.1 percent in 2008 to 13.6 percent in 2009.

NO SMART METERS?
Some Maine residents are opposed to Central Maine Power Co’s planned switch to smart meters. Opposition forces say people may be sensitive to the radio frequency radiation generated by the equipment, while others voiced privacy concerns about the data collected, The Kennebec Journal reported. The new meters give detailed information via a wireless network to power companies about how much energy is being used and also allow customers to monitor their power usage. Central Maine has a $192 million program to replace more than 600,000 conventional meters with the new smart meters.

MUSEUM SALES
The Philadelphia History Museum quietly sold more than 2,000 items over the past several years to cull its collection and raise money for a $6 million renovation of its building from the early 1800s, The New York Times reported. This is a murky area for museums, where ethical guidelines prevent them from selling pieces to pay bills. It’s a growing question for states as budget cuts are forcing museums to look elsewhere to pay for renovations.

STENT QUESTIONS
A 170-page report released by the U.S. Senate Committee on Finance has raised questions about the reasons why one Maryland cardiologist has implanted so many stents in his patients, The Baltimore Sun reported. The Senate report said the pharmaceutical company making the stents paid for social events at the doctor’s house and hired him as a paid consultant.

Eastern States Using Greenhouse Gas Funds to Balance Budget


The initiative has generated more than $700 million for its 10 participating states, money that is supposed to be used to encourage energy efficiency and be invested in renewable energy. As part of the initiative, states agreed to a cap on carbon dioxide emission from power plants, which are charged for their emissions.

Those who opposed the initiative, the first of its kind in the country, are using these withdrawals to fuel their objections. A bill has been introduced in New Jersey to end the state’s participation.

Leigh Raymond, the associate director of the Climate Change Research Center at Purdue University, said the motivation for the states is the severe fiscal crisis they’ve found themselves in for the past two years. “They’re desperate for money,” he told The Times.

To learn more about these and other developments in the Eastern Region, visit: capitolideas.csg.org and www.csgeast.org.
Missouri’s Governor Pushing Higher Ed Reform, Cost-Cutting Measures

Missouri universities are looking at some hard choices in the wake of the Great Recession. A $700 million shortfall for the next fiscal year could mean a budget cut of up to 20 percent for higher education, Stateline reports.

Gov. Jay Nixon has asked universities to look at eliminating academic programs that fail to graduate an average of 10 bachelor’s, five master’s or three doctoral degrees annually. Universities already have volunteered to get rid of 61 programs, including majors such as French, engineering, physics, recreation and public administration.

Nixon has suggested universities work together to ensure niche programs—and their costs—are not duplicated. Missouri higher education is also looking at how to incorporate technology in the classroom to reduce costs and improve student outcomes. The University of Missouri–St. Louis has scrapped its usual math lectures for more hands-on instruction in labs, which has improved passage rates.

“Not everybody is happy about these cost-cutting measures and the governor’s involvement in trying to reshape education. These institutions are there to preserve and to enhance our culture,” Rep. Chris Kelly told Stateline. “Are French and physics essentially frippery, or are they part of an educated society? I contend that they’re part of an educated society.”

GULF COAST DAMAGE

The Gulf Coast could see $350 billion in losses over the next 20 years as a result of global warming, stronger and more frequent hurricanes and environmental damage, according to a risk assessment report released by power company Energy Corporation. Mississippi Sen. David Baria hosted the group of legislators, representing counties along the Gulf of Mexico, in Bay St. Louis, Miss., during a one-day legislative fly-in. Members of the Gulf Coast and Atlantic States Regional Task Force talked with experts about natural and environmental disaster preparedness, oil spill damage assessment and recovery efforts along the Gulf Coast.

MERIT PAY

A study by Vanderbilt University, the University of Missouri and the Rand Corp. found that more Texas teachers stayed in their jobs and their students improved slightly on test scores in schools offering performance-based pay. The study also revealed school districts got better results when they offered teachers bigger bonuses, along the lines of $3,000 and up. Texas has the largest performance-pay system for teachers in the country.
Although the economy nationally has started to turn around, with tax collections slowly picking up steam, the current fiscal year doesn’t look any better for Midwestern states, experts say. According to an article published in CSG’s Stateline Midwest, states in the region will probably face worse fiscal situations than in previous years.

“Even though revenues are picking up, the budget hole for states just gets bigger (in the 2012 fiscal year),” said Jon Shure, deputy director of the State Fiscal Project at the Center on Budget and Policy Priorities. That is because of the steep decline in federal assistance states will face in the coming year.

According to the Center on Budget and Policy Priorities, the Stateline Midwest article says, enhanced federal aid for states (from the American Recovery and Reinvestment Act of 2009 and from legislation passed last summer) amounted to about 34 percent of states’ projected budget shortfalls between fiscal years 2009 and 2011. This funding will mostly be gone in the 2012 fiscal year.

“Some of the decisions that we would have had to deal with then (without the additional federal aid), we’re going to have to deal with now,” said Nebraska Sen. Lavon Heidemann, chair of the unicameral legislature’s appropriations committee.
The West

EXPORTING INMATES
Under a court order to reduce the state’s burgeoning prison population, California will ship out almost 6,000 inmates to prisons owned by private companies in other states beginning in May. According to the San Francisco Chronicle, the transfers will mean more than 15,000 California inmates will serve their sentences outside the state. The cost just to house them will be $360 million annually.

TOURISM UP
More people traveled to Hawaii in October, but that isn’t necessarily a good thing for everyone in the state’s tourism industry, the Honolulu Star Advertiser reported. The biggest increase in tourists is coming from value marketing, such as COSTCO deals that allow people to book rooms for as little as $300 a night in Maui. Although that means hotels are full, they are incurring more expenses to provide services for the guests and have a smaller profit margin on each room.

HEALTH PLAN OK’D
Wyoming Gov. Dave Freudenthal signed off on Healthy Frontiers, a new pilot project to provide health coverage to the uninsured working poor and cut state health care costs, reported the Wyoming Tribune Eagle. Once enrolled, patients will be given a health savings account to which they can contribute. They also will earn more money from the state if they get checkups from a physician and complete preventive screenings. This is a way, the governor said, to move people off Medicaid and help them improve their health.

WIND RIGHTS
Wyoming legislators are mulling a bill this year that establishes wind energy rights alongside surface and mineral rights. The legislation will prevent landowners from selling wind energy rights separate from surface rights, The Billings Gazette reported. Other potential wind-related topics that could arise this year include wind energy tax rates and eminent domain rights for wind developers.

STRONG AND CAUTIOUS
Alaska’s former Revenue Commissioner Pat Galvin said Alaska is in its strongest financial situation ever, sitting on more than $10 billion in reserves, according to the Anchorage Daily News. This is the largest reserve in state history. Although things look good, Galvin urged lawmakers to move carefully in spending decisions and stressed they needed to encourage new gas and oil development. Oil accounted for 89 percent of state revenue during the 2010 fiscal year.

High Court to Decide Constitutionality of Arizona’s Campaign Finance Law

The U.S. Supreme Court has agreed to hear a case that will decide the constitutionality of Arizona’s public campaign finance law, The Washington Post reports. The state’s 12-year-old Clean Elections program gives public money to candidates who forego most private fundraising.

The part of the campaign finance law under attack is the matching funds provided by the state if candidates are facing opponents spending large amounts of money or if they have outside groups targeting them. Opponents say it is a limit to free speech because privately funded candidates are limited in how much they can spend to avoid triggering the matching funds.

A federal judge in Arizona ruled the law was unconstitutional, but the 9th Circuit U.S. Court of Appeals disagreed, saying it “imposed a minimal burden on the First Amendment rights and was justified by the state’s desire to clean up its ‘long history’ of corruption,” The Post said.

In 2008, the Supreme Court struck down a similar amendment to the federal McCain-Feingold campaign finance act. Arguments on the Arizona case are expected to be heard in the spring.

To learn more about these and other developments in the Western Region, visit: capitolideas.csg.org and www.csgwest.org.
Feeling the Effects of Recession

The median household income dropped in nearly every state from 2008 to 2009, according to the U.S. Census Bureau. Only households in Washington, D.C. and North Dakota, saw a slight increase in median income. The biggest percentage drop came in Michigan, where median income fell 6.2 percent from $48,246 annually in 2008 to $45,255 in 2009. Meanwhile, the percentage of residents living in poverty grew in every state except Louisiana and Maine; in both states, the poverty rate remained the same from 2008 to 2009, according to the Economic Policy Institute.

THE BOOK OF THE STATES
Since 1935, The Council of State Governments’ The Book of the States has been the leading authority on information about the 50 states and territories.
POVERTY RATE 2009

TOP 5 STATES MEDIAN INCOME

- Maryland: 2008 Median Income $69,844, 2009 Median Income $69,272, DOWN .8%
- New Jersey: 2008 Median Income $69,938, 2009 Median Income $68,342, DOWN 2.3%
- Connecticut: 2008 Median Income $68,283, 2009 Median Income $67,034, DOWN 1.8%
- Alaska: 2008 Median Income $67,413, 2009 Median Income $66,953, DOWN .7%
- Hawaii: 2008 Median Income $67,384, 2009 Median Income $64,098, DOWN 4.9%

BOTTOM 5 STATES MEDIAN INCOME

- Mississippi: 2008 Median Income $37,749, 2009 Median Income $36,646, DOWN 2.9%
- West Virginia: 2008 Median Income $37,677, 2009 Median Income $37,435, DOWN .6%
- Arkansas: 2008 Median Income $38,778, 2009 Median Income $37,823, DOWN 2.5%
- Kentucky: 2008 Median Income $41,299, 2009 Median Income $40,072, DOWN 3%
- Alabama: 2008 Median Income $42,408, 2009 Median Income $40,489, DOWN 4.5%

Source: Median Income: U.S. Census Bureau

POVERTY RATE 2008


Source: Median Income: U.S. Census Bureau
As 29 new governors take office this month, they face one of the most challenging fiscal environments in decades. Fiscal 2011, which started July 1 for nearly every state, will present a slight improvement over fiscal 2010. However, even after an improvement over one of the worst two-year time periods in state fiscal conditions since the Great Depression, states are still forecasting considerable fiscal stress. Additionally, the wind down of Recovery Act funds in fiscal 2012 will result in a continuation of extremely tight fiscal conditions for states.

The severe national recession drastically reduced state tax revenues from every revenue source. Further complicating this decline is that state revenue collections historically lag behind any national economic recovery, which itself has been slow to develop. As such, state revenues are forecast to remain well below their pre-recession levels for 2011 and 2012. This decline in revenues has translated into significantly lower levels of state spending. Total state general fund spending in fiscal 2011 will be $42 billion less than fiscal 2008 levels as 36 states enacted their fiscal 2011 budgets with lower levels of spending compared to fiscal 2008.

One potential sign of stabilizing conditions is that through the first five months of fiscal 2011, only 14 states have made adjustments to their fiscal 2011 budget after its enactment. This compares to 39 states that made midyear cuts in fiscal 2010 and 43 states in fiscal 2009. States also balanced spending cuts with increases in revenue, enacting nearly $10 billion in new taxes, fees and other revenue measures for fiscal 2010 after nearly $30 billion in such revenue measures in fiscal 2009.

Further highlighting the extremely delicate situation are state balance levels. Aggregate balance levels have fallen from a high of nearly $70 billion in fiscal 2006 to $36 billion in fiscal 2011. However, removing just two states, Alaska and Texas, which have highly robust levels of reserves, shows that the remaining 48 states have balance levels of only $17 billion, compared to $60 billion in 2006.

Finally, state budgets have been significantly helped by the Recovery Act, which provided more than $150 billion in flexible funding starting in 2009. One effect of these funds was the increased share of federal funds in state budgets to 34.7 percent in fiscal 2010, up from 26.3 percent in fiscal 2008. However, none of these flexible funds will be available to states in fiscal 2012, which starts July 1, 2011. Finding solutions for the budget gaps that arise from both the loss of these funds and a slower-than-expected recovery in revenue collections will continue to keep the state budget picture extremely tight.
LINCOLN, Neb.—Nebraska Gov. Dave Heineman caught up on paperwork in his office after his re-election in November. States are looking for ways to streamline government to cut costs, and one option—in Pennsylvania—is curtailing back on paper. The Pennsylvania Comptroller’s office, for instance, eliminated paper invoices. AP Photo/Nati Harnik
The Comptroller’s office in Pennsylvania was spread out over eight separate locations. Inundated with paper bills and other paper documents, the office was known as more of a place where things got stalled, not a model of government efficiency.

That negative stereotype was something the office had to fight. The battle was further complicated because in uncertain economic times, the state was expected to do more with less money, according to Anna Maria Kiehl, deputy secretary for the Office of Comptroller Operations in Pennsylvania’s Office of the Budget.

“Pennsylvania is no different than any other state. We’ve been struggling with this economy, and budget cuts and program cuts have just become a way of life,” said Pennsylvania Secretary of the Budget Mary Soderberg.

The budget office is operating with 7.5 percent less funding than the 2002–03 fiscal year and about 30 percent less people. Paper invoices were coming in to all the different locations and all the different agencies, and then coming into the respective comptroller’s offices. There was such a backlog of bills and invoices, according to Soderberg.

In fact, just one utility company the state did business with would send about 10,000 paper invoices a year—all going to different locations, including state hospitals, state police barracks, prisons and the state department of transportation warehouses, according to Soderberg.

Bills could be paid late, incurring late charges if just one of thousands of invoices was lost on someone’s desk. So officials completely revamped the organization of the office and streamlined operations with the latest technology. All offices were consolidated into one and everything went paperless.

“We’ve flattened the organization,” Kiehl said, “which goes against the grain when it comes to state governments and hierarchies.”

The new system centralized all invoice receipts from vendors. The result was a complete streamline of perhaps one of the most basic functions of state government: paying bills and paying employees. Another result? “Vendors are no longer being paid late,” Kiehl said.

And that’s helping state government funds to stretch even further, bringing a new level of efficiency. The new system and organization led to a 47 percent reduction in overtime costs, a 63 percent reduction in travel expenditures (because with only one office, staff weren’t traveling throughout the state) and a 35 percent reduction in office postage, according to Soderberg.

That’s especially important in tough times. “The more that we can save on the administrative side of the budget, the more that we will have to invest in significant programs like education, health care or the cost of running our prisons,” Soderberg said. “Unfortunately, because of the economy and because of the current environment, there is no appetite to increase taxes. This has given us more visibility about where we’re spending the money.”

In fact, in 2009 the system proved its very important worth. When the budget was late for 101 days because of political reasons, state government in Pennsylvania basically came to a standstill. Almost no invoices could be paid until a final budget was passed.

When the budget was finally signed, the office had a mere two weeks to play catch-up with bills and invoices. In that two weeks, the office processed $4 billion in payments, Soderberg said. That level of efficiency hadn’t been seen before in comptroller operations.

“We could not afford any mistakes in this period of time,” Soderberg said. “We couldn’t have any important payments slip through the cracks.”

But Pennsylvania isn’t the only state streamlining what seems like basic and fundamental processes involving money, how it’s collected and how it’s tracked. Here’s a look at how other states are getting smart about doing more with less and making sure the state is getting all the funds it deserves.

**Illinois Catches Gas Tax Evaders**

In Illinois, officials beefed up auditing functions and hired additional investigators to crack down on businesses that evade the gas tax, costing the state millions in lost revenue.

By beefing up audits, the state found some gas stations were underreporting their overall total sales and therefore the sales tax was underreported.

“We were thinking it was going to be several million dollars but by Aug. 19, we had actually recouped $12.7 million,” said John Chambers, chief of the bureau of criminal investigations for the Illinois Department of Revenue.

Since then, the efforts have continued and the state has collected more than $25 million in gas taxes, according to Chambers.

“We’ve recouped millions of dollars, but more importantly, hopefully we’ll deter that from happening again,” Chambers said.
“That’s going to be additional monies coming into the state every month.”

And more money is important because, “it’s no secret the state of Illinois has some budget issues,” Chambers said.

**Tennessee Shifts Business Tax Collection**

In 2009, the Tennessee legislature passed a law to shift the collection of business taxes from the county to the state department of revenue. Collecting the taxes through the revenue department meant greater efficiencies for the state.

“With this change, the Department of Revenue has used its resources and experience in tax administration to provide greater efficiency in the collection process and increased revenue for the state and for local governments,” said Sara Jo Houghland, director of communications for the revenue department.

“We decided to administer this tax as we do all of the other taxes we cover with our expertise and our databases,” she said. “Also, generally, people are more compliant at the federal level than the state, and it goes the same with people being more compliant on the state level than the local level.”

Through the state’s ability to leverage streamlined processes, the department of revenue was able to identify nonfilers by making use of existing data sources including other state tax registration information and data from other state and federal agencies.

Because of more efficient efforts, the department has assessed in excess of $1.7 million in business taxes and collected more than $1.2 million of that amount, according to Houghland.

**New Tax System in Maryland Nets Big Bucks**

Maryland’s new Modernized Integrated Tax System has snagged the state nearly $65 million in back taxes, just by upgrading to the latest technologies. Using other strategies, the agency collected more than $1.4 billion in late taxes over the last four years, according to the comptroller’s office.

The centerpiece of that effort is a state-of-the-art data warehousing and tax collection system that brings the office processes to a whole new level of efficiency.

That’s allowed the office to take on more data-matching projects to determine where taxes were being underreported and “these were new projects that we were able to automate,” said Daniel Riley, deputy director of compliance division in Maryland.

That’s important because without an automated, efficient system, big data-matching projects would have to be done by hand, involving more staff to do all the legwork. Sure, the office could run all kinds of projects to make sure folks are paying their taxes, but that’s the kind of effort that takes massive manpower.

“If everyone had all the staff that they wanted, this wouldn’t be an issue,” Riley said. “The reality is that government agencies are being asked to work with less all the time.”

—Mary Soderberg, Pennsylvania Secretary of the Budget
Intuit welcomes the new state legislators and thanks returning legislators for their continued service.

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In a world of recession-era bad news, state officials are no strangers to the doing-more-with-less mentality. But in a world of sobering news, there's always a silver lining.

“Essentially, whatever fiscal measures states took—the economic downturn was so severe that it hit everybody across the board. So it's a little hard at this stage of the game to draw too many lessons,” said Liz McNichol, senior fellow at the Center on Budget and Policy Priorities.

State tax revenues faltered in a big way—they were 8.4 percent lower in the 2009 fiscal year than in 2008, and dropped an additional 3.1 percent for the 2010 fiscal year, according to the Center on Budget and Policy Priorities. At the same time state coffers are seriously dwindling, the demand for state services isn’t increasing.

“Most states are not doing very well, still,” McNichol said.

That’s the bad news.

But there's good news.

Montana, North Carolina, North Dakota and Vermont avoided some of the more drastic spending cuts, according to McNichol. Whether through luck of natural resources or through the way policymakers dealt with the recession—or a combination of both—each state was able to weather the economic downturn well, according to McNichol. She tracks the states and their budgets.

Here are case studies that tell the story of what sets these states apart and offer a look at the silver lining.
Vermont

Helping Small Business Grow, Even in a Down Economy

In a down economy when many small businesses are loan-shy, the Vermont Butter and Cheese Creamery was able to secure a loan to finance an upgrade to the latest refrigeration system. The loan was made through the Vermont Economic Development Authority.

Because the authority uses state funds to buy down loan rates, it can offer businesses a deal even when other banks are less likely to award loans in a tight economy. With a 2 percent interest rate on that loan versus the typical commercial rate of 3.75 percent, combined with a longer, more favorable term, the loan was a deal Bob Reese, president of Vermont Butter and Cheese Creamery, couldn’t pass up.

“The banks see some of the loans as riskier in the recession,” said Jo Bradley, chief executive officer of the Vermont Economic Development Authority. “We are called on more to be part of the projects.”

The loan paid for the new refrigeration system that makes it possible to cool more pasteurized milk—a key ingredient to make the company’s specialty artisanal cheeses. The new system saves six hours a day in processing and cooling time, according to Reese. So bring on more crème fraîche, fromage blanc, goat cheese, feta and bonne bouche. Armed with a favorable loan from the Vermont Economic Development Authority, Reese is expanding business and making more cheese, more efficiently.

“They’ve always been able to make the numbers work a little easier—especially in light of the economy,” Reese said of the authority’s more favorable loan rates. The loan has helped his business grow by more than 30 percent this year, he said. It also means his company continues to grow thanks to the latest machinery and Reese will be able to add 10 more employees over the next two years.

Many other Vermont small businesses are getting the same type of help through the Vermont Economic Development Authority. In fact, it’s been a record-breaking year in terms of loan volume for the organization that’s supported by state funding. The authority closed 322 separate loans in the 2010 fiscal year, breaking the previous year’s record of 315 loans. The loans represent a nearly $80 million investment by the Vermont Economic Development Authority.

Most of the loan volume this year was for Vermont’s small businesses. That’s important because small businesses really took a hit when the economy took a nosedive, according to Bradley.

“The small business sector continues to be very important in the state and the national economy—and I think small businesses were stressed this year,” Bradley said. “They were the sector that really bore a lot of the brunt of what happened in the economy.”
North Carolina

State Lands Facebook, Other Data Centers

You could say Facebook officially “friended” North Carolina. In November, the social networking giant announced plans to build a $450 million data center near Forest City, N.C., in Rutherford County.

Facebook’s new data warehouse is expected to create more than 250 construction and mechanical jobs during its 18-month building phase. When it’s up and running, the data center will employ 35 to 45 full-time and contract workers, according to the North Carolina Department of Commerce.

Facebook isn’t the only data giant to locate in the state. In fact, the state is becoming something of a data center hotbed to the west of Charlotte, between that city and Asheville, in the foothills of the Blue Ridge Mountains. That hotspot is becoming a destination for data center projects, including plans by Apple, Google and IBM to locate data centers there.

“We’ve kind of emerged there with a data center, technology corridor,” said North Carolina Department of Commerce Deputy Director Dale Carroll.

The area was heavily concentrated in furniture manufacturing—the old economy of the state. Because of that legacy, electrical infrastructure and the water resources are readily available, Carroll said.

But as furniture manufacturing has shifted overseas, the state is reinventing its economy and leveraging its existing assets. “So having that electrical reliability, this large electrical infrastructure and the transmission grid (is) something we can now make use of for these technology companies,” Carroll said.

The data centers represent not only multi-million dollar investments; they also represent huge physical footprints. It’s not uncommon for a data center building to be anywhere from half a million to a million square feet under a roof, according to Carroll.

To attract the multi-million dollar investments, North Carolina passed tax incentives this year to sweeten the deal for data centers. Senate Bill 1171 puts a special sales tax exemption on electricity sales, because the centers are large energy users with rows and rows of servers. And, because the facilities are very large construction projects, the legislation also provided for a sales tax exemption on construction materials.

Turns out, many businesses are more than just Facebook “fans” of North Carolina. The attraction goes far beyond the Internet or social networks. In October, Forbes magazine announced North Carolina is the third best state for business in America.

“This shows that the hard work of the past year has paid off—(including) our investments in education to build the workforce of tomorrow, policies that create a more business-friendly climate, and our aggressive recruiting,” Gov. Beverly Purdue said in a press release.
North Dakota

Attracting Export Business in Faraway Places

When officials from the North Dakota trade office stepped off the plane in Kazakhstan, a former Soviet republic, they swore they were still in North Dakota. With similar climates and heavily agricultural-based economies, the representatives from both places separated by thousands of miles seemed destined as kindred spirits and business partners.

And that’s just what happened.

Since the trade office was established in 2005, the state’s exports have exploded, increasing by 10 percent a year. Through trade mission trips and other networking efforts spearheaded by the North Dakota Trade Office, the state’s companies are now exporting to countries all over the world, including Kazakhstan.

In October, Bismarck-based Global Beef Consultants sent its first shipment of cattle to Kazakhstan. The state trade office helped facilitate the export deal between the North Dakota company and the government of Kazakhstan. In the deal, thousands of cattle will be shipped to the post-Soviet era nation.

North Dakota Department of Commerce Commissioner Shane Goettle said the reason for the state’s trade office success with exports is straightforward. “We are a small, highly networked state,” Goettle said. “We go to the markets, we talk to the buyers ourselves (and) we invite them back here.”

That kind of effort is good for the state’s gross domestic product. When more North Dakota companies export and grow their international business, it means more money for the state. The state taxes on the increased exports more than cover the annual expenses of the export office, according to Dean Gorder, executive director of the trade office.

The trade office, though supported by state funds, is actually a private corporation working on contract with the North Dakota Department of Commerce. That helps cut through bureaucratic strings, bringing a decidedly business approach to help North Dakota companies excel in exports, according to Gorder.

That approach is really powering up exports for companies that have never taken the plunge into exports and for companies already exporting, but not as much as they’d like to.

“There’s been a significant amount of companies that were not exporters that are now (exporting) specifically due to the trade office efforts,” Gorder said.

Take WCCO Belting Inc., for example. The 57-year-old family business was already dabbling in exports but wanted to take it further.

“We used to do it the old-fashioned way—do our own research, our own trips … we just did it the hard way,” said Thomas Shorma, CEO and president of WCCO Belting Inc. But with the help of the trade office, “in each country we had multiple, pre-qualified meetings with potential buyers with interpreters,” Shorma said.

New business was ripe for the taking.

In fact, because of a North Dakota Trade Office trip, Shorma landed more customers in Kazakhstan and also developed a customer in Belarus just by being at a farm show in Kazakhstan.

The North Dakota Trade Office also connects companies with suppliers, freight forwarders and other service providers. Because of help from the trade office and the U.S. Commercial Services, in 2009 customers outside the U.S. generated more than 60 percent of WCCO Belting Inc.’s total revenues, Shorma said. The company also added more than 100 new employees over the last two years just to cover export growth, he said.
Montana
A Top State for Entrepreneurship

Montana’s beautiful mountain vistas and rugged terrain—ideal for outdoor recreation—may attract the self-starter types, but really fostering entrepreneurs is more a matter of sound policy and state efforts.

“People want to locate in Montana. The high quality of life makes it very attractive as a place to live—and entrepreneurial people can choose where they want to live,” said Evan Barrett, chief business development officer for the state. “The secret weapon is the quality of life and then the thing that feeds it is the research sector growing.”

Montana also is one of the few states keeping the budget in the black in the recession.

That said, “It’s a little hard to tell other states that they ought to be like Montana”—because the state’s success in the recession is “more of a result of their geography,” said Liz McNichol, senior fellow at the Center on Budget and Policy Priorities.

McNichol tracks state budget issues.

But states can draw a lesson from Montana’s entrepreneur-friendly policies.

Those policies landed Montana as the first in the nation for entrepreneurship and the state also gets high marks for economic growth, according to the U.S. Chamber of Commerce report, “Enterprising States: Creating Jobs, Economic Development and Prosperity in Challenging Times.”

“Job creation is really about private investment,” Barrett said. “We don’t have enough money in Montana to drive it by public sector investment alone.”

Instead, state officials strive to create a business climate.

The knee-jerk reaction is to set taxes low. But that isn’t the number one attractant for companies, Barrett said. “You find that taxes for most companies are fifth or sixth on their list. They aren’t number one. Taxes aren’t the number one issue for economic development.”

What’s a much larger driving issue is the investment in work force and education—and that’s where Montana excels. Led by Gov. Brian Schweitzer, the 2011 president of The Council of State Governments, the state “continues to put more money in higher education and K–12 while other states are cutting,” Barrett said. “We’re continuing to make an investment in the future even in this tougher economy.”

In the last two years, the state froze college tuition increases, for example.

“Montana has taken a lot of policy positions that have moved us very strongly into the key university-driven research and in research and development activity in general,” Barrett said. “We are a friendly-to-research state—and that makes a big, big difference.”
State governments are facing several near-term and longer-term challenges in 2011—fiscal and otherwise. Ben S. Bernanke, chairman of the Board of Governors of the Federal Reserve System, touched on the ongoing economic and financial conditions during remarks delivered to The Council of State Governments’ Southern Legislative Conference. What follows are excerpts from that address.

**Many Solutions Found at the State Level**

**Focus on Federal Reserve Chairman Ben Bernanke**

**anchors**

**State governments are facing several near-term and longer-term challenges in 2011—fiscal and otherwise. Ben S. Bernanke, chairman of the Board of Governors of the Federal Reserve System, touched on the ongoing economic and financial conditions during remarks delivered to The Council of State Governments’ Southern Legislative Conference. What follows are excerpts from that address.**

**Budgets Under Pressure**

State and local tax revenues seem set to increase as economic activity expands. And improvements in the job market should gradually ease some of the demands on Medicaid and other social services. Moreover, the municipal bond market has remained reasonably receptive this year to most borrowers, with rates low and new issuance relatively solid, despite the concerns about the fiscal positions of many state and local governments. All that being said, with economic conditions still far from normal, state budgets will probably remain under substantial pressure for a while, leaving governors and legislatures a difficult juggling act as they try to maintain essential services while meeting their budgetary obligations.

**Reserve Fund Balances**

Many states deal with revenue fluctuations by building up reserve—or rainy day—funds during good economic times. Measured as a percent of general fund expenditures, the aggregate reserve fund balances for all state governments stood at a record of about 12 percent at the end of 2006. These high reserve-fund balances were helpful in lessening the severity of spending cuts or tax increases in many states. Nevertheless, given the depth of the recent recession, even these historically high reserve-fund balances proved insufficient to buffer fully the budgets of most states. Thus, state governments may wish to revisit their criteria for accumulating fiscal reserves. Building a rainy day fund during good times may not be politically popular, but it can pay off during the bad times.

**Review Tax Systems**

Capital income, which tends to vary substantially more than wage and salary income, has over time become a relatively more important source of state personal income taxes. Also, sales taxes that understandably exempt certain necessities may also lead to more cyclicality in collections. As state legislatures review their tax systems, they may wish to consider revenue stability along with other critical features of the tax code such as fairness, support for economic growth and administrative costs.

**Invest in People**

Research increasingly has shown the importance for … individuals and the economy as a whole of both early childhood education as well as efforts to promote the lifelong acquisition of skills. The payoffs of early childhood programs can be especially high. For instance, investment in preschool programs for disadvantaged children has been shown to increase high school graduation rates. Because high school graduates have higher earnings, pay more taxes and are less likely to need to use public health programs, such investments can pay off even from the narrow perspective of state budgets; of course, the returns to the overall economy and to the individuals themselves are much greater.

**Continuing Work Force Education**

Individuals already in the work force need opportunities to improve their skills throughout their lives. There are many ways to provide such opportunities. For example, community colleges and vocational schools play essential roles in training and retraining workers, especially if they do so in close collaboration with private employers, and their cost so relatively low. State governments can facilitate public-private collaboration to help individuals gain skills that the market demands. Though
creating opportunities for workers to retrain is always important, it is especially critical now, when the high rate of long-term unemployment threatens the longer-term employability and productivity of many.

**Pensions**

Estimates of states’ unfunded pension liabilities span a wide range, but some researchers put the figure as high as $2 trillion at the end of last year. States’ unfunded liabilities are significantly higher than before the recession and financial crisis because many pension fund investments have declined in value, and because many states have found it difficult to maintain pension contributions while their budgets are under stress. Indeed, some estimates suggest that, on average, states would need to more than double their typical annual pension contributions over the next decade to avoid collectively exhausting their pension funds during the next couple of decades. This daunting problem has no easy solution; in particular, proposals that include modifications of benefits schedules must take into account that accrued pension benefits of state and local workers in many jurisdictions are accorded strong legal protection, including, in some states, constitutional protection.

**Retiree Health Benefits**

One recent estimate suggests that state governments have a collective liability of almost $600 billion for retiree health benefits. These benefits have traditionally been funded on a pay-as-you-go basis and therefore could entail a substantial fiscal burden in coming years as large numbers of state workers retire.

**The Future**

In the longer term, like the federal government, state governments must respond to the aging of the population and the seemingly inexorable rise in health care costs. These are daunting challenges indeed, but I believe we can find constructive ways to meet them, and I suspect that many of these solutions will be found at the state level. Dealing with the fiscal challenges at all levels of government will be essential to ensuring that our resilient and dynamic economy delivers rising living standards to the citizens of your states and to our nation as a whole.
Montana Gov. Brian Schweitzer, 2011 president of The Council of State Governments, is in a unique position. His state is one of two with a budget surplus, but even he sees challenges for his state in the coming years.
1 In Montana, some legislators have talked about replacing the income tax with a sales tax. As governor, what do you see as a solution?

“Montana is one of four states that doesn’t have a sales tax and we like it that way. Anybody in the legislature that proposes a sales tax, I’ve got one message for them: That dog ain’t gonna hunt in Montana. … So we’re not going to do that in Montana. I’m in a unique position in Montana. I have proposed a budget to the legislature that actually decreases taxes. … I would eliminate the business equipment tax for 98.6 percent of all of the businesses in Montana and lower the property taxes that homeowners pay.”

2 How have you weathered the recession?

“The recession came to Montana. We have 7½ percent unemployment, which is not like the national average but still, for Montana, it’s high unemployment. And the government of Montana continues to run because we ran the state in much the same way as those of us who are children and grandchildren of the homesteaders in Montana. You know that not every year is a good year. The rain doesn’t come every year. The prices aren’t high every year. And so, when you have good years, you keep a little grain in the bin and that’s what we did in the state of Montana.”

3 What do you see as the biggest challenge for your state and for the region?

“Continue to attract jobs. I think that any governor, any state legislator, they need to focus on what is really important. We are coming out of the Great Recession and the biggest concern that people have in Montana—and I can bet you it’s California and New York as well—is jobs. Even if they’ve got a job, they’re worried about keeping their job. Even if they’ve got a job, they’re worried about their kids’ jobs. … We’ve got to create jobs, and higher paying jobs with benefits.”

4 One big development opportunity in the West is wind energy and other renewables. What are you doing in Montana with regard to those industries?

“We passed the renewable portfolio standard in 2005 that said effectively that the regulated utilities in Montana must have 15 percent of their electricity portfolio as renewable by 2015. And literally within months, hundreds of millions of dollars began to be invested in Montana. Today we have 376 megawatts of electricity from wind power and by the end of next year, it will be 600 megawatts. More than a billion dollars has been invested in Montana’s economy building wind energy infrastructure.”

5 You have proposed an increase in education spending. Why is that important?

“This is a competitive world. Montana is no longer just competing with Indiana, Montana is no longer just competing with Colorado, we’re competing with China. For the emerging jobs we have in this country, we need good roads, we need good rail and we need good human infrastructure. Politicians talk about change. Politicians don’t change the world. Engineers and innovation change the world. The reason the United States has been the preeminent power for the last 100 years in the world is because we’ve led in innovation. … And if we lose that edge, if those third-graders aren’t ahead of the third-graders in China, those engineers 25 years from now will not be ahead of the engineers in China.”

6 One big budget challenge states are facing is pensions. What’s the pension situation in Montana?

“Since I was elected governor, I have put more than $200 million in one-time money into our pension funds. We’ve changed the law that passed in 2001 that markedly decreased the contribution that the employee makes and was supposed to increase their payout, which was crazy. It made our system unsustainable. We got rid of that law. We’re in better shape than many states, but we still have problems. … We’ve now had 10 years of effectively a down market. We’ll catch up. But in the meantime, I believe for new hires in Montana and other states, we’ve got to fundamentally change the compensation system so that it is long-term sustainable.”

7 Montana is a rural state. What are some special challenges you face as a rural state?

“New York, Pennsylvania and Ohio would all fit inside of Montana and we would still have room for two or three of those states in the Northeast that I haven’t committed to memory. We’re a big state with 950,000 people. Our challenge in Montana is distance, but our opportunity in Montana is distance. While we have some 500 school districts, some of which are one-room schoolhouses with half a dozen kids in it, we are now leading the entire nation in the digital divide because we are now piping classes from our universities into our classrooms all over Montana… My goal in Montana is that every child can be challenged on their God-given talent, not by the constraints of classroom environment or the skills of that individual teacher.”

8 What’s the biggest challenge you see in implementing health care reform?

“I know that there are significant challenges with the health care bill as proposed. … We as states have to be reactive to what the federal government does. They deal the cards and then we play them as necessary, and the cards they’ve dealt us are not great cards. In 2017, they’re saying to us this 95 percent match we’ve proposed for the first few years, goes away. Montana is one of two states in surplus, and without major change, it will bankrupt Montana, so you can imagine what it does to Arizona, California and Illinois. It cannot and it will not work the way it stands.”

9 You were a star of the 2008 Democratic National Convention. How has that helped your state?

“I think to some regard, some of these CEOs of multi-national companies will take my calls … and it gets me in the door. Once I’m in the door, I can start selling them on one of the most educated and motivated work forces on the planet with communities that are extraordinary. … Montana is still the greatest place on the planet to start and grow a business, to raise a family and to build a community. Those are the attributes that we have in Montana beyond our wealth of natural resources.”

10 And have you been able to attract business?

“Absolutely. In fact, we continue to grow businesses in Montana. I do have some advice for other governors around the country: When they hear that I’m getting off an airplane in their state, they should have me arrested because I’m there to steal jobs from them and bring them back to Montana.”

—Gov. Brian Schweitzer
BOXES, BABIES & MBAS

ECONOMIC INDICATORS FROM THE TOWN SQUARE

by Jennifer Ginn

OK, let’s admit it. When you think of economic indicators, your mind races to a picture of a middle-aged, serious looking man wearing glasses and a sweater vest, tabulating incomprehensibly long sets of numbers from obscure government reports. But as the old Broadway song goes, “It ain’t necessarily so.”

The Federal Reserve is the heavy hitter in the economic world. Its Board of Governors closely watches the economic life signs in the country and sets new policies to either free up money and get people spending, like during a recession, or make money harder to get and slow down spending, such as during inflation.

The Federal Reserve uses a lot of data collected by governmental agencies, with the Bureau of Labor Statistics’ monthly employment report being one of the most important, said Kevin Kliesen, a business economist with the Federal Reserve Bank of St. Louis. Other economic indicators include the Commerce Department’s gross domestic product report, The Conference Board’s Consumer Confidence Index, economic reports from private companies, factory production, asset prices, stock market prices and the interest rate.

“It’s a lot of numbers and lot of data,” Kliesen said. “As you can imagine, when you’re trying to track an economy the size and complexity of the U.S. economy, it can be a little bit challenging at times. That’s what makes it fun.”

But as Mark Twain said, “There are three kinds of lies: lies, damned lies, and statistics.” In the town square where legislators gather, chances are they’re checking with car dealers or real estate agents to see how the economy is doing. While Fed-generated data tell the statistics, here are other indicators some people use as a barometer of the economy.

Cardboard Boxes
If people are buying more, companies are shipping more, requiring more cardboard boxes. That’s one thought behind looking at the number of boxes made to see where the economy is headed. Alan Greenspan, longtime chairman of the Federal Reserve, supposedly tracked box data.

“He liked to look at esoteric, obscure things,” Kliesen said. “That was sort of his background as a business economist in the real world. . . . If you think about it, a company like Dell Computers, for example, they ship their computers in boxes. If they see their orders going up, they’re going to need more boxes.”

Kliesen noted that while it makes sense to look at cardboard boxes, it’s not a reliable indicator to forecast the economy.

Birth Rates
Declining economy, fewer babies? The Pew Research Center found such a connection.

“Essentially, we found that fertility declines are linked to declines in income and housing prices and they are linked to unemployment and foreclosures,” said Gretchen Livingston, a senior researcher at Pew. Researchers studied the relatively short time period of 2000 to 2008.

People surveyed, Livingston said, admitted they were postponing having a baby because of the recession. Those who made less than $25,000 annually were more likely to report delaying a birth than those making $75,000 or more.

But can you use birth rates to forecast the economy?

“I wish it was that simple,” Livingston said, “but I think it would be going out on a limb. There are so many other factors involved, like age composition of the public. Also, of course, the birth rate tends to lag.”
Harvard MBA Index

When Wall Street hires more Harvard MBAs, it might be time to sell your stocks. At least, that’s the thinking of Ray Soifer, chairman of Soifer Consulting in Arizona, who developed the Harvard MBA Index.

“When Wall Street is flush, feeling very confident and markets are booming, they add money to their MBA recruiting program and the percentage goes up,” Soifer said. “When Wall Street is laying everybody off left and right and markets are bad, they don’t cut recruiting to zero, but they do cut it back significantly.”

Soifer said if 30 percent or more of new Harvard MBA graduates enter Wall Street or related firms, that’s a sign to sell stocks. If 10 percent or less enter Wall Street, that’s a sign to buy. A rating in the 20s is neutral. Last year’s rating was between 31 and 32 percent.

“The stock market is still a little too hot at this point,” he said. Soifer added that the Harvard MBA index is a fairly reliable indicator of which way the economy is headed. “I wouldn’t base my whole investment strategy on it, but I wouldn’t do that with any one indicator.”

Las Vegas

The more spent in Las Vegas, the better the economy.

That’s according to Bernie Baumohl, chief global economist at the Economic Outlook Group. He’s been focusing on the most discretionary kind of spending imaginable—gambling.

“If people are increasing the amount of money they’re spending in Las Vegas, that is a reflection of growing economic confidence, that they have more job security, more confidence about growth in their future income,” Baumohl said.

While increased spending on state lotteries sometimes can be an indicator of financial distress, Baumohl said, Las Vegas gaming numbers are different because most people have to fly to the city, stay in a hotel and tend to spend quite a lot of money in one trip.

Cass Freight Index

Freight is good, according to Baumohl. The Cass Freight Index measures the volume of freight being carried on trucks.

“If it turns out that we’re seeing a big spike in the volume of goods being carried around the country, that is a sign the economy is growing,” Baumohl said. “Depending upon how sharp the rise of this index is can tell you whether the economy is growing very quickly or very moderately. Not many people watch this, except those in the trucking industry.”

So where do our economic experts think the economy is headed this year? Read their predictions at: capitolideas.csg.org.
Mississippi House Speaker William McCoy knows just how difficult it is to fight the war on poverty. All he has to do is look at the poor in his state—one in five Mississippians live in poverty today.

“We know we’ve got citizens that have the greatest work ethic in the world and they will take advantage,” he said. “But the taking advantage in some cases is taking a long time.”

So the Mississippi legislature took steps a few years back to prod efforts to pull people out of poverty. The House and Senate formed the Delta Revitalization Task Force in 2007 to address the extreme poverty in that region of the state. And McCoy formed a Poverty Committee in the House to consider any way possible the state could help cut the state’s poverty rate—the highest in the nation at 21.9 percent.

“We recognize the problem and recognize that Mississippi will never be what it should be without making progress in this area,” McCoy said.

He’s not alone. Several states are making a full-court press to cut poverty, which by all accounts has deepened during the Great Recession.

Despite federal anti-poverty programs, 14.3 percent of all Americans lived below the poverty threshold in 2009; that’s up from 14.2 percent in 2008, according to the American Community Survey of the U.S. Census Bureau. Nineteen states and Washington, D.C., have poverty rates higher than the national average; 12 of those states are in the South.

President Lyndon Johnson launched the War on Poverty in his 1964 State of the Union address when 19 percent of all Americans lived in poverty. Many of the weapons in that war—food stamps, now called SNAP for Supplemental Nutrition Assistance Program; Medicaid and Medicare; and Aid to Families with Dependent Children, now called Temporary Assistance to Needy Families—still exist today, though they’ve undergone some changes.
Renewed Battle

Over the past few years, however, states have increased their efforts and targeted goals to reduce poverty. Jodie Levin-Epstein, deputy director of the Center for Law and Social Policy, which studies poverty across the nation, suggests a “stone soup” of reasons for the resurgence of interest in addressing poverty.

“For a long time, it had been politically unacceptable to talk about poverty and opportunity as a theme,” she said. “People promoted or attacked particular programs, but even the welfare program was discussed in terms of cutting the rolls and not about cutting poverty.”

That’s changed. Ten states have set goals to cut poverty—either child poverty, extreme poverty or poverty as a whole, Levin-Epstein said. They’re pushing toward those goals through task forces to address poverty.

“That’s changed. Ten states have set goals to cut poverty—either child poverty, extreme poverty or poverty as a whole, Levin-Epstein said. They’re pushing toward those goals through task forces to address poverty.

“Having a task force isn’t the silver bullet to implementing the solution,” Levin-Epstein said. “Having a task force is a vital tool in driving interest in finding the solution and making sure implementation is done right.”

The solution is multi-pronged. Everything from education to tax policy can have an impact on poverty, according to Jim Ziliak, director of the University of Kentucky Center for Poverty Research, one of three federally designated Area Poverty Research Centers.

“One big thing many states have done is try to attempt to take a stab at long-term poverty issues by increasing investment in education, especially among very young children,” Ziliak said. “Of course, pre-k programs are set up to address long-term poverty issues, not necessarily short-term.”

States also have expanded community college offerings to address the current generation of poor, he said.

McCoy, of Mississippi, can get behind such programs. He believes a good education is the key that unlocks the opportunities people need to pull themselves out of poverty.

“We’re three and four generations deep in having an inadequate education and work force training to really compete for the best jobs,” he said.

That’s one area, in particular, Mississippi is targeting. In fact, the Delta Revitalization Task Force produced several magazines emphasizing the need for education and targeted them to students in that 18-county region. And it’s one of four areas the Task Force recommended as primary goals to address poverty in the region.

But perhaps one of the best anti-poverty measures, according to Ziliak, has been the federal earned income tax credit.

“It’s been a very successful anti-poverty program at the federal level … probably the most successful anti-poverty program after Social Security, and certainly the most successful one for working adults,” he said.

Several statewide poverty task forces have recommended expanding access to such federal and state tax credits, as well as incentivizing employers and collaborating with other state agencies to serve hard-to-employ populations, increasing outreach and enrollment in the federal food stamp program and implementing more protections against predatory lending, a Center for Law and Social Policy policy document says.

Stalled Investment

Even so, the Great Recession put the skids on many programs aimed at helping the poor just when they needed them most.

“I think everybody understands the reces-
8 Task Force Recommendations

According to the Center on Law and Social Policy, a public interest advocacy group in Washington, D.C., statewide task forces have recommended many steps to address poverty in their state. Among the most common recommendations are these:

- Incentivizing employers and collaborating with other state agencies to serve hardship populations such as youth and formerly incarcerated adults (Colorado, Delaware, Louisiana, Michigan, Minnesota, Ohio)
- Expanding and increasing access to federal and state tax credits (Alabama, Colorado, Connecticut, Delaware, Kentucky, Louisiana, Ohio, Rhode Island)
- Expanding access and increasing funding to individual development accounts to increase savings and asset building in low-income communities (Alabama, Michigan, Minnesota, Ohio, Vermont)
- Increasing outreach and enrollment in the federal food stamps program (Colorado, Connecticut, Delaware, Michigan, Minnesota, New Mexico, Ohio, Rhode Island)
- Implementing regulatory protections against predatory lending (Alabama, Delaware, Minnesota, New Mexico, Ohio)
- Reviewing and developing alternative poverty measures that fully capture state poverty and the impact of poverty-reduction efforts (California, Connecticut, Delaware, Minnesota, Vermont)

“The situation with poverty in Mississippi is still a major, major issue and a major problem. It's something that holds the entire state back.”

—Mississippi House Speaker William McCoy

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States also could reinvest more aggressively in child support and child care subsidies to allow people to go to work, he said. Child care is expensive. For example, Ziliak said, it can take up to one-quarter of the wages a single mother in Kentucky earns. “That’s huge,” he said.

He said economic development, including addressing the tax issue and ensuring quality infrastructure, will help draw business to a state.

“Of the key anti-poverty policies we can have in this country is strong economic growth,” he said. “Setting up tax systems and education systems that foster economic growth is really the best thing that we can do.”

Continued Effort

Whatever the situation, states are looking for solutions. Those involved with the issue know those solutions won’t come easy.

“The situation with poverty in Mississippi is still a major, major issue and a major problem,” McCoy said. “It’s something that holds the entire state back.”

And just because a special group is looking into poverty, that doesn’t mean they’ll have all the answers. In Mississippi, the House poverty committee sometimes double-refers legislation to whatever committee traditionally addresses those issues.

“It’s a very slow process,” McCoy said. “We look everywhere we can … in education, public health, economic development and so forth to make a difference.

“There’s no magic button.”

Levin-Epstein agrees. “The same politics that were there before are always going to be there,” she said. “The question is whether or not the members of task force have an opportunity to build bridges and identify solutions that they didn’t have a chance to before.”

It’s worth a shot, said McCoy, who’s entering his 32nd year in the Mississippi House of Representatives. He reflects on the people in his district, in northeast Mississippi, and knows in his gut something needs to be done.

“I live with folks that have real problems, and have real hopes and real dreams,” he said. “We keep a very optimistic spirit in this state about the future of the people here and the future of this state in general.”
Poverty Guidelines 101

HOW IS POVERTY MEASURED?
Poverty status is determined by comparing annual income to a set of dollar values called thresholds that vary by family size, number of children and age of householder.

WHO IS CONSIDERED TO BE IN POVERTY?
If a family’s before-tax income is less than its threshold, then that family and every individual in it are considered to be in poverty. For people not living in families, poverty status is determined by comparing the individual’s income to his or her threshold.

HOW OFTEN DO THE GUIDELINES CHANGE?
The poverty thresholds are updated annually to allow for changes in the cost of living using the Consumer Price Index. They do not vary geographically; however, separate thresholds are set for Alaska and Hawaii. For example, a family of four in the 48 contiguous states and Washington, D.C., is considered to be in poverty if the annual income for 2010 was less than $22,050. That guideline was $27,570 for Alaska and $25,360 for Hawaii.

WHAT ARE POVERTY GUIDELINES?
The poverty guidelines are issued each year in the Federal Register by the U.S. Department of Health and Human Services. They are used for determining financial eligibility for certain federal assistance programs.

WHAT IS THE PURPOSE OF POVERTY_THRESHOLDS?
The thresholds are used mainly for statistical purposes—for instance, preparing estimates of the number of Americans in poverty each year. In other words, all official poverty population figures are calculated using the poverty thresholds, not the guidelines.

WHAT ARE POVERTY_THRESHOLDS?
The poverty thresholds are the original version of the federal poverty measure. The Census Bureau updates them each year, although Mollie Orshansky of the Social Security Administration developed them originally.

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Sources: U.S. Census Bureau, American Community Survey; U.S. Department of Health and Human Services
Indiana Gov. Mitch Daniels knows a fiscal storm is brewing. His state has been forced to borrow billions from the federal government to keep cash flowing to the jobless, and the bill has come due.

“There’ll have to be a change. We can’t continue with some of the lowest premiums and the highest benefits in America. And that’s why the system was leaking money when we were at full employment. And it’s leaked a lot of money since we have high unemployment. So, yes, it’s gonna have to change from both ends,” Daniels said at a recent press conference.

In Indiana, the unemployment rate has hovered around 10 percent over the past year, and the state has had to borrow more than $1.8 billion from the federal government so it could continue to pay benefits. The Indiana General Assembly has taken steps to help bring that borrowing under control—by voting to increase unemployment insurance premiums and the taxable wage base in 2009—but lawmakers delayed those changes from taking effect until Jan. 1, 2011.

Interest Now on Borrowing

Indiana is not the only state experiencing problems funding its unemployment programs. At the end of November 2010, 31 states had borrowed more than $41 billion from the Federal Unemployment Account. Thanks to a clause in the federal stimulus package, those loans have been interest free—until now. States are now facing an estimated $1.4 billion in interest payments over the next year, and that doesn’t even touch the principal.

Valerie Kroeger, assistant communications director for Indiana’s Department of Workforce Development, estimates Indiana will have to pay around $80 million in interest in its first year of repayment.

“That translates into about $56 a year in additional taxes per employee, per employer,” said Kroeger.

The additional interest payments mean higher expenses for states and almost certainly higher taxes on employers like those in Indiana—a double whammy during an economic downturn.
Arizona, which owes a relatively modest $184 million to the federal government, increased employer taxes in early 2010 to help rein in borrowing. But tax increases during tough economic times can be a difficult pill to swallow.

“The dilemma we face is, how do you do that without hurting the economic recovery we all hope is coming?” Steve Meissner, communications director for the Arizona Department of Economic Security, told The Wall Street Journal. “No one wants to do anything that would impose a new tax burden on businesses that are trying to come back in a tough economic time.”

According to a survey by the National Association of State Workforce Agencies, 35 states increased tax rates on employers in the 2010 fiscal year, and seven states enacted legislation to raise the taxable wage base, the amount of wages employers pay taxes on.

California has borrowed the most of any state—nearly $9 billion so far. The state’s Legislative Analyst Office recently published a report, “California’s Other Budget Deficit,” which analyzes various scenarios to make the unemployment fund solvent again. The report urges the legislature to take prompt action to bring tax revenues and benefit payments in line.

Solutions Sought

Todd Bland, director of social services for the Legislative Analyst Office and editor of the report, said that will likely involve some combination of tax increases on employers and benefit reductions for unemployed workers.

“In the long run, the legislature has more options, such as making gradual changes to create surpluses which pay off the accumulated federal debt. Also, for the long term, the legislature could look at approaches that are outside the (unemployment insurance) system, such as creating new temporary sources of revenue to pay down the debt over time,” said Bland.

Finding a viable solution to regain solvency comes with high stakes—the California Employment Development Office estimates the state could be smacked with a $362 million interest payment by September 2011, with growing obligations in the years to come.

Texas has taken a different approach to paying back its interest obligations. In November, the state sold $1.2 billion in bonds that it will use to pay down the state’s $1.58 billion loan before an interest payment is due. The interest rate on the bond is a little more than half the rate it would be paying the federal government, which is around 3.9 percent.

According to Ann Hatchitt, director of communications for the Texas Workforce Commission, bond sales allow Texas to have more control over the interest rate and the payback period for any debt necessary to replenish the Trust Fund and may limit the need for tax increases.

“By issuing bonds over a seven-year period, we can minimize the impact of rising tax rates for Texas employers,” said Hatchitt.

As more states accrue debt and in higher amounts over the next year, other states may consider issuing bonds as a way to financially supplement their unemployment trust funds. But all states with shaky unemployment funds will be faced with a difficult task—weighing the benefits of keeping tax rates low for businesses and benefits stable for the unemployed with the need to regain short-and long-term solvency.
In 2000, 50 percent of all retail sales in South Carolina were taxable; this year, that percentage is down to 38 percent.

The State Tax Realignment Commission, appointed by Gov. Mark Sanford and the leadership of the state legislature, wants to see that changed. The commission is recommending discarding sales and use tax exemptions on dozens of items, including resurrecting a 2.95 percent tax on groceries the South Carolina legislature eliminated in 2007. If legislators approve that recommendation, South Carolina will become one of just 15 states that tax groceries.

Chairman Burnet Maybank said the tax commission is trying to create some balance in South Carolina’s tax code, which he calls one of extremes.

“We have the lowest property taxes on residences in urban areas,” he said. “We have the highest taxes in the country on manufacturing.”

A New Look at Taxes

As states pull themselves out of recession, many state legislatures this year will have to grapple with taxes. Some believe tax commissions can take the politics out of the issue in their non-elected advisory role.

South Carolina and Georgia have created commissions to examine the tax codes with the goal of overhauling antiquated tax systems to make them more balanced, equitable and efficient.

That doesn’t mean the new taxes will raise new revenue.

In fact, the South Carolina Tax Commission’s recommendations are revenue neutral, according to commission member Kenneth Cosgrove. But supporters have hailed the tax changes as a
way to make the Palmetto State more business-friendly.

“...This is not a revenue grab to fix the recession,” Cosgrove said. “We want South Carolina to be competitive, and we want it to be a great place to live and work.”

Because the state’s sales and use tax accounts for 42 percent of total General Fund revenue—the largest single component of the General Fund—it has been one of the commission’s major focus areas.

The commission reviewed more than 100 sales and use tax exemptions, exclusions and minimum sales taxes, estimated to cost the state $2.7 billion per year.

“There’s more (sales and use tax) exempted than there is collected,” Maybank said.

At the same time the commission wants to remove some sales and use tax exemptions—including eliminating exemptions on groceries, utilities and prescription drugs—it is recommending reducing the overall sales tax rate from 6 percent to 5 percent.

The commission also wants the 2011 legislature to consider two options for a fuel tax: a general 5-cent increase or one that adjusts with the cost of fuel. The proposal to tax what he terms “necessities, not frills.”

“Too many households in our state are already in desperate shape, and (the commission’s) proposals hit them where it hurts most,” he said.

The commission’s recommendations would make South Carolina more business-friendly, according to some. They would retain tax exemptions for manufacturing, agricultural and other business “inputs,” but not the finished product. For example, newsprint used for newspapers would be exempt from sales and use taxes, but the retail sale of the newspaper itself would be taxed.

Lewis Gossett, president of the South Carolina Manufacturer’s Alliance, however, points out manufacturing accounts for 20 percent of the jobs in South Carolina. He argues a 2006 law placed the lion’s share of paying for K–12 education on business and industry, and he calls the state’s tax structure broken.

“Shifting the tax burden onto our members will not result in a better deal for taxpayers in the end. ... No one should forget that higher tax burdens make (manufacturing) plants less competitive, and in this global economy the tolerance for high taxes simply no longer exists,” Gossett said in a statement from the Coalition Against Unlimited Spending.

The legislature will consider changes to the state’s tax structure when it meets in January.

Rep. Bill Sandifer complains the commission’s proposals “have been represented as if they are a done deal.” He said he has seen a wave of confusion in his district among constituents who believe the commission was given power to implement the tax changes.

“In reality, they must be debated and voted upon by the General Assembly,” he said.

Sandifer reserved his strongest criticism for the proposal to tax what he terms “necessities, not frills.”

“...The commission’s proposals hit them where it hurts most,” he said.

The legislature will consider changes to the state’s tax structure when it meets in January.

Maybank, for his part, is not counting on South Carolina legislators taking action on his commission’s recommendations this year. He believes they will address tax reform sometime, even if it’s two or three years away. And when they do, he believes his commission’s report will be dusted off and be influential in redesigning a new tax structure for South Carolina.

Georgia Also Looking at Reform

South Carolina isn’t the only state looking to tax commissions for recommendations.

In June 2010, the Georgia legislature enacted House Bill 1405, which created the Special Council on Tax Reform and Fairness for Georgians. It has been studying the state’s tax laws and was expected to issue a report in December to the General Assembly that could substantially realign the state’s tax structure.

“...This legislation sets up a framework that will allow for a serious examination of our tax code and ensure that it works for Georgians,” Gov. Sonny Perdue said after signing the bill into law.

As with neighboring South Carolina, Georgia’s Special Council has been looking at more than 100 sales tax exemptions and dozens of income tax credits available to businesses.

Unlike South Carolina, however, the process used by Georgia’s council—comprised of Perdue, economists and business leaders—does not allow legislators to cherry-pick the components of tax reform they like. Georgia’s legislation requires the council’s report be sent to the Special Joint Committee on Georgia Revenue Structure, which will write a bill from the report. The Georgia General Assembly will consider the bill in a strict up or down vote, without amendments.
When Janet Cowell became North Carolina’s state treasurer in 2009, she wanted to institutionalize good practices of integrity. That meant setting in policy the goals of transparency and accountability for those involved in the state pension system, which her office manages. She acknowledges her goals were shaped, to a degree, by the sudden interest of the Securities and Exchange Commission in state pension systems in various states. That includes the use of placement agents, third-party marketers who connect retirement system staff with money managers.

“We’re actually going back and asking managers to voluntarily disclose transactions,” said Cowell.

While North Carolina hasn’t used placement agents since Cowell took office, she hasn’t completely banned their use. Such agents may not be necessary for large firms, particularly those that have a relationship with the state, she said, but could be helpful for small and minority firms. That’s why Cowell allows the use of placement agents, but requires full disclosure.

“Disclosure allows a little flexibility if indeed you do need a placement agent,” she said.

**Pay for Play**

The role of these middlemen has been questioned in several areas; they pitch a firm to the retirement system and garner huge fees from those firms that successfully get state business. The use of such agents has drawn the atten-
The Council of State Governments’ Southern pension plans are facing a $1 trillion shortfall. Particularly troublesome in a climate where state giving the best advice to pension plans, particularly those on Wall Street—and the failure of rating agencies to oversee and regulate these actions were factors that contributed to the Great Recession.

In addition, state pension plans have much more exposure to the equity markets, which exposes the plans to a greater propensity for irregularities, he said.

Changes Coming
Still, the interest of the SEC raises concerns at the state level.

“It’s troubling to think the long arm of the federal government would reach into state pensions, an area the states are more than capable of overseeing,” said David Adkins, executive director/CEO of The Council of State Governments.

CanagaRetna believes more changes will be coming to state pension plans in a host of areas. The SEC’s interest could prod that along. The agency has set up a special unit to monitor public pensions.

State employee retirement plans will be on the agendas of legislatures across the country as policymakers struggle to right the ship of funding.

In North Carolina, Cowell, the treasurer, convened an advisory panel to review the state retirement plan and make recommendations. The panel’s report, which will go before the retirement system’s board of trustees Jan. 20 before it’s sent to the state legislature, looks at all available options. Among their recommendations: offering a 401(k) plan alongside the state pension plan, setting a minimum retirement age of 55 and installing automatic enrollment into the plan—the default option would be the defined benefit plan.

“The ultimate goal was to serve the needs of state employment,” Cowell said, acknowledging the state benefits package is one way of attracting the best into state government.

“Secondarily it was to look at the cost impact of that and how do you meet the changing needs of a younger generation,” she said.

The SEC’s interest in state pension plans adds a new layer of complexity to the funding issue, CanagaRetna said, and will make the next few years even more intense for policymakers.

“This is just a new twist to an old problem,” he said. “It doesn’t seem to end in terms of the challenges out there.”

—I would say the national landscape has influenced us. We knew so many other plans were having questions. There was almost no disclosure by individuals involved.”

—North Carolina Treasurer Janet Cowell
On the use of placement agents with the state retirement system
GAMBLING ON THE FUTURE:
Are State Lotteries a Good Bet?

by Jo Brosius

Forrest McPeake, 18, a freshman at Arkansas State University in Heber Springs, hopes to be the first in his family to graduate from college.

In a state where less than 19 percent of people over age 25 hold a bachelor’s degree, according to the U.S. Census Bureau, McPeake is joining an elite few—part of a 30.5 percent increase in the number of enrolled freshmen in Arkansas this year, thanks to the state’s new lottery.

“Without the lottery scholarship I would not have gone to college,” said McPeake. He said he has seen his parents struggle and hopes this chance for an education will ensure him a better future.

Since the Arkansas lottery began in September 2009, more than 30,100 Arkansas Challenge Scholarships have been awarded, according to Lt. Gov. Bill Halter, who spearheaded the campaign for the lottery.

“Time after time we had seen that the number one reason Arkansans did not go to college in the first place, or dropped out once they were in, was financial,” said Halter. “This was a way to dramatically increase the amount of state funding for scholarship assistance, and we tripled the amount of scholarship assistance from the state of Arkansas to our students.”

At a time when an economic downturn has caused problems for many other state lotteries, Arkansas’ has exceeded expectations.
"You’re always going to have concerns about any revenue source when the economy is softer than it normally is, but I had said to Arkansans that our best estimate of lottery receipts was going to be $100 million net every year," said Halter.

The lottery actually generated more.

"We generated $105 million and the likelihood is that will steadily increase," he said.

**Tough Times for Lotteries**

Forty-three states and Washington, D.C., have a state lottery, but not all of them have fared as well as Arkansas in these tough economic times.

New Hampshire’s lottery—the first state lottery in 1964—declined by nearly $40 million over the last four years. Lottery sales in 2009 plummeted by 2.3 percent—the first major decline in the last three decades, according to a 2009 Rockefeller Institute of Government report. The report further states that revenue growth from gambling will not likely match growth from traditional taxes. If revenue from the lottery is intended to support a state’s overall budget, the report contends that gaps may emerge in future years.

Those gaps for the remainder of the 2010 fiscal year are estimated to total more than $350 billion, up from a $48.1 billion budget gap in 2009, according to the Center on Budget and Policy Priorities.

Although early 2010 lottery sales show an overall 1 percent increase in sales since 2009, some states are still suffering.

"A number of states are negative or zero or flat, but overall cumulative numbers these last couple of years have not been banner years in terms of sales or profits. This poses a lot of problems for states," said Sujit CanagaRetna, senior fiscal analyst for The Council of State Governments’ Southern office, the Southern Legislative Conference.

States looking at shortfalls have had to find ways to compensate.

For instance, Florida faces a modest decline in lottery revenues, $60 million that would have gone to the education fund, CanagaRetna said.

"So to keep the payout from falling as quickly as sales, they raided a separate unclaimed property fund and also tapped into the lottery’s reserves," he said.

He said Georgia is looking at a $1.2 billion tab for lottery-funded programs, and because ticket sales have stagnated, the state must come up with alternative ways to pay educational expenses.

Georgia has had to cut funding to higher education institutions in order to balance the budget, and tuition costs have risen, in turn further increasing the demand for the HOPE scholarship, the state’s very popular program for students who have demonstrated academic achievement, funded by lottery proceeds. With more students applying for HOPE scholarship money, the state has had to tap into a billion dollar reserve to pay the money to qualifying students.

"Georgia is dipping into its reserve for the first time in nearly a decade because it is $100 million over budget," said CanagaRetna.

The state is also reducing textbook stipends for 200,000 college students starting in 2012—the first step in a series of triggers set up by state law to deal with revenue shortfalls.

Florida and Virginia have found themselves in a similar situation. Both states have decided to reduce the scholarship award amount. And West Virginia has increased the academic requirements for students in order to compensate for reduced lottery revenues. West Virginia’s lottery sales are down $135 million from the last fiscal year—a nearly 10 percent drop in profits.

New York has halted a scholarship program for 1,150 high school seniors as a result of the economic slowdown, CanagaRetna said.

**Raiding Lottery Funds**

Some states have routinely raided lottery funds to balance their budgets because they don’t want to raise taxes or cut programs.

Iowa, for example, earmarks its lottery funds for economic development and environmental programs, but because of the state of the economy, legislators have been using lottery proceeds for the general fund to keep the state running.

Because many states had to battle strong opposition to implement the lottery, they are careful not to stray from what the voters were promised when it comes to programs supported by lottery proceeds.

"States that introduced lotteries 20 to 30 years ago you might see more wiggle room ....,” said CanagaRetna. “But states that have come on board in the last 10 to 15 years have fairly strict guidelines as to how the proceeds have to be used.”

Arkansas has earmarked its lottery proceeds for education. According to a constitutional amendment, the state has to maintain the level of existing resources going to scholarships—lottery money is just gravy.

"If they ever reduce the funding and the level of commitment to scholarships outside the lottery then it’s grounds for a lawsuit, and I’ll be the first one suing."

—Arkansas Lt. Gov. Bill Halter
**LEVERAGE NATIONAL CONSUMER PRODUCT REQUIREMENTS**

**Andrew Hackman**  
Senior Director of State Government Affairs  
Toy Industry Association Inc.

"Businesses operating in multiple markets want to produce one product that can be shipped everywhere. When state-specific requirements or testing and compliance reports are needed to sell a product, businesses of every size are faced with headaches and duplicative expenses. State government leaders can make their states more attractive by adopting a strategy that leverages uniform national consumer product requirements and avoids broad, sweeping mandates to state agencies. By working in cooperation with federal agencies, state legislators can help to assure that the consumer protection programs developed at the federal level are robust and acceptable across the nation."

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**DEVELOP INCENTIVES FOR BIOSCIENCES**

**Patrick Kelly**  
Vice President, State Government Relations  
BIO, the Biotechnology Industry Organization

"Despite a difficult economic climate, the biosciences remain a high growth, high wage industry. To realize the economic potential, we would be happy to work with many states to better shape a variety of programs and incentives to attract and grow this highly competitive industry. These could include providing business and financial assistance to emerging companies; creating tax and regulatory environments to support and expand growing companies; addressing capital needs by providing funding for pre-commercialization activities; creating seed funds to encourage life science start-ups; implementing policies encouraging private investment in early and later stage venture capital; supplying capital for facilities funding; and work force development initiatives."

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**Private Sector Advice on Attracting Business**

"straight talk | HOW TO ATTRACT BUSINESSES"
HOW TO ATTRACT BUSINESSES | straight talk

REVIEW IN-STATE STRENGTHS

Erik Kirkhorn
Director, State Government Affairs
Toyota Motor North America Inc.

"Traditional metrics—costs, access to capital, technology, education and others—always will apply in terms of gauging how successful a state will be in attracting new investment. At the same time, state officials should continue to closely review historic in-state strengths and assets to quickly transition those capabilities toward investments in industries likely to thrive in the future. Those states that have recently promoted a capacity to quickly deploy resources have benefitted, for instance, from targeted investments made by clean technology organizations. … While not conceptually new, it is more evident than ever that those states which react and quickly diversify will be better able to cope with current economic stresses and, in turn, help new and current businesses in those states succeed and grow."

DON’T MAKE UNNECESSARY REGULATIONS

Rob Clark
Senior Director of State Government Affairs
Medtronic Inc.

"With job creation being the mantra across the country, legislators appropriately focus on fiscal or tax issues that might be used to spur job creation. Equally effective is to address the regulatory climate in your state through streamlining efforts and moratoriums on new regulations. In streamlining, many states are looking at eliminating duplicative regulations on business that create unnecessary delays and complexity. Reducing these burdens on businesses allows them to put resources and investment into other areas—like job creation. Finally, just say no—no to any new regulations that are not critical for public safety or other critical state functions. Regulatory moratoriums can create a level of predictability and sustainability for businesses until the economy recovers and lets them focus on growing their business."

PREDICTABILITY, NOT INCENTIVES, TOPS THE LIST

Brock A. Wanless
Manager of State Government Affairs
Illinois Tool Works Inc.

"While not without value, policymakers often place too much importance on incentives as the driver to attracting and, more importantly, keeping new and existing business. Much more important are the long-term indicators of predictability and stability that offer business a suitable environment to investment and subsequently prosper. For example, an equitable tax policy that encourages continued or new investment while ensuring the state’s good fiscal health, a long-term commitment to K–12/higher education that develops both a quality work force while fostering innovation, and a predictable regulatory environment offering comfort that a state will be a partner with business, not an adversary."
Stated briefly | AFFILIATE & ASSOCIATION NEWS

Americas 2020 Summit

The Border Legislative Conference, in partnership with the Southern Legislative Conference and the Texas Department of Transportation, convened the Third Americas 2020 Summit on Nov. 11-12, 2010, in Dallas. Twenty-seven legislators from 13 state legislatures in the U.S. and Mexico, as well as officials from both countries and Canada, gathered to hear from experts and discuss critical issues facing North America, including emerging trade corridors, enhancing mobility and security across international borders and energy reliability and its linkages to regional competitiveness.

Ifill, Gergen Share Insights

What’s really going on in Washington? David Gergen, senior political analyst for CNN and professor at the John F. Kennedy School of Government, and Gwen Ifill, managing editor for PBS’ “Washington Week,” offered insights during The Council of State Governments’ 2010 National Conference in Providence, R.I., in December. Gergen warned state policymakers that the nation’s debt is reaching a tipping point of 60 percent of its gross domestic product. Ifill said while “Washington is up to its ears in politics,” change really is happening.

Learn more about these stories at capitolideas.csg.org. Click on Stated Briefly under Departments.
New CSG Regional Officers


Tennessee Senate Majority Leader Mark Norris is the 2010-11 chair of the Southern Legislative Conference, the Southern office of The Council of State Governments. Chair-Elect is West Virginia Speaker Richard Thompson. First Vice-Chair is Mississippi Rep. Billy Brownfield and second vice-chair is Florida Sen. Thad Atkinson.


Charlie Parker, speaker of the Nova Scotia House of Assembly, and MLA Leo Glavine are the 2011 co-chairs of the CSG Eastern Regional Conference.

Western Staff Directors
Fall Training Seminar

Western state legislative staff leaders gathered in Denver in October where they received management training from a member of the graduate executive programs faculty at the renowned Daniels College of Business, University of Denver. Staff directors also shared “insider” best practices in legislative management among themselves.

CSG-WEST organizes this annual two-day professional development seminar for the nonpartisan staff directors of Western legislatures, known as the Legislative Service Agency/Research Directors Committee. Alaska Legislative Affairs Agency Executive Director Pam Varni chaired the group, and Utah Legislative Research & General Counsel Director Mike Christensen served as vice chair. Both directors were re-elected for the 2011-12 biennium.

Participants also reviewed what’s coming up in 2011 sessions, the fiscal state of Western states, Western legislative innovations, money savings ideas for both the legislative and executive branches, taking care of legislative institutions and how to create a positive work environment.

Paula Tackett, former director of the New Mexico Legislative Council Service and Judy Hall, secretary of the Oregon Senate, were honored for their lifetime service to this CSG-WEST legislative staff committee.

The 2011 Legislative Service Agency/Research Directors Fall Training seminar will take place in November.

Western staff leaders share innovations to improve legislative efficiency and transparency. From left are Idaho Legislative Services Director Jeff Yeutz, Hawaii Legislative Reference Bureau’s First Assistant Director Charlotte Carter-Yamazaki and Oregon Secretary of the Senate Judy Hall.
It might be 2011, but when it comes to state implementation of federal health reform, Jan. 1, 2014, is just around the corner.

That’s what states must start thinking as they edge toward implementation of federal health care reform, Jason Helgerson, director of Wisconsin’s Medicaid program, said.

“January 1, 2014, is tomorrow,” he said in December during The Council of State Governments’ National Conference. “This is going to mean major changes for what, in many states, accounts for 20 percent of the state budget.”

And that’s just the changes that will affect state Medicaid programs. States must have health insurance exchanges up and running by Jan. 1, 2014, and they face a lot of early decisions to be ready, said Jon Kingsdale, a former director of the Massachusetts health insurance exchange.

The public face of health care reform, Kingsdale said, is the health insurance exchanges that states must set up or ask the federal government to set up.

The exchange—in addition to determining eligibility for public subsidy, setting up health plans and enrolling people in health plans—will be responsible for public education and outreach for health care reform, Kingsdale said.

The exchange, he said, is where the middle class, a large part of the voting population, will go for information.

“Like it or not, this is a very public piece of reform,” Kingsdale said. “If you own it, if you don’t cede it to the feds, it’s going to be the face of the state in health reform.”

That’s why, as Helgerson said, states need to begin now to plan for the exchanges, regardless of what happens with the state challenges to the Affordable Care Act. In the next year, states will be focused on governance of the exchanges, according to Anya Walleck, a consultant who has been involved in Massachusetts and Vermont health care reform efforts.

But, she advises state leaders, “this is a multi-year process. You need to be educating yourself about second tier issues.”

A key part, she said, will be forming relationships between the executive and legislative branches to ensure everyone is informed throughout the process of implementing the reform.

“It’s not all about the exchange,” she said. “If we get exchange-obsessed, we will miss some of those opportunities and the broader reforms that are really critical.”

Still, the states are facing some critical deadlines with regard to the exchanges, and policymakers will need to make some decisions in a hurry. Although the exchanges take effect in 2014, states must gain federal approval for their plan the year before.

“A lot of decisions have to be made in an extremely short period of time,” said Vernon Smith, of Health Management Associates Agency where he focuses on Medicaid and Medicare. Smith is a former Michigan Medicaid director. “The goal here is incredibly important. The goal is that no matter where you are on the continuum or how your income changes, your care should continue.”

**EARLY DECISIONS FOR STATES**

States must begin working on the health insurance exchanges now, Jon Kingsdale, a former director of the Massachusetts health insurance exchange, said, Anya Rader Walleck, president of Arrowhead Health Analytics and a health care consultant to state governments, said this year, policymakers will focus on governance issues. The early decisions states will need to make include:

- **State vs. federal**: Will the state run the exchange or will officials cede control to the federal government?
- **State vs. regional (multi-state)**: Will states join a consortium of neighboring states to operate the exchange?
- **Governance**: If the state will operate its own exchange, how will it be governed and how will it interact with other state agencies, especially Medicaid and the Department of Insurance?
- **Policy goals**: What are the policy goals? What do you want the exchanges to do in your state?
- **Transparency and sources of funding**: How much information will be transparent? Will negotiations between the exchange and brokers be carried out in public? Will the exchange receive any state funding?
- **‘Thou Shalt Nots’**: How much will the legislation establishing exchanges prohibit something up front? Will legislation grant latitude to exclude any insurer or select brokers?
Jon Kingsdale suggested four types of exchanges states might consider.

1 **Stand-Alone Exchange—Competitive:**
   This would be a state agency, but a public authority not in direct line of command of the governor, similar to the models used in California and Massachusetts. Under this model, insurers would compete for participation in the exchange.

2 **Stand-Alone Exchange—Any Willing Health Plan:**
   Similar to the previous model, this exchange would be open to any health plan that would want to offer services in a state.

3 **Medicaid Exchange:**
   Under this model, the state Medicaid program would be integrated with the exchange. It would be very closely tied in with the Medicaid program.

4 **Integrated Super Agency:**
   This model would pool the public and quasi-public buying power. That means the state Medicaid recipients would be pooled with state employees and teachers in the exchange. The Oregon exchange operates in this manner and serves more than 1 million people, Kingsdale said.

“A concern I have looking across the entire country looking to 1–1–14, ... new governors coming in with their teams focused on difficult budget environments. But you have to find time to squeeze out to begin planning for the health insurance exchange.”

—Jason Helgerson, director of Wisconsin’s Medicaid program, emphasizing states will need to make a lot of decisions in a relatively short period of time

“Like it or not, this is a very public piece of reform. If you own it, if you don’t cede it to the feds, it’s going to be the face of the state in health reform.”

—Jon Kingsdale, a former director of the Massachusetts health insurance exchange

**MODELS FOR EXCHANGE**

**PRIMARy FU NCTioNS oF HEAlTH ExCHANGES**

Health insurance exchanges—whether they are operated by the federal government or through the states—will basically do five things, according to Jon Kingsdale, a former director of the Massachusetts health insurance exchange who is considered the guru on the subject. They will:

1 **Determine eligibility and subsidy flow.** In addition to determining eligibility for Medicaid and the state Children’s Health Insurance Program, or CHIP, the exchanges will determine eligibility for the federal tax credit.

2 **Enroll unsubsidized market segments.** Individuals and businesses can purchase insurance through the exchange.

3 **Specify plan designs and cost sharing.** The exchange will determine what plans will be available, what the cost range should be and what benefits will be included.

4 **Rate/select, contract and sell health plans.** The exchange will rate and rank health plans that will be available for purchase.

5 **Conduct public education and outreach.** The exchange will be responsible for educating the public about what it offers, as well as health reform in general.
Jo Brosius, director of communications at The Council of State Governments, has more than 25 years experience in the communications industry. As a journalist, government spokesperson and diplomat, she knows what it takes to keep people informed and make them feel important. Here is her advice on how to write a newsletter.

**BUILD RELATIONSHIPS.**
A newsletter is a great way to stay in touch with your constituents, ensure you remain in the forefront, and build on your credibility as a knowledgeable leader. It keeps your name in front of your constituents on a regular basis and lets them know you are actively working on their behalf. Use it to build a rapport with your readers. Just be clear on the purpose.

**KNOW YOUR AUDIENCE.**
Consider your audience—whether voters, the media, your colleagues or staff—and what is relevant or important to them. Then decide on a distribution method. You can use direct mail or e-mail, put the newsletter in press kits or on your website. You can use a distribution service that will provide subscribers with an option to unsubscribe, or provide instructions on how to unsubscribe.

**GRAB ATTENTION.**
Come up with a title for your newsletter your audience will remember—something that will remind them of you. Grab your reader’s attention on the front page by putting your strongest article first. Build trust with your audience by making sure the content you offer is useful. Make sure it’s not a promotional newsletter, but one that informs—if you establish yourself as a thought leader, they’ll come to you when they need help. Also make sure you have something for everyone in your newsletter. Your audience has many interests.

**KEEP IT BRIEF.**
Write short paragraphs on each of the topics. Then direct them to your website or wherever they can go for additional information. People may not read it if it’s too long. As a rule of thumb, e-newsletters should be only one to two pages. Printed newsletters should be no more than four.

**MAKE IT ATTRACTIVE.**
Your newsletter should stand out and be easily recognizable. Include pictures or graphics to make it more eye-catching. If you are not technologically savvy, find free templates online, or use a software program such as Adobe PageMaker or Microsoft Publisher. Once you’ve determined your style, make sure you maintain it to build recognition for your newsletter.

**MAKE IT REGULAR.**
If you start a newsletter, stick with it. Whether you decide on a monthly or weekly newsletter, make sure you don’t commit to sending it more often than you have the content to fill it. If the content suffers or is too thin, it could hurt you more than infrequent newsletters. Some types of content you might include are sharing your thoughts on a particular issue, your outcomes and accomplishments, or have a “Frequently Asked Questions” section and answer them in the newsletter.

Do you have an example of a great newsletter?
Send it to Mary Branham at mbranham@csg.org and we’ll post a link to the CSG website.
Upcoming Meetings | On the Road

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

For more information, visit: www.csg.org/events.

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March 26–30, 2011 • Mohegan Sun, Uncasville, Conn.

Former U.S. Sen. Alan Simpson to Keynote
Join The Council of State Governments in March as we continue to explore and discuss economic issues facing the states. Former U.S. Sen. Alan Simpson, co-chair of the National Commission on Fiscal Responsibility and Reform, will offer a keynote address.

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When 19-year-old Rep. Kyle Jones was sworn in Dec. 1 to represent House District 1 in New Hampshire, he came close to being one of the youngest people ever elected in the state. The state record holder was 18 years and 5 months old. “I was thinking I should run and be a voice for my generation,” he said. “... I thought I had a pretty good shot.” And while the opening days of the session can be intimidating for any new legislator, Jones will have a familiar face to turn to. His mother, Laura Jones, also won election to the House. It’s her first election as well. “I like serving with my mother because you’re not alone,” Kyle Jones said. “You’re around 400 strangers. Having your mother there is a good confidence booster. I think we’ll be able to work well together and with other people.”

Do you know someone in state government who deserves a shout out? E-mail Mary Branham at mbranham@csg.org.
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