

THE COUNCIL OF STATE GOVERNMENTS
2009 SPRING CONFERENCE

FINANCIAL SERVICES WORKING GROUP (FSWG)

Coeur d'Alene Golf & Spa Resort

Saturday, May 16, 2009

Coeur d'Alene, Idaho

MEETING SUMMARY

Presiding:

Co-Chair: Treasurer Nancy Kopp, Maryland

Attendance

Senator Carolyn S. Allen, Arizona

Kenneth L. Anderson, Idaho

Senator Don Barrington, Oklahoma

Speaker B. Patrick Bauer, Indiana

Representative Maxine T. Bell, Idaho

Representative Sharon Block, Idaho

Ms. Catherine Bray, CSG/DC

Mr. Kent Briggs, CSG/West

Senator Joyce Broadsword, Idaho

Ms. Linda Brown, Centers for Medicare & Medicaid Services, Washington, D.C.

Mr. Sujit CanagaRetna, CSG/South, Georgia

Ms. Mikel Chavers, CSG

Representative Sue Chew, Idaho

Ms. Jane Cline, Insurance Department, West Virginia

Treasurer Ron Crane, Idaho

Treasurer Dan Ebersole, Georgia

Treasurer Richard Ellis, Utah

Representative Anna Fairclough, Alaska

Mr. Steve Fehr, Stateline.org, Washington, D.C.

Ms. Wanda Fowler, CSG

Senator Russ Fulcher, Idaho

Senator Robert L. Geddes, President Pro Tempore, Idaho

Representative F. Dale Grubb, Indiana

Senator James Hammond, Idaho

Representative Betsy Hands, Montana

Mr. Wendell Hannaford, CSG/East, New York

Senator Tom Hansen, South Dakota

Mr. David Kettles, Government of Alberta, Alberta, Canada

Ms. Marge Kilkelly, CSG/East, New York

Mr. Lerry J. Knox, Jr., Loop Capital Markets, Illinois

Ms. Marilyn Lane, Alaska

Senator Ted Little, Alabama

Representative Ralph Metcalf, North Dakota
Representative Shirley Meyer, North Dakota
Mr. Rakesh Mohan, Legislative Office of Performance Evaluations, Idaho
Representative David Niezgodski, Indiana
Representative Marcus Oshiro, Hawaii
Representative Michele Reinhart, Montana
Senator Paula Sandoval, Colorado
Representative Marlin Schneider, Wisconsin
Ms. Trina Sheets, National Emergency Management Association, Kentucky
Mr. Mike Smith, CSG/DC, Washington, D.C.
Representative Percy Watson, Mississippi
Mr. Chris Whatley, CSG/DC, Washington, D.C.
Senator Carol Williams, Montana
Ms. Amanda Yanek, National Association of Insurance Commissioners, Washington, D.C.
Representative Kevin Yoder, Kansas

FSWG Co-Chair Nancy Kopp, Maryland, gavelled the session into order by noting that “[T]hese are very turbulent times and almost every state in the country faces enormous fiscal challenges.” She added that the topics featured at the FSWG session would be helpful to policymakers in devising solutions to some of the thorniest fiscal challenges sweeping over states in many decades. After indicating that the session will continue the FSWG’s exploration of the adverse impact of the mortgage meltdown on state economies, Treasurer Kopp noted that the session will feature a presentation by an Arizona legislator on measures introduced in that state to stave off the crisis in the mortgage and housing sectors. She also noted that the session will feature a presentation on financial literacy and details on innovative programs introduced to educate Americans, particularly high school and college age students, on the wise and responsible use of credit and related skills and that finally, the session will include a presentation on innovative financing techniques that state and local governments can pursue in the context of the headwind they have run into in the last six months or so in terms of accessing credit. Treasurer Kopp then introduced the speakers.

- *Mortgage Meltdown: The Arizona Story*
 1. Senator Carolyn Allen
State Senate
Arizona

Senator Allen noted that Arizona ranked very high among states affected by the collapse of the housing and mortgage sectors and within the state, Maricopa County, which envelops Phoenix, the state’s largest city, was certainly the most affected by the downturn. The escalation in real estate prices and the housing bubble that then developed was created in part by investors and speculators moving to Arizona from California and Canada, she noted. While the foreclosure rate in her state was declining based on the most recent statistics, it was still at a very high level, Senator Allen indicated. She noted that residents in Arizona were carefully monitoring the development of federal actions in the area of foreclosure relief along with acting on the measures enacted by the Arizona Legislature.

In terms of measures enacted by the Arizona Legislature, Senator Allen cited legislation covering the loan origination process that has substantially tightened requirements concerning the mortgage process at both ends, i.e., the lender and borrower. She also noted that financial

education was an important component of this bill because it requires consumers to be better educated about their financial responsibilities. In this connection, Senator Allen mentioned the efforts of Governor Brewer in Arizona in the effort to educate consumers on mortgage-related issues. Senator Allen stressed the fraud prevention measures recently introduced in her state since the collapse were necessary to address another disturbing element of the contemporary housing and mortgage sectors in Arizona. She also commented on efforts by state agencies to caution consumers against the use of unlicensed third parties during their efforts to modify residential mortgage loans. Finally, in closing, Senator Allen mentioned the tendency of certain homeowners with plunging property values to destroy and vandalize their properties by removing expensive fittings and furnishings before the bank foreclosed on the property; Arizona is now moving to deter individuals from carrying out this practice.

- *Financial Literacy and Staving Off Bankruptcy*

2. Ron Crane
State Treasurer
Idaho

Treasurer Crane began his remarks by noting that enhancing financial literacy was a critical element if the nation was to emerge stronger and more educated from the current recession. He indicated that his office had initiated several programs in this connection; however, Treasurer Crane noted that he would talk specifically about the Idaho Women's Financial Conference, also referred to as "*Smart Women, Smart Money*," established in 2002 by the Idaho State Treasurer's Office. This conference, he noted was a free public service aimed at providing financial education and information to the women of Idaho.

While it was underwritten by a number of private sector and corporate sponsors, the conference is presented every year in different parts of the state in order to assist women learn more about financial topics including budgeting, investing, debt management, and retirement. Treasurer Crane indicated that the major objective for the annual financial conference is to provide women of diverse ages and circumstances with the necessary information to take control of their financial lives. He noted that "it is never too late, or too early, to learn about finances" and indicated that some 8,000 women have attended this conference in the past seven or so years.

In closing his remarks, Treasurer Crane described a 16-year-old Idaho girl who was forced to rent a walk-in closet in someone's apartment for herself and her two children on account of her dire financial position. She attended the *Smart Women, Smart Money* conference a few years ago and one of the conference sponsors, touched by her story and situation offered her a job. Not long after, the woman pursued her education and eventually became a stockbroker with Merrill Lynch. She then got married, Treasurer Crane noted, and a year after, she and her husband started a business. He cited success stories like this as being one of the end results of his office implementing programs to advance financial literacy in the state.

3. Kenneth L. Anderson
Bankruptcy Attorney
Idaho

Mr. Anderson noted at the outset that he had been a bankruptcy attorney for nearly four decades and had experienced a wide array of cases and circumstances that drove individuals to seek the assistance of the bankruptcy courts in unraveling their financial predicament. Attorneys like him and federal bankruptcy judges around the country, he indicated, have become increasingly more

involved in the outreach and education efforts in order to minimize the number of citizens being forced into bankruptcy courts.

In fact, inspired by a program developed by the United States Bankruptcy Court for the Western District of New York, bankruptcy courts throughout the United States have now sponsored educational outreach programs. In Idaho, he stated, the I-CARE (Idaho Credit Abuse Resistance Education) is an initiative of the United States Bankruptcy Court for the District of Idaho with the assistance and support of the Commercial Law and Bankruptcy Section of the Idaho State Bar and the Office of the United States Trustee. The goal of I-CARE is to facilitate the financial education of Idahoans, particularly high school and college-age students, with an emphasis on the wise and responsible use of credit and related skills, he noted.

Elaborating further on the I-CARE presentations that he and other bankruptcy professionals conduct around the state, Mr. Anderson documented that students and other Idahoans learn additional details on the following:

- ✓ the true costs of using credit cards;
- ✓ how to control the overuse of credit;
- ✓ how difficult it is to repay credit card debt incurred to “buy stuff” and “do things”;
- ✓ the importance of distinguishing between “wants” and “needs” when using credit;
- ✓ the difference between “maintaining” debt (making minimum monthly payments) and “affording” debt (paying off balances each month);
- ✓ the benefits of living credit card debt free;
- ✓ the importance of budgeting and the benefit of accumulating savings for life's inevitable emergencies; and
- ✓ the consequences of the poor use of credit, including its impact on jobs, further education and even bankruptcy.

In closing, Mr. Anderson noted that while bankruptcies are often caused by job loss, medical catastrophe or similar factors, most personal bankruptcy filings contain significant amounts of unsecured debt, often on multiple credit card accounts. The I-CARE program continues to educate Idahoans about using credit wisely and assist them in making wise financial choices.

- *Innovative Financing Techniques for State and Local Governments*

4. Lerry J. Knox, Jr., P.E.,
Senior Vice President and Head of Project Finance
Loop Capital Markets
Illinois

Mr. Knox began his remarks by noting that the current financial environment was characterized by tremendous challenges given “the loss of value, the decline in creditworthiness, the illiquid financial markets, the omnipresence of the federal government,” which he cited were “historical” and reaching “almost biblical proportions.” According to Mr. Knox, domestic financial markets faced enormous hurdles of the magnitude not faced before in practically every sphere, including “counterparty risks, subprime mortgage defaults, federal government intrusion, deflation threats, falling commodity prices, ongoing liquidity problems, protectionism, evaporation of wealth, global recession and massive legacy of national debt.”

A development that came about as a result of the ailing financial markets was the negative fiscal impacts on so many state and local government entities. Mr. Knox indicated that since these

different entities had interwoven budgets, they were all impacted by the hurdles caused by the souring macroeconomic conditions. For instance, he stated, the state of Illinois provided funds to a bevy of municipal and other programs such as Cook County (through Medicaid payments), Metropolitan Pier and Exposition Authority (through a dedicated portion of the state sales tax), Chicago Board of Education (31 percent funded by the state), O'Hare Airport, City of Chicago (a share of the state income tax), Chicago's Tax Increment Financing districts (0.27 percent of state sales tax), University of Illinois (38 percent funded by state), Build Illinois (5.55 percent of state sales tax) and the Illinois Housing Authority. All these entities, he stressed faced difficulties in accessing financing for their projects along with additional challenges on account of the deteriorating state revenue position.

Mr. Knox then posed the question: in this fiscally-strapped environment, what can state and local governments initiate to deploy the federal funds received under the American Recovery and Reinvestment Act (ARRA) to create long-lasting benefits? In this connection, he directed policymakers to consider pooled bond financing structures. While they have been in use in the U.S. since the early 1970s, Mr. Knox noted that they allow issuers to access the capital markets at reduced rates for various types of infrastructure financing in such areas as higher education, roads, public buildings and water and wastewater treatment plants. A pooled bond structure, he added, increased the creditworthiness of the overall pool and lowered the overall cost of funds while generating the following key benefits:

- ✓ Each individual borrower has access to the capital market at a much lower interest rate;
- ✓ Transaction costs are spread among multiple participants; and
- ✓ Repayments can be recycled to other borrowers.

He elaborated that the basic element of the pooled bond structure involved using state or federal grants/appropriations (ARRA funds, for instance) to create a nexus of "funds" that could be then deployed to a dedicated purpose such as funding a wastewater treatment plant. The overall fund would then be available for use by other pool participants while loan amounts that are repaid are then channeled as new loans to other pool participants. In response to a question, Mr. Knox stated that while the federal government had not provided all the legal guidelines related to the possibility of using ARRA funds as part of a pooled bond structure, it was possible that these federal guidelines could prohibit such a move in the future.

- Conclusion

After concluding remarks that encouraged FSWG members and others interested in issues impacting state finances to contact either her or CSG staff regarding future topics for discussion, Treasurer Kopp adjourned the meeting.