

CAPITOL IDEAS

THE COUNCIL OF STATE GOVERNMENTS | INSIGHTS & INNOVATIONS

MAY | JUNE 2011

HOT TOPIC: Economic Recovery

How to Grow the Economy

Legislative Sessions
Focus on Recovery

State Tax Collections
Begin Slow Rise

Past is Prologue for
Iowa Governor
Terry Branstad

"Facing up to the financial realities now and making the tough decisions to reduce the size and cost of government will ease financial hardships."

—Iowa Governor
Terry Branstad

PLUS: Secretaries of State Fight Business Identity Theft

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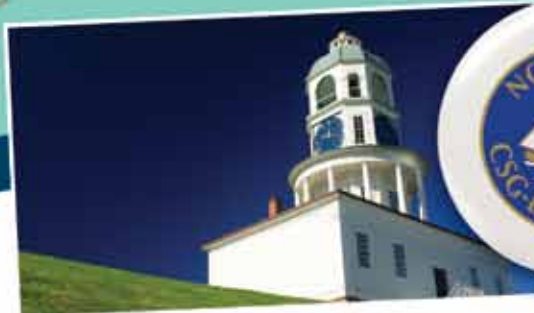
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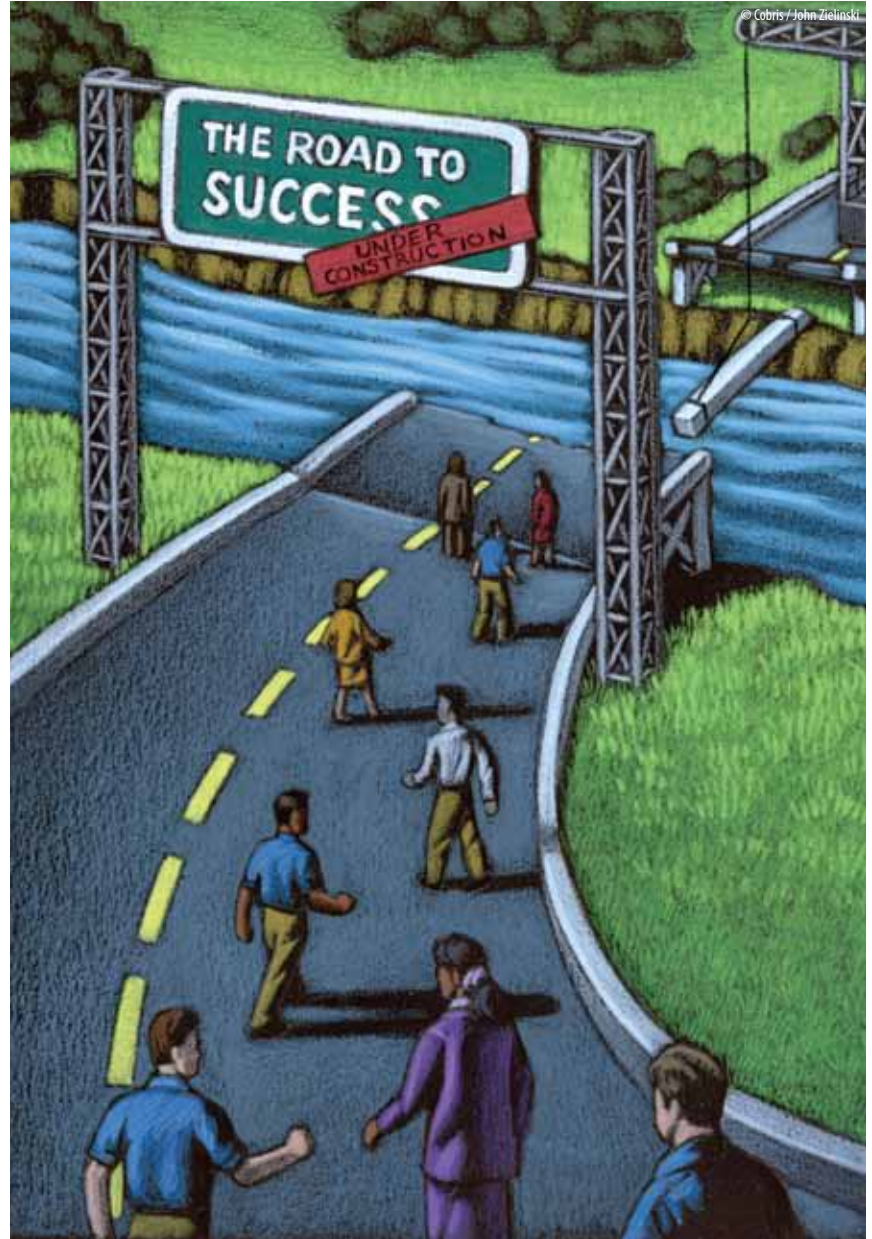
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ON THE COVER

Iowa Gov. Terry Branstad was Iowa's youngest serving governor when he took office in 1983. His first term lasted until 1999, and the longest-serving chief executive in Iowa's history took office again in January. He's facing a new set of challenges, but believes his previous tenure in the position will provide some guidance. See story on page 14.

COVER PHOTO BY MARK KEGANS



MAY / JUNE 2011

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ATTRACTING JOBS**

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BUSINESS IDENTITY THEFT

Secretaries of state are taking action to protect businesses as crooks become creative in stealing the identity of companies.



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© AP Photo/Mike Groll

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'Give the Historians Something to Write About.' –Propertius

As you receive this issue of *Capitol Ideas*, the final gavel of the 2011 legislative session is coming down in states across the nation. These sessions began in the wake of a change election that brought hundreds of new members to legislatures and against the backdrop of an electorate angry about the sluggish economy. While 2011 brought some good news that state revenues were rebounding, it is clear that discontentment among the public continues to run high. A recent *New York Times*/CBS News poll indicated seven in 10 respondents felt America was on the wrong track. Almost 60 percent disapprove of President Obama's handling of the economy, and three out of four think Congress is doing a poor job.

State leaders have faced the challenges of 2011 head-on. They have worked to transform government in many ways, and in doing so have endured the harsh winds of criticism and the loud cheers of allies. Suffice to say, state capitols across the country have been interesting places during the first five months of 2011.

In this issue of *Capitol Ideas*, we bring you a recap of the 2011 legislative sessions and focus on what state leaders have been doing to create jobs and grow their economies. We also focus on an issue that had its share of public attention earlier this year—the future of state employee unions. While union membership has collapsed in the private sector over the past 30 years from 33 percent of the workforce to just 15 percent today, it has remained strong in the public sector where 36 percent of workers are unionized. Public sector workers in the U.S. now account for a majority of union members. As states face the grim realities of an aging demographic and the cost of financing underfunded employee pension plans, many have re-evaluated employee retirement age, compensation and benefits. The resulting conflict reflects the fundamental, and some would argue essential, transformation going on in many state budgets.

History is being made this year and CSG is keenly aware of the role we play in helping states through this remarkable and transformative time.

The Council of State Governments has never been an organization separate and apart from the states. Since 1933 it has been an organization created and owned by the states. Leaders then, like leaders now, saw the value in creating a community of states. By coming together across party lines and state boundaries, state leaders knew they would be better equipped to identify promising approaches for solving their own state's problems. CSG exists because the states decided they wanted to come together and achieve through CSG what no one state could accomplish on its own. CSG does whatever is needed to provide state leaders with meaningful opportunities to connect with other state leaders, allowing them to learn from each other with the goal of empowering them to pursue and achieve excellence in governing their own state. State leaders looking to connect to this community of leaders need look no further than the regional meetings CSG will be hosting this summer. Inside the front cover of this magazine you will find additional information on how you can register and attend.

History was also made in Iowa this year with the inauguration of a man who previously served as governor longer than any other Iowan. I remember meeting Governor Terry Branstad in the 1980s when, as a college student, I was asked to introduce him to a group in Kansas City. He had the distinction of being the youngest governor in Iowa history. He was a passionate, intelligent and inspiring public servant then and he remains so today. He served as CSG National President in 1991 and 20 years later is offering his insights to our membership in an interview you will find in the pages of this issue.

History can be a funny thing. Often you don't know you are making it during the minutes, hours and days that occupy a legislative session. History is usually judged only in the rearview mirror. But this much I know: 2011 was a year in which leaders took bold actions, accepted the risk, pursued a vision and worked incredibly hard to do what they believed was best for their states and the people they serve. They made tough choices and did so with little pay, long hours and little thanks. When historians look back on 2011, I am certain state leaders will have given them something to write about. We are pleased to bring you the first draft of that history in this issue of *Capitol Ideas*.

Very truly yours,



David Adkins



CAPITOL IDEAS

THE COUNCIL OF STATE GOVERNMENTS | INSIGHTS & INNOVATIONS

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The East

TAXING YOGA

It soon could cost yoga practitioners in Connecticut more money to take classes, *The Wall Street Journal* reported. Gov. Dannel Malloy has proposed making yoga studios pay the 6 percent state sales tax from which they have been exempt. It is part of the governor's plan to raise \$1.5 billion in new taxes to plug a more than \$3 billion shortfall in the state budget.

CENSUS WRONG?

Although New York was declared the biggest city in the country after the new U.S. Census figures pegged it at having more than 8 million residents, Mayor Michael Bloomberg is protesting the results. According to CNN, the mayor said the city's supposed 2.1 percent growth since the 2000 Census is too small to have included all of Gotham's residents. He also contends Brooklyn's 1.6 percent growth and Queens' 0.1 percent growth are both undercounted.

FRACKING MORATORIUM

The Maryland General Assembly voted this session on a bill to put a moratorium on the process known as fracking, or hydraulic fracturing, which allows for the extraction of natural gas, *The Washington Post* reported. The hold, which failed, was to give the state's Department of the Environment time to do a two-year study to examine fracking's impact on drinking water and public health.

RECEIVERSHIP UPHELD

The Rhode Island Supreme Court upheld a 2010 state law that gives a state-appointed receiver control of the finances of a financially strapped town, *The Providence Journal* reported. The law takes financial control away from the town's elected officials, who contested the legislation by claiming it alters the municipality's form of government. Justices said the law adequately states when the receivership should end, making the change in government temporary.

DRUG LAW REFORM

The Delaware General Assembly passed the most sweeping change in the state's drug laws in the past 50 years, *Delaware Online* reported. House Bill 19 repeals much of the existing drug laws and replaces them with three primary offenses: simple possession, drug dealing and aggravated possession. The website says the legislation also gives judges more discretion to impose harsher sentences for drug dealers.

CSG ERC 51ST ANNUAL MEETING

Nova Scotia MLA Leo Glavine and Gordie Gosse, speaker of the House of Assembly of Nova Scotia, co-chairs of The Council of State Governments Eastern Regional Conference, invite members to the 51st Annual Meeting and Regional Policy Forum in Halifax, Nova Scotia, Aug. 7–10. Visit www.csgeast.org to register and learn more about the meeting.



Using Computers to Help Nab Tax Evaders

New York is just one state to recently add a new tool called data analytics to help maximize the recovery of delinquent taxes, reports *Government Technology*.

Last year, New York began using IBM analytics software—an algorithm—to help determine the best method for collecting delinquent accounts from taxpayers. The software helps employees at the Department of Taxation and Finance decide whether it would be best to use phone calls, letters or personal visits to increase collections. Determining the best course of action is vital due to the department's limited resources.

Government Technology reports that the analytics tool doesn't always point

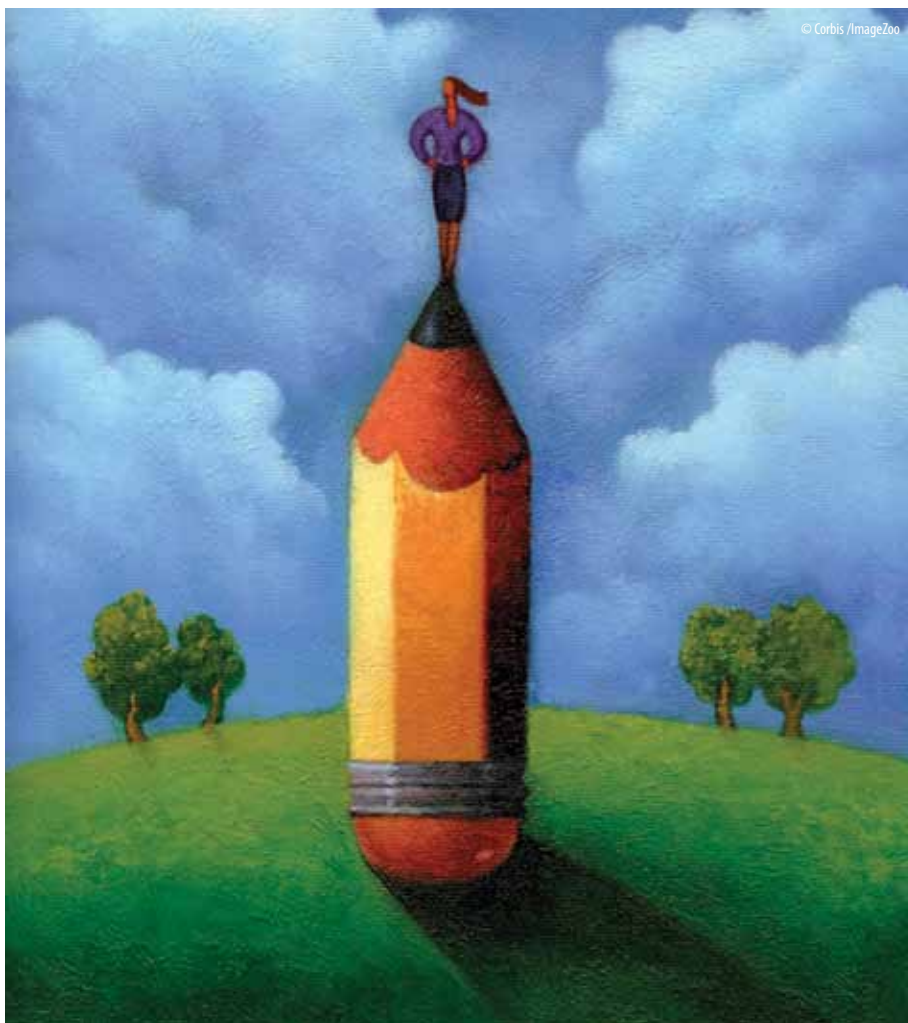
out the businesses or residents that owe the largest amounts of money. It might not be as efficient to go after a company owing \$100,000—which could go out of business—compared to one that owes \$10,000 and is more likely to survive.

“A lot of it is about what kind of ‘pulse’ does the taxpayer have, and does it make sense to go after him or her?” Shaun Barry, IBM's global leader for fraud management, told the magazine. The tool helped New York state collect \$83 million in delinquent taxes last year, an increase of 8 percent from 2009.

Hawaii also is using an analytics program to maximize tax collections. In 2010, the state announced it had collected \$100 million during a three-year period using the technology.



To learn more about these and other developments in the Eastern Region, visit: capitolideas.csg.org and www.csgeast.org.



Florida Approves Teacher Merit Pay Bill

In the first bill authorized by new Florida Gov. Rick Scott, Senate Bill 736—the Student Success Act—changes the way teacher performance is evaluated in the state.

Under the new law, at least half of a teacher's performance assessment will be centered on student learning increases. Before the Student Success Act, educators' evaluations were based on principal or peer review. Additionally, teachers in high-demand subject areas like math and science will receive higher compensation.

According to the governor's press release, after July 1 of this year, new teachers will sign annual contracts. Districts will not be required to renew contracts in instances of unsatisfactory performance. The law also requires school districts to publish teacher performance by rating the school and district, providing for greater transpar-

ency for parents.

Additionally, new salary schedules will be implemented for teachers and raises will be based on effectiveness instead of experience. Principals will have the discretion to refuse the placement or transfer of a teacher who is rated ineffective. Under the Student Success Act, an ineffective status for two years is grounds for dismissal.

Scott said the changes would give Florida “the best-educated workforce to compete in the 21st century economy,” the *Miami Herald* reported.

Some teachers, on the other hand, expressed dismay at the bill. “I’m not typically a pessimistic person ... but I’m pessimistic about the way they’ve gone about this, I’m pessimistic about the teaching profession, I’m pessimistic about morale,” Paige Campell, a behavior specialist and 32-year educator, told the *St. Petersburg Times*.

The South

EDUCATION SPENDING

A new Alabama law introduces major changes to appropriations from the state's Education Trust Fund. According to the *Montgomery Advertiser*, the Responsible Budgeting and Spending Act requires the state to establish an education spending cap equal to the average yearly spending of the past 15 years. The law is supposed to create a rolling reserve that can be used during future instances of economic distress.

HOPE CHANGES

Georgia Gov. Nathan Deal signed legislation to address the shortfalls in the state's HOPE scholarship program, which historically paid for Georgia's high-achieving students to attend state public universities. The new law provides full tuition for students that graduate high school with a GPA of 3.7, previously 3.0, and introduces minimum ACT and SAT scores, *Diverse Issues in Higher Education* reported. Students with a GPA between 3.0 and 3.7 will receive financial assistance tied to state lottery proceeds.

RURAL CRIME ADDRESSED

A 2006 cattle theft task force created by Missouri Gov. Matt Blunt and expanded in 2009 by Gov. Jay Nixon recovered more than \$2.5 million of stolen property within 18 months, according to the Missouri Department of Agriculture. The task force worked with outside agencies to investigate 815 rural crimes, leading to 162 arrests. One investigation involving \$960,000 of stolen fertilizer resulted in the identification of three suspects and state and federal charges.

SCHOOL BUS ADS

More school districts are utilizing school bus advertising to provide additional revenue to balance budget shortfalls, *USA Today* reported. Regionally, Tennessee and Texas allow school bus advertising; they join Arizona, Colorado, New Mexico and New Jersey. Florida, Kentucky and Oklahoma also are considering legislation to permit the ads, as are Utah and Washington. On average, advertising on 100 school buses can generate \$500,000 over four years.

TENNESSEE GRADUATIONS

College and universities in Tennessee are getting aggressive in a bid to increase graduation rates and keep their state funding steady, *The Tennessean* reported. That has meant extra advisers, more tutoring and remedial classes, and even fast tracking some majors to get students their degree faster. The Obama administration has set a goal for Tennessee to have 49 to 60 percent of its adults with a college degree. Currently, only 32 percent of adults have a degree.

CSG SLC 65TH ANNUAL MEETING

Tennessee Senate Majority Leader Mark Norris, along with the Tennessee Host Committee, invite members to the 65th Annual Meeting of The Council of State Governments Southern Legislative Conference, July 16–20 in Memphis. Visit slcatlanta.org to register and learn more about the meeting. Norris is the 2011 SLC chair.



To learn more about these and other developments in the Southern Region, visit: capitolideas.csg.org and www.slcatlanta.org.

The Midwest

WORKING TOGETHER

Education Week reports Illinois reached an agreement making it tougher for teachers to strike and changing the way school districts lay off teachers. While such moves sparked protests in other states, the Illinois agreement was reached through closed-door negotiations between lawmakers, teachers' unions, administrators and education advocates. "This is a sea change," Rep. Roger Eddy, who also is a school superintendent, told the publication. "There are significant changes in the way we have done business."

SCHOOL BANKRUPTCIES

Nearly 200 charter schools and school districts in Michigan are close to or facing bankruptcy, the *Detroit Free Press* reported. The schools have little money in rainy-day funds, are facing a big increase in retirement costs this summer and Gov. Rick Snyder has proposed spending cuts of \$470 per student.

CUTTING UNEMPLOYMENT

Michigan legislators passed a law that reduces the amount of time a resident can receive unemployment benefits from 26 weeks to 20 weeks, *MSNBC.com* reported. Michigan is the first state to reduce unemployment benefits, though others are considering it as the economic recovery lags and policymakers remain hesitant to raise taxes on businesses to refill unemployment trust fund coffers.

PROTECTING CHILDREN

Minnesota is looking to become one of the few states in the country to offer special protection to child prostitutes, the *Minneapolis Star Tribune* reported. Embedded in a legislative budget bill, the provision reclassifies child prostitutes as "sexually exploited youth." The bill would keep the youth from possibly being prosecuted as juvenile delinquents and "prevent them from falling through the cracks of the court system," the story said.

LOWEST TAXES

South Dakota taxes its residents less than any other state, a report in the *Rapid City Journal* revealed. According to information from the U.S. Census Bureau, South Dakota collected \$1.3 billion in taxes in 2010, a slight decrease from the \$1.33 billion collected in 2009. South Dakota does not have personal or corporate income taxes, but rather relies on sales taxes.

CSG MIDWEST 66TH ANNUAL MEETING

Indiana State Rep. Scott Reske, chair of The Council of State Governments Midwestern Legislative Conference, and the Indiana Host Committee, invite members to the 66th Annual Meeting of the MLC in Indianapolis July 17-20. Visit www.csamidwest.org to register and learn more about the meeting.



Illinois Governor says Budget Cuts Alone Won't Revive Economy

Illinois Gov. Pat Quinn, in an interview printed by *Bloomberg News*, said policymakers who are trying to balance their state's books through budget-cutting alone are wrong.

"Just plain wrong," Quinn told *Bloomberg*. "I don't buy into all these radical cuts in government as a way to make life better for ordinary, everyday people."

As policymakers from across the country consider deep spending cuts to close gaping budget deficits, Illinois has taken a different tack. In January, legislators approved a 67 percent increase in the personal tax rate and a 46 percent increase in corporate income tax. No Republicans voted for the increases.

Quinn said instead of cutting spending, states should be adding to their infrastructure. He pointed to Illinois spending \$5.6 billion in the past two years to repair roads and upgrade bridges. The governor's 2012 fiscal year budget proposal also was at least \$1 billion out of balance.

Some policymakers and business leaders argue that the culture of spending in the state must change. Illinois has more than \$8 billion in unpaid bills and a pension fund that is short by \$80 billion.

"He's out of touch with economic reality and out of touch with national and state finances," Douglas Whitley, president and CEO of the Illinois Chamber of Commerce, told *Bloomberg*.



To learn more about these and other developments in the Midwestern Region, visit: capitolideas.csg.org and www.csamidwest.org.



Colorado Passes Nation's Toughest Concussion Law

Colorado policymakers have passed the country's most far-reaching legislation aimed at preventing brain damage due to concussions among young athletes, *Forbes* reported.

About a dozen other states have mandated coaches, typically only coaches in school-related activities, to be trained about the signs of a concussion. In Colorado, the training in concussions is now mandated for coaches of children as young as 11 years old, regardless of whether it is a school-related activity. The laws also require players with a suspected head injury to sit out of games and practices until a doctor clears them.

The issue gained increasing media

scrutiny earlier this year when a former Chicago Bears football player committed suicide and asked for his brain to be examined for a degenerative brain disease caused by repeated head trauma, the NFL reported. The NFL has begun a national campaign to have all states and the District of Columbia adopt legislation aimed at protecting youth from head injuries while playing sports.

The NCAA also has teamed up with the Centers for Disease Control to share information with its member schools about concussion safety. These resources can be found online at www.ncaa.org/health-safety and www.cdc.gov/concussion.

The West

ABORTION RESTRICTIONS

Arizona this year became the first state to make abortions based on race or gender of the fetus a crime, *The Arizona Republic* reported. House Bill 2443 allows the father of the child—or parents if the woman is a minor—to press charges against the doctor performing the abortion. If convicted of the felony, the doctor could face up to seven years in prison and loss of his or her medical license.

FEDERAL CHALLENGES

Alaska Gov. Sean Parnell's administration is fighting the federal government on a number of fronts, according to *The New York Times*. The Alaskan government is involved in numerous legal challenges to federal authority, from the health care reform law and polar bear protection to the fate of bison and caribou. Challenging federal authority is nothing new to Alaskans, the *Times* reports, but the number of lawsuits being filed is growing.

ACCESSING DATA

Oregon has created a new data website called *Oregon.gov* that lets people customize how they view data from, and even leave comments for, state agencies, CivSource reported. "We want to transform the way government works, and that means making it easy for Oregonians to get information about agencies and offer their views about what they see," Kris Kautz, acting director of the state Department of Administrative Services, told CivSource.

IMMIGRATION LEGISLATION

The Utah legislature passed four new bills this year that take a different approach on how to handle immigration issues in light of the reluctance of federal agencies to address the issue, *Governing* magazine reports. The package calls for setting up a state guest-worker program, an area usually reserved for the federal government, which will not be operational for another two years. The federal government is expected to challenge the new legislation in court.

CAP-AND-TRADE QUESTIONS

With a little more than six months before California will be ready to finalize a new cap-and-trade program to reduce greenhouse gas emissions, some experts are wondering what it will mean if the system fails, the *Los Angeles Times* reported. In 2006, California passed a climate law that makes ambitious reductions in greenhouse gases. But if the program falls victim to fraud the way some European programs have, international experts warn that it may be a death-knell for cap-and-trade in the U.S.

CSG WEST 64TH ANNUAL MEETING

Hawaii Rep. Marcus R. Oshiro, the 2011 chair of The Council of State Governments-West, Sen. Brian T. Taniguchi, Speaker Calvin K. Y. Say and Senate President Shan S. Tsutsu serve as hosts for the CSG West 64th annual meeting in Honolulu July 30–Aug. 2. Visit www.cs-west.org to register and learn more about the meeting. Hala-wai ~ Where Leaders Gather.



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

Recovery Slow in Many Areas ▶



The Center on Budget and Policy Priorities is projecting budget shortfalls totaling \$112 billion for the 2012 fiscal year and \$75 billion for the 2013 fiscal year. States have already closed more than \$430 billion in budget shortfalls for the 2009, 2010 and 2011 fiscal years.



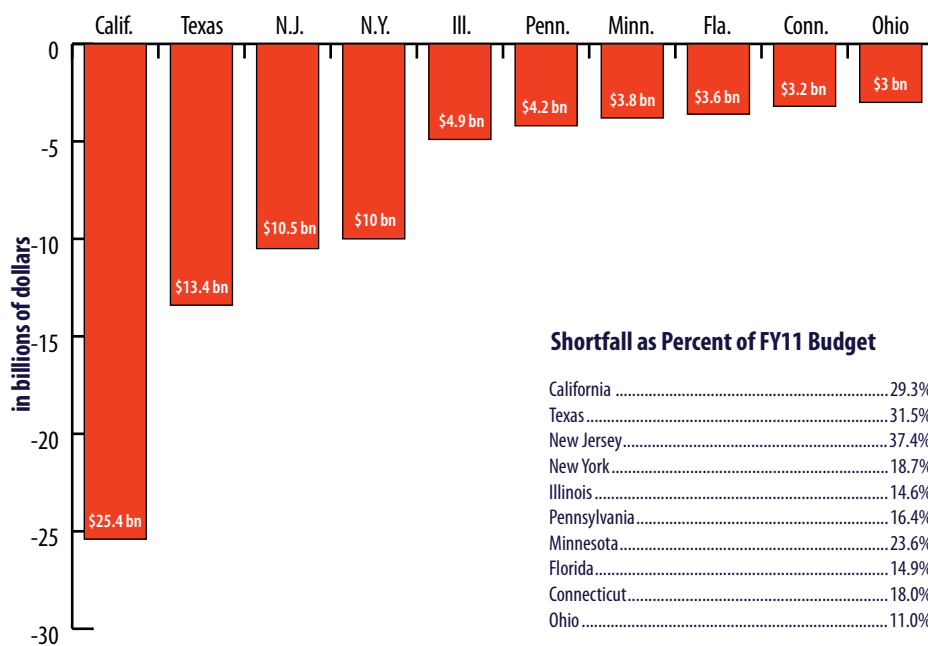
THE BOOK OF THE STATES

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.

Looking into the Gap

Although economists proclaimed the end of the Great Recession as June 2009, states aren't seeing it. States experienced the steepest decline in state tax receipts on record since the 1930s, and 44 states and the District of Columbia are projecting budget shortfalls for the 2012 fiscal year, which begins July 1, 2011, according to the Center on Budget and Policy Priorities, based in Washington, D.C. The 2012 budget gaps range from \$92 million in Idaho to \$25.4 billion in California. Six states—Alaska, Arkansas, Montana, North Dakota, West Virginia and Wyoming—are not anticipating shortfalls, according to the Center on Budget and Policy Priorities report March 9. Data were not available for New Hampshire and Tennessee.

Largest Projected State Budget Gaps, FY2012



Shortfall as Percent of FY11 Budget

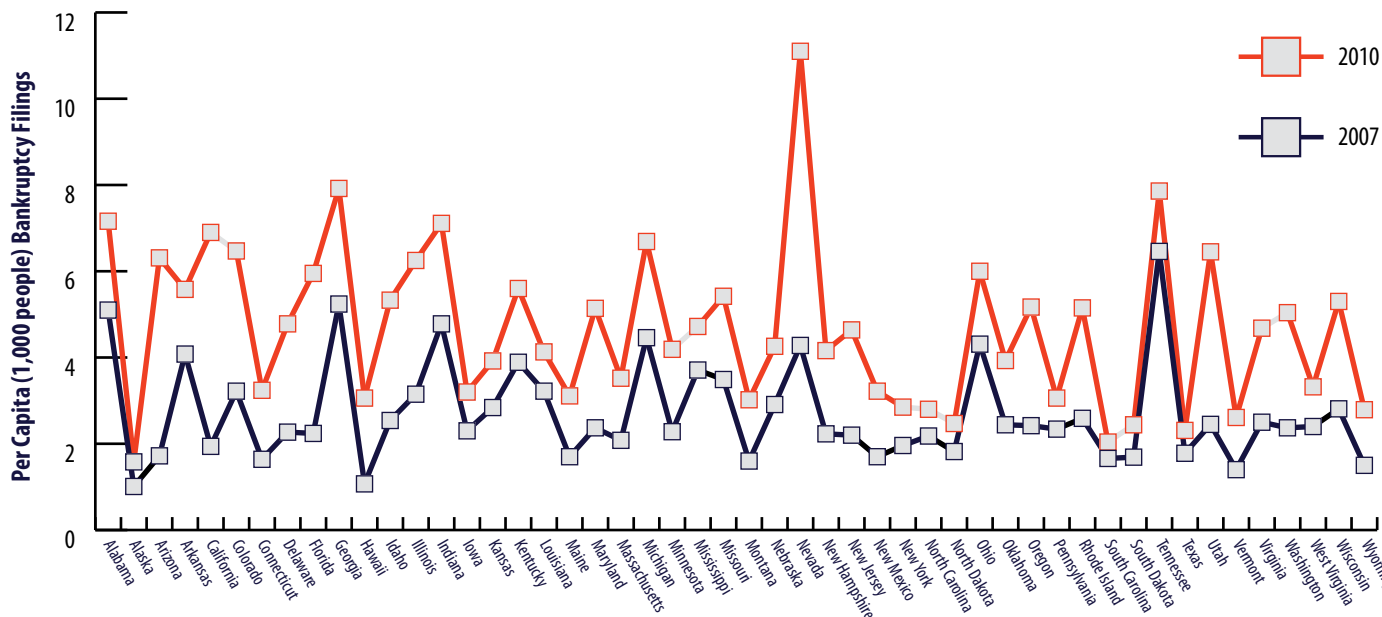
California	29.3%
Texas	31.5%
New Jersey	37.4%
New York	18.7%
Illinois	14.6%
Pennsylvania	16.4%
Minnesota	23.6%
Florida	14.9%
Connecticut	18.0%
Ohio	11.0%

Source: Center on Budget and Policy Priorities

Bankruptcies Up During Recession

The Great Recession brought an increased number of bankruptcy filings in states across the nation. Nevada, Michigan and Illinois were consistently among states with the highest bankruptcy rates, while Montana and Wyoming were consistently among states with the lowest bankruptcy rates. Every state saw an increase in filings from 2007, when the recession officially began, through 2010.

Per Capita (1,000 people) Bankruptcy Filings, 2007 vs. 2010



Source: Automated Access to Court Electronic Records

TAX REVENUES REBOUNDBING FOR STATES



By Donald Boyd and Lucy Dadayan

The Great Recession started in December 2007. After a slight delay, state tax collections began to plummet, falling for five consecutive quarters beginning in the fourth quarter of 2008 and continuing throughout 2009. Tax revenue fell by a dizzying 16.8 percent in the second quarter of 2009. Tax revenue declined further and more sharply in this recession than in any other post-war recession.

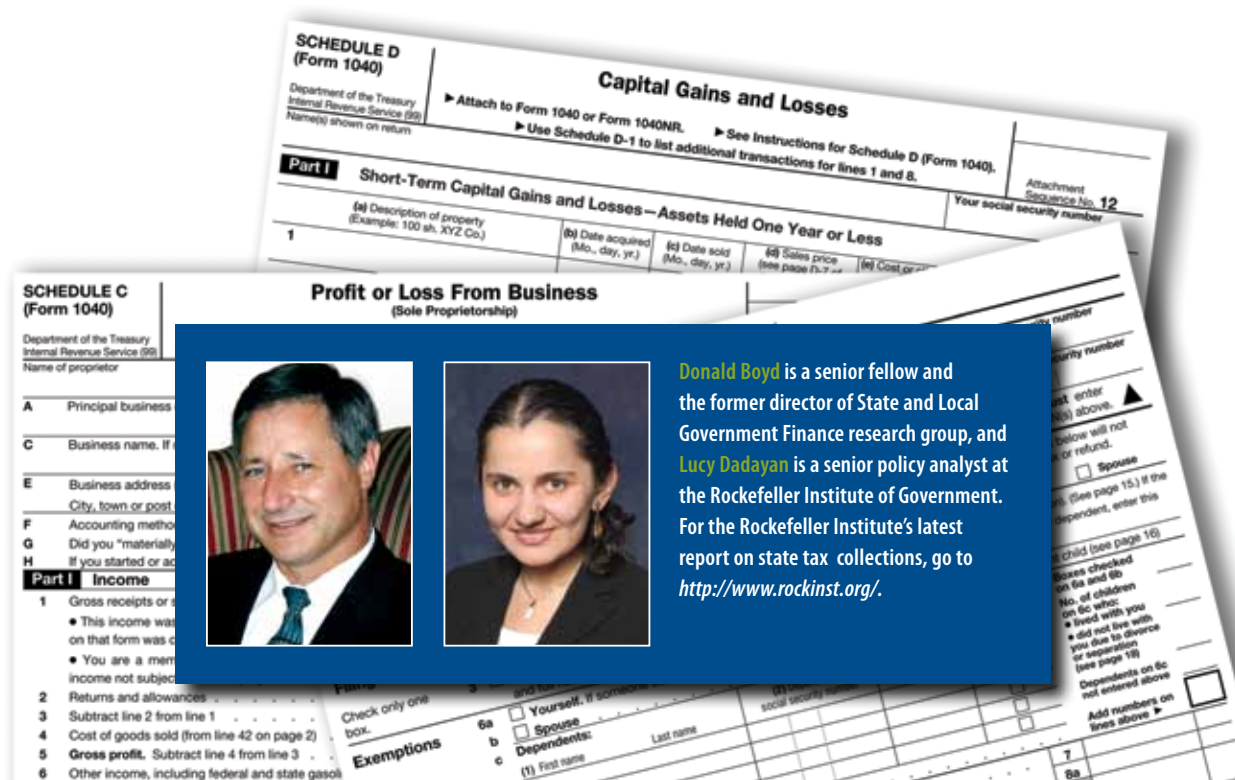
Because this was the deepest and longest recession since the Great Depression, it's not surprising that tax revenue fell sharply. But the depth of the recession was only part of the problem. Tax revenue fell more sharply than in prior recessions, but it also fell far more sharply than did the economy; that relationship to the economy was far worse than in past recessions.

What caused this? The drivers of state tax revenue have been hit much harder than the broader economy would suggest. Although real gross domestic product declined by 4.1 percent during the recession, the in-

come typically taxed by state governments declined by 8.5 percent—more than twice as much, and more than twice the decline of the severe recession of 1973. Similarly, consumption of items typically subject to state sales taxes declined 9.1 percent in this recession—more than twice as steep as in the 1973 recession. Capital gains, which had been increasing in importance to state income taxes, fell by more than 60 percent.

The net result of these and other forces was huge declines in state income, sales and corporate taxes. Annual income taxes fell by more than 15 percent in inflation-adjusted terms, sales taxes fell by more than 10 percent, and corporate income taxes fell by more than 15 percent.

Property taxes, which are crucial to local governments but generally unimportant to states, remained quite stable through much of the period, although they are beginning to weaken and, in some parts of the country, have fallen significantly.



Donald Boyd is a senior fellow and the former director of State and Local Government Finance research group, and **Lucy Dadayan** is a senior policy analyst at the Rockefeller Institute of Government. For the Rockefeller Institute's latest report on state tax collections, go to <http://www.rockinst.org/>.

WHERE WE STAND NOW

The recession ended in June 2009 and the economy is slowly recovering. After tumbling year-over-year for five consecutive quarters, state tax collections grew in each quarter of 2010. The character of that growth has improved over time. In the first two quarters of 2010, tax increases more than offset declines caused by the weak underlying economy. But in the last two quarters of 2010, growth was driven primarily by the improving economy. Fourth quarter tax revenue grew by 7.8 percent, but even without tax increases, it would have grown by 7 percent.

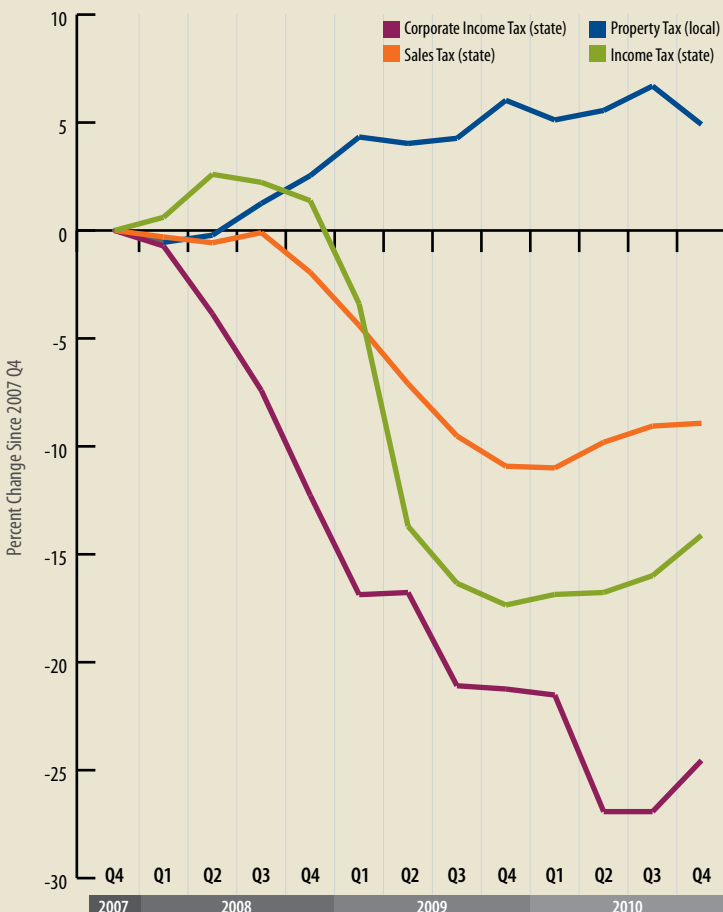
Preliminary figures for the January-March 2011 quarter indicate continued strength in state tax revenues. Overall collections in 35 early-reporting states showed growth of 7.8 percent compared to the same months of 2010, and 10.2 percent compared to the same quarter of 2009.

Does that mean states are out of the woods? No.

State tax collections fell off a cliff in 2008 and 2009. While states are climbing up from the bottom of the cliff, they are nowhere near the top again. Inflation-adjusted state tax revenue for the nation as a whole in the latest four quarters—calendar year 2010—was 9.7 percent below the peak attained in 2007. Meanwhile, there are some signs that local government tax revenue is beginning to weaken.

This still-near-the-bottom-of-the-cliff phenomenon is common: Tax revenue is below its 2007 level in 47 states, and is 15 percent or more below that level in 11 states.

State Income, Sales, and Corporate Taxes Fell, While Local Property Taxes Were Stable



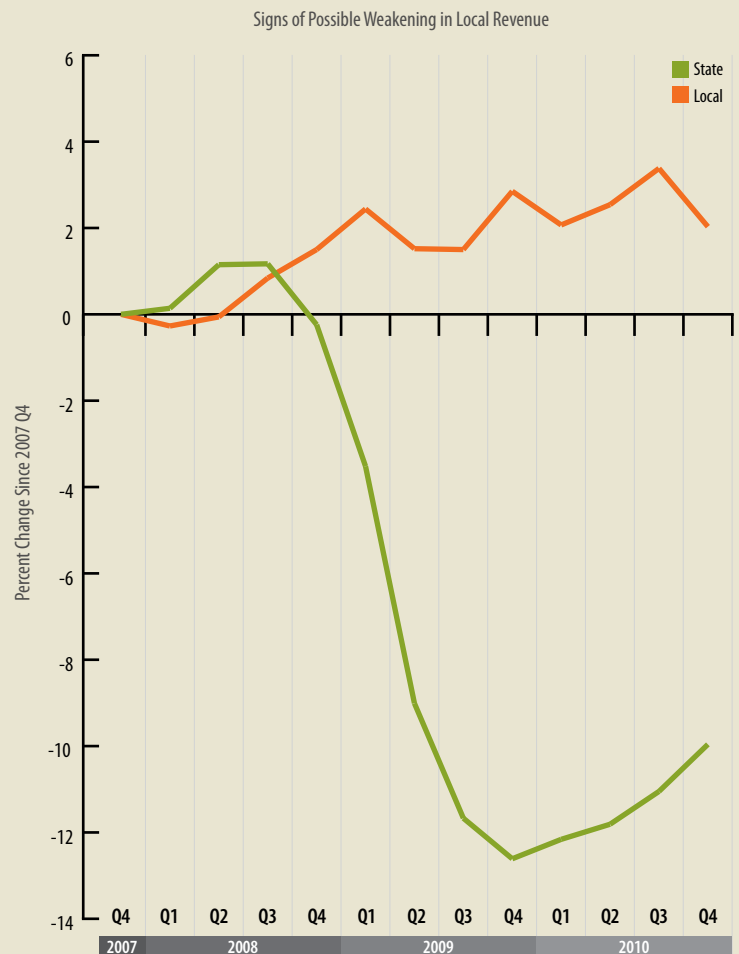
Note: Income, sales and corporate taxes for state governments, property taxes for local governments.
Source: Rockefeller Institute analysis of data from Census Bureau and Bureau of Economic Analysis

THE OUTLOOK

The current improvement in state tax revenue is welcome but there is a long way to go. States still face fiscal trouble for four main reasons.

- Revenue remains well below its peak.
- The recession has had lagged fiscal effects, driving up the demand for many government services, especially Medicaid, other safety net programs and higher education. And the recession has created other pressures and problems for states by depleting unemployment insurance trust funds, which may lead to higher unemployment insurance taxes so that federal loans can be repaid.
- States' cyclical adjustments are not complete: They must contend with losses in federal stimulus aid of more than \$50 billion in 2011–12, and losses in temporary revenue measures put in place in response to the recession.
- Even after this cycle is fully behind us, states will have to contend with large increases in pension contributions and payments for retiree health care—a pressure likely to build for years. □

Inflation-Adjusted State Tax Revenue is Recovering but Remains Nearly 10% Below its Level at the Start of the Recession



Source: Rockefeller Institute analysis of data from Census Bureau and Bureau of Economic Analysis

LONGEST SERVING GOVERNOR BACK »



© AP Photo/Charlie Neibergall

BRANSTAD

LOOKS TO THE PAST, PREPARES FOR THE FUTURE

by Mary Branham

1 When you served before, you were Iowa's youngest governor. How different will it be for you serving this time around?

"I feel older and wiser. I learned a lot from my previous experience as governor, as well as my experience as president of Des Moines University, and that has allowed me to hit the ground running. We have some challenges we are facing now to get the state's financial house in order and to focus on jobs. I think my background and experience prepares me well to again govern. I don't have a long learning curve thanks to my previous experience."

2 What do you foresee as the biggest challenge facing you as governor?

"We have a split legislature, so it is a challenge getting everyone to work together to focus on jobs, and reducing the tax and regulatory burden to put Iowa in a stronger position. Additionally, I have asked the legislature to pass a two-year budget in order to provide predictability and sustainability in managing state resources."

3 States often lag in the economic recovery. What can you do to ease the financial hardships your state faces?

"I think facing up to the financial realities now and making the tough decisions to reduce the size and cost of government will ease financial hardships. We must also find more efficient delivery methods using updated technology, which will position ourselves for the future and make certain that as the economy grows, we are still able to manage and control costs. This will enable us to reduce our tax burden and make the state more attractive for investments, and for businesses to create jobs."

4 What do you see as the benefits of your proposal to transform the Iowa Department of Economic Development into a public-private partnership?

"You get both the knowledge and involvement of the private sector working with the public sector. Private sector individuals have already been successful in creating jobs within the state and they are the best salespeople to convince other businesses that Iowa is the best place to locate. This approach is designed to give us a more nimble and agile marketing approach to economic development to attract the jobs we need."


5 What do you see as the major issues facing rural states such as Iowa?

"I was governor during the Farm Crisis of the 1980s, so this is a much better time for rural America. Many of the rural states, including Iowa, have lost population or have grown at a slower rate. We need to look at ways that we can attract more business, jobs and people to rural Iowa and rural America. I think there are some great opportunities within agriculture, which is the strongest part of the Iowa economy right now. We need to look at more ways to add value to agriculture. The commodities we produce should not only be used for feeding livestock, but also make new products through biotechnology. These opportunities will allow us to replace more petroleum-based products with bio-based products. This has the potential to create a lot of jobs and can help us revitalize our rural communities."

6 What about your last tenure as governor will help you the most in leading the state now?

"I'm helped most by the fact that I have been through the Farm Crisis of the '80s, and I know to focus my time and energy on the things that are important, like creating jobs and providing hands-on leadership. I

Iowa Gov. [Terry Branstad](#) first served as the state's chief executive from 1983 to 1999. He took office again in January expecting many challenges coming with the state's fiscal situation. But Branstad believes his earlier tenure in the governor's office will aid him as he addresses the rural state's challenges.

 Read the full interview with Terry Branstad at capitolideas.csg.org.

also have the fiscal discipline to make the tough decisions in balancing the budget. Also, I understand the need for a long-range budget plan, and am not only insisting on a two-year budget plan, but also a five-year budget projection, where each year we spend less than we take in. This will put us in a position for sustainability and growth in the future."

make a difference and help other people. I've always been a people person and I enjoy it. This time, I really felt a calling to come back. I loved my job at Des Moines University, but saw the mess the state was in and the mismanagement that occurred in the Iowa Film Office, among others. I was approached by people who said, 'We need your experience and leadership.' I've enjoyed the challenge."

7 What are the biggest changes in politics since your last governorship?

"Politics continue to get more partisan, so it's more challenging from that perspective. I still think personal contact with people is important. One big change is communicating with people through social media in addition to other, more traditional sources of communication. Ultimately, personal contact is still very important, which is why I travel to all of Iowa's 99 counties every year. We need to have more transparency in government and we're continuing to work on that."


8 What advice would you give to new governors and other newly elected state government officials based on your last tenure as governor?

"Be a good listener. Be accessible and available. Don't be afraid to take the heat. Meet with people and explain not only what you are doing, but why. Be willing to make adjustments and changes if somebody comes up with a better idea."

9 What led you to public service initially and what is keeping you in it today?

"I had some great teachers. One, Lura Sewick, taught the 'Three R's' of good government: Rights, Respect and Responsibility. Another, Fred Smith, was my eighth-grade civics teacher. They had the biggest influence on my decision to pursue public office. It is a chance to really

10 Iowa is key in presidential elections, and it's been said you will play an influential role in these caucuses. Any predictions you'd like to share?

"It's too early to make any predictions. It will be a large field with many candidates. I want to welcome all the candidates, encourage them to come and spend a lot of time in Iowa. If they can, they should visit every county. Iowans are thoughtful and discerning, and if candidates want to do well in Iowa, they need to be very honest, direct and forthright in sharing with Iowans their vision for getting the nation back on track. Iowans, like most Americans, realize what's going on today is unsustainable, we can't afford the debt, and dramatic change is needed." 

Did You Know?

Iowa Gov. Terry Branstad isn't the only former governor taking office this year. California Gov. Jerry Brown served from 1975 to 1983 and Oregon Gov. John Kitzhaber served from 1995 to 2003.

EXPERT: STATES HAVE BETTER TOOLS THAN TAX CUTS TO ATTRACT JOBS



ROBERT TANNENWALD

SENIOR FELLOW
Center on Budget and Policy Priorities

Many states have cut business tax rates or offered new tax credits—or are thinking about it—to grow their economies. But it won't work, and states have better tools at their disposal.

Proponents say a state can cut taxes without any negative consequences. Wrong. When a state cuts taxes, it has fewer funds to finance public services that businesses value—good schools; top colleges and universities; modern roads, bridges, and airports; effective police and fire protection; and reliable utilities and communications.

Some say tax cuts will give states more revenues than before because businesses will hire more workers who, in turn, will pay income taxes and sales taxes. Wrong again, for lots of reasons.


First, businesses hire workers in response to demand for their products. They won't risk hiring new workers, even if subsidized by tax cuts, only to find that no one will buy the additional goods they produce.

Second, businesses don't make decisions based on taxes alone because taxes comprise a very small part of their balance sheets. All state and local taxes make up less than 2 percent of business costs. A state could wipe out its corporate income tax entirely and business costs would fall by less than two-tenths of a percent.

Third, many tax cuts and tax credits simply reward businesses for doing what they would have done anyway. States can't discern whether a business "created" a job to receive a tax credit or hired someone they had already planned to hire in response to rising demand for its products.

While acknowledging these points, some assert that tax cuts create "ripple" effects throughout a state's economy. But governments generate ripple effects just as large. Public employees laid off to finance a tax cut reduce their spending on food, clothing and car repairs. If a state buys fewer materials and services to finance a tax cut, in-state businesses lose sales and revenue. Because almost every state has to balance its budget, the benefit of any tax cut is offset by the spending cut that a state must make.

Rather than play the tax cut game, states could take a different approach. They could levy broad-based taxes, favoring no industry, in order to adequately meet residents' needs. They also could invest in education, training and transportation, creating the skilled workforce and quality infrastructure that businesses rely on.

States that do that might find themselves among the most attractive in the nation. 

Robert Tannenwald, a senior fellow at the Center on Budget and Policy Priorities, focuses on state budgets and taxes. Before joining the center in 2010, he served as vice president of the Federal Reserve Bank of Boston. A widely respected authority on a range of public finance issues ranging from unemployment insurance to tax competitiveness, Tannenwald has served as an expert witness before scores of public hearings.



IT'S A SMALL WORLD AFTER ALL

Export Markets Can Help States Grow Jobs

By Mary Branham

Not many people use a scythe to cut grass anymore; modern-day weed whackers have replaced those historical tools.

But Carol Bryan knows some people like the old-fashioned tool. She sees evidence of that fact every day with the number of orders her small company, Scythe Supply in Perry, Maine, gets from around the country.

She also knows that things might be a little more difficult without help from the Maine International Trade Center. Scythe Supply, though small, regularly deals with international trade—importing blades from Austria, and sharpening equipment from the Czech Republic and Slovakia. But the core of the business—the Maine white ash for the handles—comes from a long-standing business in Eddington, Maine.

“Our livelihood depends on someone in Kansas or Florida or Oregon waking up and saying, ‘I’m going to cut the weeds with a scythe and I wonder who sells them,’” said Bryan, owner of the Internet-based business. “We bring all that money here and it definitely goes back to this community.”

Though Scythe Supply deals primarily with international imports—just a few of its customers are overseas—

it’s one of many U.S. businesses that have found a home in today’s global economic structure. And there, say economic experts, is where the future for American jobs lie.

Wade Merritt, vice president for the Maine International Trade Center, said 95 percent of the world’s consumers are outside the United States.

“Companies really need to be looking at international for a number of different reasons—whether it’s to replace U.S. domestic consumption that has gone away or to go forth and look for new customers of their products in other countries,” Merritt said.

In fact, President Obama in his 2010 State of the Union address set a goal for American companies to double their exports in five years. And this year, Congress passed the Small Business Export Enhancement and International Trade Act, increasing the annual appropriation for the State Trade and Export Promotion, or STEP, program. Every state can apply for competitive grants in the program, said Sasha Sutcliffe-Stephenson, director of the State International Trade Organization, known as SIDO, an affiliate of The Council of State Governments.

“There’s a lot of money to be made out there,” said Merritt, the SIDO vice president. “If you’re going to

expand on the sales you're already making in the U.S. by looking at Canada or Europe or Asia, that's really a job creation strategy."

Global Economy

Economist Zachary Karabell, speaking during CSG's Growth and Prosperity Virtual Summit in April, said states should be tapping into the global potential.

"While the U.S. is as challenged as it has been in our lifetimes, we are living globally in a period of the most immense wealth creation and the most middle class emergence that the world has ever seen. ... That's an immense opportunity," Karabell said.

It's an opportunity many states aren't willing to pass up.

Take Florida, which has seen its traditional industries of tourism and construction hit hard during the Great Recession.

The Sunshine State has long touted the benefits of international trade to its businesses. But Manuel Mencia, senior vice president/chief operating officer for Enterprise Florida and president of SIDO, says Florida could export more. About 95 percent of Florida's exports are from small and medium-sized businesses.

The state estimates about 1.3 million Florida jobs depend on international trade—1 million from trade and about 300,000 from direct investments. That's one out of every six jobs in the state.

"The best way to remain competitive is to be a world player, to be competing worldwide," said Mencia. "U.S. companies can no longer afford to stay in the domestic market to avoid competition because competition will come and find them."

Plus, said Mencia, U.S. companies that export grow 50 percent faster than those that don't, pay 18 percent higher wages and are more profitable. "Not only does international business create new jobs, but it retains a significant number of jobs that otherwise would be lost," he said.

Now, only a fraction of U.S. companies with a viable, exportable product are taking advantage of the opportunities that lay globally, Mencia said.

"I think it behooves the states to make an effort to get more companies into the export business and to get

companies in the export business to expand and diversify," he said.

That's sometimes a challenge, said Mary Regal, director of the Bureau of Export Development in the Wisconsin Department of Commerce.

"I think a lot of companies don't think they have a product that can be exported," she said. "They don't know where to turn. They don't want to travel. They may be pretty busy with their domestic sales and they're afraid to invest in more people or spend more."

International Profile Growing

Regal said more local economic development organizations around the state are starting to realize the importance of exports. But in tight budget times, she said, it's sometimes difficult to maintain the investment in international trade.

What draws attention, said Mencia, are the announcements of manufacturing plants locating in a state, bringing with them hundreds of jobs.

"Putting a shovel in the ground and saying you are bringing in 200 jobs, ... that doesn't happen all that often," Regal said. "For some states, it doesn't happen hardly at all."

That's why it's important for policymakers to understand the role of international trade offices, those who head them say. The Obama administration has pushed for increased participation in trade, and Congress last September passed the State Trade Export and Promotion—or STEP—program. The three-year trade and export pilot program makes competitive grants to states to enhance export promotion. It appropriates \$30 million a year for the next three fiscal years.

Mencia and Merritt, in their positions with SIDO, said in a letter of support for the STEP legislation that as fiscal crises have deepened, states have made cuts to their trade offices.

In fact, state support for trade development and investment attraction dropped from \$103 million in 2008 to \$70 million in 2009—a decrease of 30 percent. Most states had made cuts in their international trade budgets and were facing more cuts, ranging from 2 percent to 65 percent.



"U.S. companies can no longer afford to stay in the domestic market to avoid competition because competition will come and find them."

—Manuel Mencia, senior vice president/chief operating officer
Enterprise Florida, SIDO president



“The STEP program would be a much-needed support for state trade offices—but most importantly, it would positively impact the nation’s small businesses by enhancing the services they receive through their state trade office,” Mencia and Merritt wrote to Sen. Mary Landrieu and Sen. Olympia Snowe.

Merritt said states should not consider funding as a trade versus investment battle—both are equally important.

“A vibrant exporting economy helps lead into investment,” he said, “and a vibrant investment economy, whether foreign or domestic, bringing in new companies, leads to more exports for the state.”


States would qualify for STEP grants based on their plans to increase the number or the value of exports for eligible small businesses in the state. SIDO was instrumental in working with federal partners and Congress to craft the language in the legislation, as well as with the Small Business Association to craft the guidelines for the program. The president’s official report named SIDO a key partner in the legislation.

“We do live in a world where the marketplace of activity for companies is truly global,” Karabell, the economist, said. He points to the iconic American companies like IBM and General Motors. “Both of those companies are now seeing most of their growth and most of their dynamic growth outside the United States.”

While state and local governments have seen that truth more than the federal government has, Karabell said looking abroad is a key to continued job growth in states.

“Thinking of yourselves as part of that global nexus and not simply one of 50 distinct components of this nation called the United States is likely to create opportunities far more than not,” he said.

Just ask Carol Bryan.

While Scythe Supply employs just four people throughout the year, Bryan sees that employment grow in the summer months. And it’s all because the Maine International Trade Office has worked with her to understand the international marketplace and work through the maze of rules of international trade to get the materials she needs for her product. 

A STEP FORWARD ON INTERNATIONAL TRADE



The State Trade and Export Promotion—or STEP—Grant Program, signed into law by President Barack Obama last September, establishes a three-year trade and export promotion pilot program to enhance export promotion in the states. The law appropriates \$30 million per year for fiscal years 2011, 2012 and 2013.

Grants are awarded to states that assist eligible small businesses in one of the following ways:

- » Participation in a foreign trade mission;
- » A foreign market sales trip;
- » A subscription to services provided by the Department of Commerce;
- » Payment of website translation fees;
- » Design of international marketing media;
- » A trade show exhibition;
- » Participation in training workshops; or
- » Any other export initiative as determined appropriate by the associate administrator of the Small Business Administration.

Priority for funding will be given to states that:

- » Propose a program that focuses on eligible small business concerns as part of an export promotion program;
- » Demonstrate success in promoting exports;
- » Promote exports from a state that is not one of the 10 states with the highest percentage of exporters, based upon the latest data available from the Department of Commerce;
- » Promote new-to-market export opportunities to China for eligible small business concerns in the United States.

INVESTMENT **vs.** INCENTIVES



States Consider How to Get the Best Bang for Their Bucks in Growing the Economy

By Mary Branham

The good news is this: The Great Recession ended in June 2009 according to economists.

But there's also bad news: At this point in every previous recession, more new jobs would have been created, economist Zachary Karabell said during The Council of State Governments' Growth and Prosperity Virtual Summit in April.

"That has been part of the cyclical nature of the economy," Karabell said of the jobs rebound within 12 to 18 months of the declared end of a recession.

Some two years later, that hasn't been the case.

The jobs have changed and many that have been lost won't be coming back, Karabell said.

That fact has put the onus on states to revamp the way they go about the business of attracting business.

"I think states are trying to think more intelligently about job growth and the pros and cons of how you approach it and what's necessary to compete," Ohio Rep. Mike Duffey said.

Duffey sponsored legislation this session to do just that in the Buckeye State. That legislation replaced the state Department of Development with JobsOhio, a nonprofit corporation headed by business leaders appointed by the governor. It's a public-private approach to economic development that many states are taking.

But JobsOhio comes with a twist—development director Mark Kvasme is a venture capitalist and is bringing that perspective to Ohio's efforts to grow jobs. Now, Duffey said, venture capital in Ohio is low. Kvasme will increase efforts to attract people who fund entrepreneurs.

"Entrepreneurs go where funding is and we want them to be in Ohio," Duffey said. "We want them to grow jobs here."



KEEPING JOBS

BROOKLYN, OHIO—Gov. John Kasich holds up paperwork signifying American Greetings Corp., with 2,000 employees, will remain in northeast Ohio. With Kasich at the company's headquarters are Mark Kvasme, Ohio's development director, left, and Morry Weiss, chairman of American Greetings. © AP Photo / Amy Sancetta

“You can’t snap your fingers and bring jobs to a state overnight.”

—Ohio Rep. Mike Duffey



Incentivizing Growth

Ohio is also looking at the way it attracts businesses. Kvamme wants to move to a model where the state is investing in companies rather than the traditional method of tax cuts and land deals, Duffey said.

Venture capitalists don’t just give money away, and Duffey would like to see JobsOhio become an equity owner in companies that locate in his state.

“There’s increasingly a movement toward buying rather than giving,” he said. “That will not only keep them in Ohio, but also could provide some return on the value, long-term, for the state. You’re buying something; you’re investing in the state. You’re not just giving away money for promises that may or may not materialize.”

Many states already have some method—through the clawback provision—if companies don’t meet expected job growth, said Maryann Feldman, S.K. Heninger Distinguished Chair in Public Policy at the University of North Carolina, Chapel Hill.

Feldman said incentives have become institutionalized, and many site selection firms negotiate for companies, pitting states against each other in the process.

“Sometimes incentives make sense,” she said, “but they’ve gotten to be so commonly accepted.”

But the recent recession may have changed that.

Louisiana Rep. Jim Fannin, chair of the House Appropriations Committee and the state’s rural caucus, said his state has offered both cash incentives and tax credits to businesses relocating to the Bayou State. He expects the cash incentives will dry up in a downed economic situation.

Fannin isn’t a fan of such incentives.

“I hear it regularly from constituents: ‘Why do we have to buy businesses?’” he said. “It’s a drain on our tax dollars that I think is viewed somewhat as necessary, but yet people don’t seem to want to pay for it when they have to choose between health care, highways or education ... It’s eating away at our tax dollars we should have for other purposes.”

The incentivized investment isn’t always a good one. Dane Stangler, director of the Ewing Marion Kauffman Foundation in Kansas City, Mo., said during CSG’s Growth and Prosperity Virtual Summit that companies that create the jobs on initial location don’t always stick around.

Feldman agrees. “Typically, companies that you have to pay a lot to bring into a state are going to be the first ones that leave, the first ones to shut down and move out of town,” she said. “Then the state can be saddled with a big infrastructure.”

Fannin said those costs add up.

“There’s no question if we could actually see it all in some form ... then I think it would be apparent to us all we’re probably giving away much more than we’re receiving through all these things,” he said.

Stangler said states should look to existing businesses for job growth.

“You don’t start with 1,000 employees,” he said. Existing businesses will be interested in different incentives than those a state is recruiting, but they have staying power. The Kauffman Foundation found in reviewing Census Bureau data that the age of a business has more to do with jobs than the size of a business.

Some states, like Tennessee and West Virginia, are looking at ways to help existing businesses expand. Others, like Arizona

and New Jersey, are looking at changing their tax codes to help new and existing businesses.

Duffey believes Ohio is doing a lot of things right with the shift to JobsOhio, but he acknowledges this is a first step—and the model is just part of it.

“It’s all for naught if you don’t have a fundamentally attractive state,” he said. “You have to be attractive from a services and quality of life standpoint. But you also have to be attractive from a cost standpoint. Companies aren’t going to want to go to your state if energy costs are high or if land costs are high or if your taxes are high.”

Sticking To It

While states are making changes in response to the Great Recession and the changing economic model in which businesses operate, they have to stick with the effort to attract jobs, Duffey said.

“There is this complete illusion that government leaders can wave a magic wand and instantaneously overnight create jobs,” he said. “You can’t snap your fingers and bring jobs to a state overnight.”

Karabell, the economist, said structural unemployment may be long-term because of the changing face of jobs in the U.S. While a new economy is emerging, he said, it’s doing so at a slower pace than the job losses occurring in traditional industries.

“... The old economy continues to break down, but the pace at which this new economy creates jobs is not a one-to-one pace,” said Karabell. “We could be in for a very long period where there are many people who are left in the gap between areas that are thriving and affluent and areas that are breaking down. ☐

JOB #1 FOR STATES: JOB GROWTH



State policymakers took some targeted steps in an effort to attract jobs and grow their economies during the 2011 legislative session. From tax cuts to changes in the incentives they offer businesses to targeting their efforts, states made sparking job growth a top priority and channeled their efforts for that purpose. Here are some of the innovative ways states are making changes in their economic development strategies.

See more at www.csg.org/pub/capitolideas.

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SOME CUTS, CHANGES FOR INCENTIVES



MICHIGAN

In a state known for spending big on incentives to bring in new businesses—like the film industry—**Michigan Gov. Rick Snyder** is proposing major changes. The governor has proposed cutting targeted incentive spending by two-thirds, instead focusing on reducing broad tax liability by the introduction of a 6 percent flat corporate tax rate.

► **DETROIT, MICH.**—Michigan Gov. Rick Snyder is proposing major changes to the state's economic development incentives program. © AP Photo/Carlos Osorio

IDAHO

Legislators passed a bill in March aimed at halting the unbridled growth of urban renewal districts and increasing transparency and accountability. The districts, which are funded primarily through tax-increment financing, allow agencies to collect any increase in assessed property tax value within their boundaries after their formation. They provide a source of revenue to incentivize developers. The legislation will limit the length and financing of districts to 20 years and require voter approval for new districts.



MASSACHUSETTS DEVELOPS INNOVATION ABROAD

Massachusetts Gov. Deval Patrick in March led the Innovation Economy Partnership Mission 2011, a coalition of economic development officials and business executives who traveled with the governor to Israel and the United Kingdom. The focus of the trip was to further develop Massachusetts' innovative industries, such as technology, life sciences and clean energy. This has helped foster a variety of synergies, like the partnership between Boston-based Eduventures and UK-based i-graduate. The companies allow universities to better deliver courses online.

► BOSTON, MASS.—Massachusetts Gov. Deval Patrick traveled abroad with business executives and economic development officials to promote the state's innovative industries. © AP Photo/Elise Amendola

JUMPSTARTING THE ECONOMY WITH TAX CREDITS/INCENTIVES

ARIZONA

Lawmakers this year approved a package of tax cuts and incentives that includes a lower corporate income tax, a reduction in the business property tax and creation of a public-private partnership to oversee economic development. Republicans believe the package will help attract good-paying jobs in the manufacturing and technology sectors. Democrats worry that a fiscal crisis may ensue when a temporary sales tax expires in two years and as localities are forced to raise local property taxes to make up for lost revenue from the business property tax cut.

NEW JERSEY

New Jersey Gov. Chris Christie in April signed into law a bipartisan bill to modernize the state's tax structure to help small businesses create and retain jobs. The corporate tax structure had been based on three factors—sales, the number of employees and the number of facilities in the state. Now it will be based only on in-state sales, which will allow in-state companies to better compete with similar out-of-state companies that often pay less in taxes. Business leaders hailed passage of the single sales factor legislation, saying it will make New Jersey more competitive with other states.

CONNECTICUT

Gov. Dannel P. Malloy unveiled a plan designed to jumpstart Connecticut's economy earlier this year. The "First Five Program" combines several state tax credits to encourage five businesses to create a total of at least 1,000 jobs within two years. Under the plan, a business would be eligible for state financial assistance if it creates 200 jobs in two years or invests at least \$25 million and creates at least 200 jobs in five years.



VIRGINIA

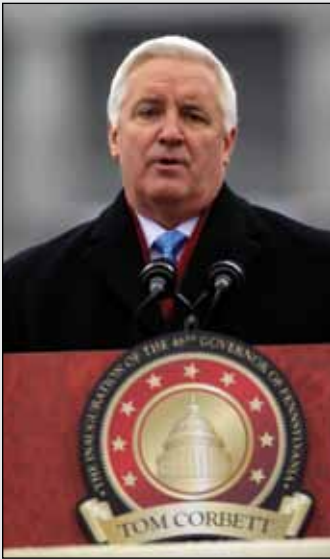
When Virginia Gov. Bob McDonnell took office in 2010, he appointed Lt. Gov. Bill Bolling to serve as jobs creation officer—a role designed to facilitate job creation, business expansion and new business attraction, and put industry—and other states—on notice that Virginia is serious about economic development. Since McDonnell and Bolling took office, Virginia's unemployment rate has dropped to 6.3 percent, from 7.2 percent in February 2010. The state has also made significant changes to its tax code and infrastructure improvements that are playing a part in attracting new business.

► RICHMOND, VA.—Virginia Gov. Bob McDonnell has focused on job creation as a top priority, and appointed his lieutenant governor, Bill Bolling, left, as chief jobs creation officer. © AP Photo/Steve Helber

OKLAHOMA

The Oklahoma Senate passed legislation this session that changes the Opportunity fund, created in 2006 to promote economic development and infrastructure development but declared unconstitutional. House Bill 1953 changes the fund to the Oklahoma Quick Action Closing Fund, which will provide funding to recruit companies to consider locating in the state and provide jobs and capital for Oklahomans.

STREAMLINING WORKFORCE EFFORTS



PENNSYLVANIA

Pennsylvania Gov. **Tom Corbett** has proposed streamlining the state's economic development apparatus into a single financing authority, merging four existing authorities and two revolving loan funds that combined administer 26 different programs. The new Liberty Financing Authority would serve as a one-stop shop for businesses, with a single application, one set of rules and procedures, and one board.

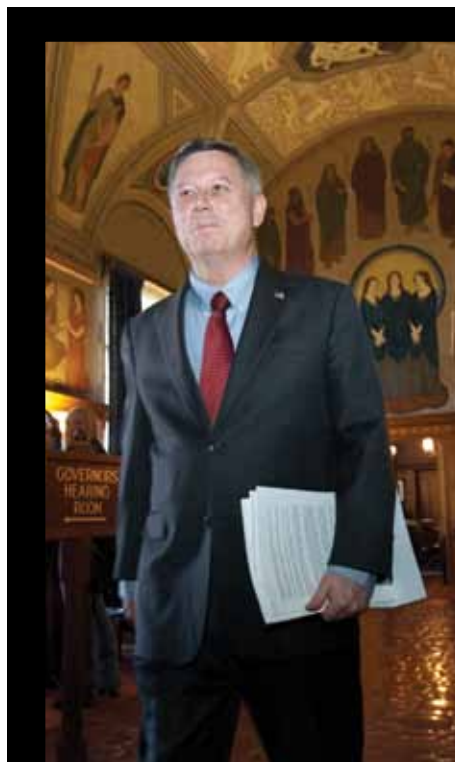
► **HARRISBURG, PENN.**—Pennsylvania Gov. **Tom Corbett** has proposed streamlining the state's economic development efforts. © AP Photo/Matt Rourke

WYOMING

The Wyoming legislature in February passed Senate File 120 creating the Wyoming Department of Workforce Services combining workforce and employment. This will now be a one-stop shop for Wyoming residents to find employment details. The new agency will be responsible for vocational rehabilitation and training grants for businesses, employment opportunities, unemployment insurance benefits, labor standards and labor market information.

NORTH CAROLINA

Rep. **Tom Murry** introduced sweeping legislation with House Bill 800 this session aimed at reorganizing how the state seeks new businesses and interacts with those already established. If passed, the legislation would consolidate the state's economic development efforts, currently housed among more than a dozen agencies or programs, into one single entity, the NC Jobs & Commerce Corporation, a resulting public/private partnership. "Our existing system duplicates efforts, wastes resources and lacks a clear focus," said Murry.



PUBLIC/ PRIVATE PARTNERSHIP LEADING TO INNOVATION IN NEBRASKA

Nebraska Gov. **Dave Heineman** in March awarded \$505,000 in Community Development Block Grants to solidify a partnership between the city of LaVista and ePower Engine Systems LLC. With the grant, ePower will manufacture the battery packs and computer control system for its recently developed diesel/electric drive train modification system for Class 8 heavy trucks. The partnership is expected to create jobs in LaVista and also lead to the development of more fuel efficient technology.

► **LINCOLN, NEB.**—Nebraska Gov. **Dave Heineman** awarded a \$505,000 grant to solidify a partnership between LaVista and ePower Engine Systems LLC in an effort to create jobs.

© AP Photo/Nati Harnik, File

STATES FUND JOB TRAINING TO PUT PEOPLE BACK TO WORK



OREGON

Oregon Gov. **John Kitzhaber** has included \$3.4 million for on-the-job training programs in an effort to attract and retain competitive businesses. In cooperation with the Career Readiness Certificate Program, a national evidence-based credential that measures essential workplace skills, this strategic training fund will support the retention and growth of a skilled workforce.

► **SALEM, ORE.**—Oregon Gov. **John Kitzhaber** included \$3.4 million for on-the-job training in his budget to attract new businesses.

© AP Photo/Rick Bowmer

NEW MEXICO

Gov. **Susana Martinez** in April signed House Bill 8, which appropriates \$1.25 million to the development-training fund through the Economic Development Department's Job Training Incentive Program, or JTIP. The funding will support classroom and in-plant training to provide skilled workers for new or expanding industries and businesses in the state. JTIP will reimburse businesses 30 to 75 percent of the wages paid to newly hired employees for up to six months and up to one-third of the dollars is prioritized for rural, frontier and distressed areas of the state.

NARROWING THE FOCUS TO THEIR STRENGTHS

NEVADA

In an effort to diversify the state's economy and create new jobs, the Nevada Commission on Economic Development commissioned a report released in April highlighting the state's industry innovation strength areas. Dubbed "The SILVER Spark for Nevada: Sustainable Innovation Leading a Vital Economic Renaissance," the report examines existing industries that can be cultivated to expand technology commercialization. The study's goal is to drive more innovation and investment in Nevada, accelerate company formation, diversify the economy and create new jobs for Nevadans.

TENNESSEE

Jobs4TN, a new statewide blueprint for pursuing high-quality jobs, seeks to prioritize the recruitment of industry, help existing businesses expand, support regional economic strategies and invest in innovation. More than 300 stakeholders, community leaders and national experts had input into the plan. Nearly 86 percent of new jobs in Tennessee in 2010 came from existing business, therefore a key strategy will be to help business expand and become more competitive through technology transfer and access to early-stage capital. Tennessee will create nine regional "jobs base camps" to reach out to rural counties and will target businesses such as automotive, chemicals/plastics, transportation, logistics/distribution services, advanced manufacturing and energy technologies.

MISSOURI

Missouri Gov. Jay Nixon in April unveiled a five-year economic blueprint that recommends the state promote the development of seven specific industries with a mixture of tax incentives, specialized job training and expanded infrastructure projects. The industries are advanced manufacturing, energy, bioscience, health sciences, information technology, financial and professional services, and transportation. Nixon said many of the proposals could be accomplished without action by state lawmakers.

KANSAS

Kansas Gov. Sam Brownback is proposing a \$105 million University Economic Growth Initiative to promote sectors such as aviation, cancer research, animal health and engineering. The University of Kansas, Wichita State University and Kansas State University would be eligible to receive the funds. The university must provide 50 percent of program resources via private sector donations or university funds.

ILLINOIS



Gov. Pat Quinn formed the Illinois Innovation Council this year as part of an effort "to identify and advance strategies to foster and accelerate the innovation and economic growth that will create the jobs of today and tomorrow. The governor assembled key leaders of the academic, business and government sectors to advance this mission. The council is chaired by Groupon cofounder Brad Keywell and holds that an extensive network—with depth and resources—is crucial for fostering a

successful, innovative economy.

► PEORIA, ILL.—Illinois Gov. Pat Quinn, pictured at a news conference in Peoria, formed the Illinois Innovations Council to address job creation. © AP Photo/Seth Perlman

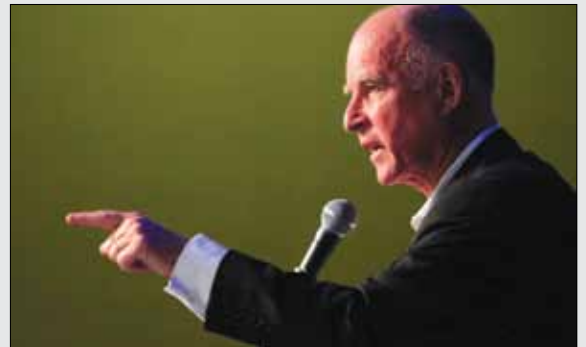


NEW HAMPSHIRE WEBSITE CONNECTS SUPPLY, DEMAND

New Hampshire Gov. John Lynch in April unveiled a new website to

connect New Hampshire manufacturers with New Hampshire suppliers and buyers. During a Jobs Cabinet Roundtable meeting last year, business leaders told the governor they wanted to work with other in-state companies, but that it was a challenge to easily identify them. The new site will be housed on the state's economic development site—*NHEconomy.com*—and will allow registered companies to purchase goods and services from each other.

► HOPKINTOWN, N.H.—New Hampshire Gov. John Lynch, shown voting last November, unveiled a new website to connect suppliers and buyers in his state. © AP Photo/Jim Cole



FINDING JOBS IN GREEN ENERGY

Gov. Jerry Brown said in April that legislation he signed this year to require California utility companies to get as much as 33 percent of their electricity from renewable energy sources by 2020, will stimulate investment in green technologies in the state, create tens of thousands of new jobs, improve local air quality, promote energy independence and reduce greenhouse gas emissions.

► SACRAMENTO, CALIF.—Gov. Jerry Brown believes a renewable energy bill will not only help the environment, but will also attract investments and create jobs. © AP Photo/Rich Pedroncelli



Education Really Does Pay ...

BUT CAN STATES FUND IT?

by Jennifer Ginn

The year 1861 was a memorable one for Kansas; that was the year it officially became a state. But the mostly agricultural former territory also was suffering through a years-long drought and the state's economy was in the tank.

"Its economy was a disaster," said Gary Sherrer, chair of the Kansas Board of Regents, the state's lieutenant governor from 1996 to 2003 and former secretary of the state Department of Commerce from 1995 to 2002. "There was almost no economy. It was a large geographical landmass, not that many people. There really wasn't a strong industry other than agriculture and they had suffered droughts."

The Kansas legislature immediately voted to found a state university.

"The whole premise was the state cannot advance if its people are not educated to handle the changing times. I think it's funny, 150 years later, and we're still having to try to get that same message out to the legislature."

Budget Cuts

In the wake of the Great Recession, states struggling to close gaping budget holes have cut education spending. According to the Center on Budget and Policy Priorities, 34 states and the District of Columbia have cut education funding since 2008. Forty-three states have cut funding to higher education during the same time. Some governors have proposed budget cuts of up to 50 percent for higher education in the coming fiscal year.

Preschool funding also has taken a significant hit, according to The National Institute for Early Education Research. Total state funding for preschool programs fell by almost \$30 million during the 2009–10 school year, which would have been more severe without the \$49 million pumped into schools through the federal American Recovery and Reinvestment Act. States, on average, were spending \$500 less per preschool child in 2010 than they did in 2002.

Although the education budget cuts are understandable, it's not the way to ensure long-term economic growth in a state, said former West Virginia Gov. Bob Wise, president of the Alliance for Excellent Education. Wise said before he left office in 2005, he had worked with the legislature to offer all kinds of economic incentives to lure businesses into the state.

"You couldn't walk into my state without me giving you something," Wise said. "... The reality was, every time I met with a CEO, the first thing out of his



EFFECTS OF BUDGET CUTS

FULLERTON, CALIF.— Jennifer Van Gerpen, of Brea, Calif., above, was among students at Fullerton College, one of California's oldest community colleges, who had problems getting into needed classes. Budget cuts at the college are making fewer course offerings for the students. © Corbis/Rod Veal/ZUMA Press

NEWARK, N.J.—At left, cuts to the education budget in New Jersey drew protests in late April. A pair of students chanted "Save our Schools" during the protest while at Military Park in Newark. © Corbis/Aristide Economopoulos/Star Ledger

mouth would be, 'Tell me about some aspect of your educational system.'

"Twenty years ago you could fight (to recruit businesses) using tax incentives, property tax abatements and giveaways and so on. ... This is no longer an industrial economy; it's an information age economy. In the information age economy, information is the only currency. If you want to be truly competitive as a state, you've got to be involved in making sure your education system is top rate."

Why Education Matters

Wise said 1.3 million high school students don't graduate each year. And for each year of dropouts, those students cost the U.S. \$320 billion in lost revenue during their lifetimes.

"The best way to cut the deficit short- and long-term is by cutting the dropouts," Wise said. "The reality is, if you don't improve education, if you don't cut the dropout rate and you don't increase the postsecondary gradua-

tion rate, you're not going to increase the economy by any significant measure."

Maryann Feldman, the S.K. Heninger Distinguished Chair in Public Policy at the University of North Carolina, Chapel Hill, has studied what has made her state and its Research Triangle so successful in job creation and economic growth. It's been things like pooling resources—such as computing support—between all the universities so they must work together, working with high school students to help them understand the biotech industry and its career options, and providing the resources to attract top scholars—including future Nobel prize winners—who go on to train the next generation of graduate students.

"I think the most important lesson right now is cutting K-12 education is really the quickest way to the bottom," Feldman said. "If you want to have a talented workforce, that really starts with K-12. ... It's a matter of investing in the future. ... We should really be creative so we don't cut into our seed corn and really

RALLY FOR SCHOOLS
ANN ARBOR, MICH.—
Thousands rallied
against state budget
cuts to K–12 and higher
education in Michigan
in April. They marched
to the University of
Michigan Stadium where
Gov. Rick Snyder, who
has proposed the cuts,
was the commencement
speaker. Snyder has
proposed big cuts for
education and a tax cut
for businesses.

© Corbis/Jim West/ZUMA Press



compromise the long-term perspective, the long-term potential.”

Sherrer, the Kansas Board of Regents chair, has long believed that education does pay for students and the state. The Board of Regents wanted to find out just how much it did pay. A recent economic impact report showed that for each \$1 the state invests in the Kansas higher education system, an additional \$11.94 of economic activity is generated.

“I think most of the board was surprised,” Sherrer said. “Essentially, we had a 12-to-1 return on investment. While we knew from our own personal experience there was a value, it was probably a little more than we anticipated.”

Sherrer said the economic study, which was performed by a group outside of Kansas, didn’t even include some of the initiatives underway. The University of Kansas School of Medicine is seeking designation by the National Institutes of Health as a national cancer center. Sherrer said estimates are that project alone would generate \$1.3 billion annually in economic activity for the state.

“That’s just one small example of the huge amount of money that comes from having a solid education system,” Sherrer said.

Pennsylvania Rep. James Roebuck, in a video interview with The Council of State Governments, said constituents understand how important a strong education is.

“I think that more and more, young people recognize that they need a college credential

to enter the workforce,” Roebuck said. “... It’s in a sense the fundamental reality of the world in which we live that college is important. It’s to the point that it now is the entry into the workforce. It’s the thing that lays the groundwork or the foundation for the future.”

Spending Smarter

Making strategic investments in education, experts note, isn’t necessarily about spending more money. Wise said state policymakers need to work with educators, community members, business leaders and parents to find the best ways of delivering a high-quality education. Now is the chance, he said, for policymakers to make true change.

“I think it (the recession) ... provides you the opportunity to do things that otherwise people wouldn’t be able to agree upon,” Wise said. “When the ox is in the ditch, everybody has to jump in and help push it out. The state budget ox is obviously in the ditch.

“... If all you do is simply cut the budget 3 percent or 4 percent in education, if all you do is lay off thousands of teachers and increase class size, then you’re going to come out of the recession, but you’re not going to come out with any gains. My guess is you’ve set back economic development because the emerging workforce will be less well prepared.”

Sherrer said the urge is strong among the states to shrink government. It’s a hard posi-



Infrastructure Spending Lagging after Great Recession By Jennifer Ginn

Although the federal American Recovery and Reinvestment Act may have pumped billions into shovel-ready transportation projects in the states, the frantic pace of infrastructure improvements dropped off dramatically after states spent Recovery Act money.

Jeff Solsby, spokesman for the American Road & Transportation Builders Association, said states were spending the federal money, but couldn't match it with state funding.

"States are facing a number of budget challenges," Solsby said. "It's forced them to circle the wagons. We're seeing states cut back on transportation funding."

Transportation funding before the Great Recession hit wasn't too good either. According to a report from the National Surface Transportation Policy and Revenue Study Commission, the U.S. needs to invest at least \$225 billion each year for the next 50 years to maintain and upgrade the country's current transportation system. Current spending is less than 40 percent of that amount.

Solsby said a well-maintained infrastructure is important for a state's economic health. Most states depend on a gas tax to fund transportation projects. But that funding has been hurt because of the near-record high gas prices causing consumers to buy less gas, along with the lack of federal direction because of the absence of reauthorization of the federal transportation surface programs.

"For a long time, I think the view has been, 'If you build it, they will come,'" Solsby said. "Building infrastructure simply encourages growth,

encourages expansion. Just the opposite has happened. ... Over the last 30 years, cars have doubled but the number of lane miles increased just 7 percent. We didn't build it, but they came anyway.

"... We have to do a lot of forward planning on infrastructure investments in all modes. ... We need to start to take sort of a holistic approach, try not to turn this into a mode versus mode battle. How can we invest in all modes?"

Joe Minarik, senior vice president and director of research for the Committee for Economic Development, said states are struggling with a lot of issues that fall under the heading of "competitiveness." How do you balance a welcoming tax environment for businesses along with health care, roads and education?


"They all become part of the question of investment and competitiveness going forward," Minarik said. "They're all going to be under budget pressure. You need to decide which ones are important. You need to be extremely efficient so you're not spending more than you need to on even the important things. There's going to be a lot of concentration on best practices as well.

"You have all these dimensions. ... I can't imagine any state or locality that can say, 'The solution to our problems is roads and we're going to throw everything else over to the side and we're going to have roads.' That's not going to fly when you're trying to get people who want to live at the end of the road, you want people with skills at the end of the road. ... It's got to be a balance of a lot of things."

tion to have and be an advocate for a strong educational system since so much of a state's budget is directed toward education.

"Fiscal problems are the short term," Sherer said. "... If you're thinking short term, then that sort of general rhetoric, across-the-board cutting and all that sort of thing, probably will carry the day. If you really are thinking about the future of your state, I think selected investments will begin to set you apart from other states. I think that's the hard choice; that's the most difficult road to travel. But at the end, it would do the most for the people of the state."

Economist Zachary Karabell said it is easy to understand the friction legislators face between the short-term pressures of a budget crisis compared to the long-term need for a strong education system.

"Education is a very slow process," Karabell said. "You're not going to see the fruits of that (primary education) for 12 to 20 years. It becomes very easy to eliminate things in a period of time where we feel cash-constrained. It's easy to eliminate things whose outcome is uncertain, other than expense." 



"The reality is, if you don't improve education, if you don't cut the dropout rate and you don't increase the postsecondary graduation rate, you're not going to increase the economy by any significant measure."

—Former West Virginia Gov. Bob Wise
President, Alliance for Excellent Education

INTRODUCTION ►

2011 STATES DEAL WITH RECESSION'S AFTERMATH



Although the Great Recession officially ended in the summer of 2009, states are still dealing with the loss of tax revenues and increased costs of aid programs. While many policymakers focused on job creation, states also addressed other issues aimed at pumping up the bottom line, such as making cuts or changes to Medicaid, addressing the growing pension shortfall and redesigning justice programs. Some states also addressed the state workforce and benefits government employees receive.

BUDGET GAPS ▶

States Have Few Options to Fill Budget Gaps

By Jennifer Burnett

With Connecticut facing a \$3.5 billion budget deficit, new Gov. Dannel Malloy made it clear the state's economic crisis couldn't be resolved using only one tactic.

"We cannot cut our way out of this deficit ... and we cannot tax our way out of it either," said Malloy.

Throughout this year's budget season, policymakers have been faced with huge budget gaps like Connecticut's and most have pushed to cut spending—including major cuts to education, health care and infrastructure—as the primary way to balance budgets. Malloy's budget proposal, passed by the legislature in early May, took a different approach: It pushed significant tax increases alongside cuts.

The two-year budget will raise taxes on income, corporations, inheritance, alcohol and cigarettes by \$1.4 billion in the first year and \$1.2 billion in the second year. The budget also raises the retail sales tax from 6 to 6.35 percent and taxes services that previously were not taxed—like haircuts, dog grooming and cosmetic surgery. Democratic leadership also say the budget cuts spending by \$3 billion over two years, including \$2 billion in concessions from public employee labor unions. Those concessions had not been agreed to when the budget was passed, and talks with labor unions continued into May.

Those tax increases made the budget proposal controversial. In the end, the House of Representatives, controlled by Democrats, approved the package by an 83-to-67 vote, with 15 Democrats breaking ranks after 10 hours of debate.

"That was a tough vote to make, but it was the right vote to make," Malloy told reporters after the budget passed.

Policymakers across the country faced those tough votes. A Center on Budget and Policy Priorities report found nearly every state budget proposed by governors for the upcoming fiscal year spends less—adjusted for inflation—than the year before, with a majority of states proposing major cuts to core public services.

Only seven states initially proposed any significant revenue-raising measures like those approved in Connecticut. Illinois, for instance, passed a budget that raised the individual income tax rate temporarily from 3 to 5 percent and the corporate tax rate from 4.8 to 7 percent; those tax



BUDGET DEAL

HARTFORD, CONN.—Gov. Dannel P. Malloy signed a two-year \$40.1 billion budget bill into law in May. Joining him were House Speaker Christopher Donovan, left, state Sen. Toni Harp, House Majority Leader Brendan Sharkey and Senate Majority Leader Martin Looney at the Capitol in Hartford, Conn. © AP Photo/Jessica Hill

hikes are projected to add \$6.8 billion to the state's fiscally stressed coffers.

In other states, proposals to raise revenue through tax increases have been met with significant criticism, as many policymakers fear both the political and economic consequences of raising taxes in the current economic climate.

In Minnesota, Gov. Mark Dayton's plan to raise revenue through increasing income taxes on the state's top earners has been heavily criticized in a state that last raised taxes for general fund expenditures in 2005.

In California, Gov. Jerry Brown's plan to balance the budget included big funding decreases in state services, but also proposed a public vote on a series of tax increases and extensions to spare K-12 programs from significant cuts. Getting a tax increase on the ballot has proved to be difficult. As of mid-May, the legislature had not approved it.

Back in Connecticut, the fight over the controversial budget didn't end after Malloy signed the bill. Conservatives planned to file a lawsuit challenging the constitutionality of the budget on the grounds that it was in violation of the state's 1992 balanced budget amendment. And on May 10, when two months of talks with the State Employees Bargaining Agent Coalition failed to produce concessions from public employee labor unions needed to plug a major budget hole, layoff notices started going out to 4,742 state workers—nearly 10 percent of the public labor force.

Malloy conceded those layoffs could be rescinded if the union makes concessions. The unions tentatively agreed to concession shortly after the layoff notices were mailed.

"I want to be clear that this is not the road I wanted to go down," Malloy said. "I didn't want to lay people off, and I didn't want to make additional spending cuts beyond the \$780 million in spending we've already cut. But I have no choice." □

MEDICAID CHANGES ►

Redesigning Medicaid for Financial Sustainability

By Debra Miller

New York Gov. Andrew Cuomo and legislators took an unprecedented step during the 2011–12 budget deliberations to stop the hemorrhaging of the state’s Medicaid budget.

They adopted a global cap for Medicaid spending over the next two years. The move came just as a *USA Today* analysis found that New York spending per Medicaid enrollee topped all other states in 2010. According to the newspaper, New York spent \$2,903 per person on

Medicaid in 2010—a third more than any other state. The U.S. average is \$1,364.

New York set its 2011–12 Medicaid budget at \$15.3 billion, reflecting a 2 percent overall decrease in Medicaid expenses. The next year’s budget will be allowed to increase 4 percent to \$15.9 billion, reflecting the medical component of the consumer price index. To hold all parties’ feet to the fire, the budget bill authorized the Department of Health commissioner, in consultation with director of the Department of the Budget, to develop and implement a plan if monthly monitoring shows excessive spending. The law requires consultation with the legislature and health care stakeholders and a written plan 30 days before implementation.

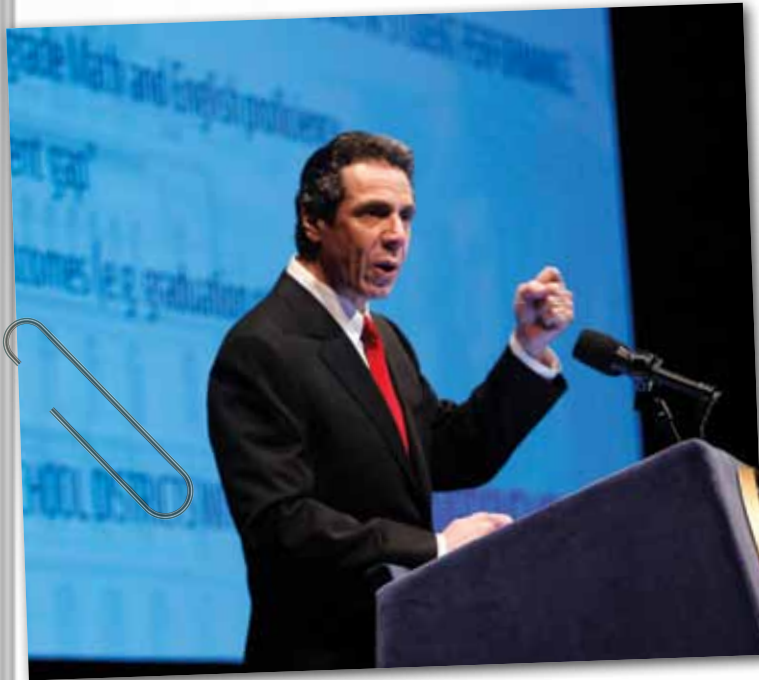
“New York is not the first to consider global budget caps. Vermont and Rhode Island have waivers that do the same thing,” said Matt Salo, executive director of the National Association of Medicaid Directors. “But I think it does tell you that the urgent need to rethink how we operate and finance Medicaid is not a political issue.”

Soon after Cuomo took office, he appointed a Medicaid Redesign Team to propose measures to build a more affordable, cost-effective Medicaid program. By the end of February, the team adopted 79 proposals, totaling \$2.375 billion in savings.

Richard Gottfried, Assembly Health Committee chair, said the recommendations put forward “will place our Medicaid system on a path to long-term financial sustainability with safeguarding quality health care for New Yorkers in need, the elderly and the disabled.”

One very concrete saving is a 2 percent across-the-board rate reduction for all providers. Other payment and program reforms include patient-centered medical homes, major expansion of care management and new controls in personal care and home health. Cuomo lost his push for caps on “pain and suffering” damages for malpractice victims.

Salo said the New York budget cuts reflect today’s economic realities. “The challenge for states will be in finding how to make significant budget savings in a very narrow budget window. Any return on investment outside of a one- or two-year window isn’t going to cut it.” □



MEDICAID CUTS

ALBANY, N.Y.—New York Gov. Andrew Cuomo presented his 2011–12 proposed Executive Budget in Albany, N.Y., in February. Medicaid was among the cuts Cuomo proposed; his budget also called for 9,800 layoffs and cuts to school aid. Visit the Capitol Ideas website to see how other states are handling the Medicaid funding challenge. © AP Photo/Mike Groll

STATE PENSIONS ►

No More 'Business as Usual' in State Pensions

By Sujit M. CanagaRetna

Kris Steele vowed in 2010 that Oklahoma could no longer do business as usual.

"We must address the growing unfunded liabilities of our pension plans and create a modern retirement system," the House speaker said. "We are committed to developing creative solutions and meaningful reform measures that will make a real difference in the lives of current and future retirees."

He followed through on that promise, first by appointing Rep. Randy McDaniel to lead the reform effort and then by sponsoring and supporting a series of bills to stabilize the state's wobbly pension system.

"Pension reform is vital to the financial future of Oklahoma," McDaniel said.

Like a majority of the states, Oklahoma faces enormous challenges related to improving the funded ratio of its pension system, a scenario exacerbated by the gloomy outlook in every element of the national retirement architecture: Social Security, Medicare, pension income (public and private) and personal savings.

In addition, the aging U.S. population, rising life expectancy rates and declining worker-to-retiree beneficiary ratio all pose mounting complications to the American retirement landscape. The collapse of the equity markets in 2008 and the intensity of the Great Recession adversely impacted the portfolios of every state retirement plan, even though the ongoing economic recovery, albeit somewhat anemic, has resulted in improved returns for these plans.

More than two dozen states have either proposed or



PENSION CHANGES COMING

OKLAHOMA CITY, OKLA.—House Speaker Kris Steele, right, talked with Rep. Richard Morrisette on the House floor in Oklahoma City in March. Steele pushed for changes in the Oklahoma state employee pension plan during the most recent legislative session.

© AP Photo/Sue Ogrocki

enacted reforms to bolster the financial position of their retirement plans in 2011. Oklahoma's pension system has faced immense challenges for well over a decade.

"Ten years ago, the state's unfunded pension liability was just over \$6 billion. Today, it is nearly \$15 billion—more than twice the size of the entire state budget," McDaniel said.

Along with Steele, McDaniel has proposed a fourfold approach to reforming, restoring and stabilizing the fiscal position of the state pension system:

- Move all incoming Oklahoma legislators and state employees into a newly established defined contribution plan;
- Require that all cost-of-living-adjustments are fully funded when authorized by the legislature;
- Mandate that a specific pension plan in the state retirement system is at least 80 percent funded before a cost-of-living adjustment can be authorized for the plan; and
- Divert a portion of the revenues received by the commissioner of the Land Office to fund cost-of-living adjustments for retired teachers, which, if enacted, would be the first dedicated funding source for COLAs in state history.

Oklahoma Sen. Mike Mazzei has joined his House colleagues to promote solvency of the state's pension system and emphasized that revamping his state's pension system is vital to "reduce the unfunded pension liability; avoid the risk of a massive tax hike; avert budget cuts to pay for unfunded liabilities; protect the state's bond rating; and establish a stable, long-term pension model for Oklahoma."

McDaniel acknowledges the pension reform proposal won't eliminate the solvency problems overnight. But, he said, "they will significantly improve the financial soundness of the retirement system." □



"Pension reform is vital to the financial future of Oklahoma."

—Rep. Randy McDaniel

COLLECTIVE BARGAINING ►

Union Busting or Budget Balancing?

STATES CHANGE COLLECTIVE BARGAINING LAWS

By Tim Anderson

From the moment changes to Wisconsin's collective bargaining law were introduced, it became clear to legislators that state politics and policy—and their own jobs—were never going to be the same.

In the office of Sen. Chris Larson, the phone went from ringing “here and there” to ringing “every five minutes, nonstop.”

Larson has received several thousand phone calls, more than 20,000 emails and hundreds of letters about Assembly Bill 11, which restricts collective bargaining for public workers, changes union certification rules and prohibits union dues from being deducted from employees' paychecks.

Gov. Scott Walker signed the measure into law in March.

But the fight over the bill—and its impact on the Wisconsin legislature, state government and politics—has just begun.

“Right now, I feel like we're in the second inning on this,” said Larson, noting the court challenge to the law and the likelihood of many sitting Democratic and Republican lawmakers facing recall elections as just two examples.

“We are at a tilt right now, and I think people are looking at Wisconsin as a symbol for what's going to happen in the rest of the country.”

That's also true of Ohio, which made significant changes to the laws governing collective bargaining and public employee unions in 2011 as well.

Sen. Kevin Bacon said he received 25,000 emails on Ohio Senate Bill 5 before it was signed into law.

Public interest and debate will only intensify in the coming months, Bacon said, because there will almost certainly be a statewide referendum on Senate Bill 5 this November.

Bacon helped shepherd the measure through the legislature as chair of the Senate Insurance, Commerce & Labor Committee. During the process, Bacon lost three endorsements; a protester showed up at his home; and opponents of the measure interrupted a dinner.

But Bacon believes a “silent majority” of Ohioans support the changes, and that local governments will need them to navigate a coming fiscal storm.

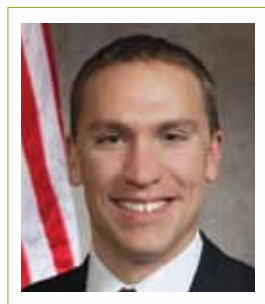
“They are going to be facing cuts (in state aid) and changes in tax policy that will affect their bottom lines,” said Bacon, a former local township trustee. “They can handle the changes if they have the flexibility.”

State lawmakers in Ohio and Wisconsin, meanwhile, are dealing with a new political reality, one in which debate over collective bargaining and public employee unions will likely dominate public discussions over the next few months, and possibly for years to come.

Effects of Unions

Since their enactment, collective bargaining laws have raised compensation for public workers and narrowed the pay gap between private and public workers, according to University of Toledo law professor Joseph Slater and University of Wisconsin history professor William Powell Jones.

Today, a central question for lawmakers is the extent to which collective bargaining and public employee



“We are at a tilt right now, and I think people are looking at Wisconsin as a symbol for what's going to happen in the rest of the country.”

—Wisconsin Sen. Chris Larson, discussing legislation to restrict collective bargaining for public workers



unionization is contributing to states' current fiscal problems.

A state-by-state analysis of U.S. Census Bureau data shows collective bargaining states spend less on salaries, wages and benefits than states that don't extend this right to workers — 16.4 percent of total spending vs. 18.4 percent of total spending, according to Steve Kreisberg of the American Federation of State, County and Municipal Employees.

A recent analysis by George Washington University professor John Sides, however, showed some correlation between unionization and budget deficits. He found a 5 percent increase in public-sector union membership is associated with a 1 percent increase in 2011 fiscal year deficits as a percent of the budget.

A similar review of total state and local government spending and unionization found no correlation, unless

WISCONSIN BUDGET BILL

MADISON, WIS.—Wisconsin Gov. Scott Walker held a ceremonial signing of his budget repair bill at the State Capitol building in early April. The bill was an amended version of Walker's original legislation, which repealed most collective bargaining options of public employees. That portion of the bill is facing legal challenges and is stalled in the state's court system.

© AP Photo/Wisconsin State Journal, John Hart

three outliers—Alaska, Wyoming and the District of Columbia — are excluded from the data.

Chris Edwards, director of tax policy studies at the Cato Institute, said his studies on the issue have found links between lower rates of unionization and better-managed state governments and lower state and local government debt levels. He did not find much correla-

State Collective Bargaining Laws

- 1935** ▶ Congress passes the National Labor Relations Act giving private workers the right to strike and collectively bargain. The law did not cover state and local employees.
- 1959** ▶ Wisconsin became the first state to pass a collective bargaining law for public workers. “That Wisconsin law worked out things you still see today: mediation, fact-finding and some forms of binding arbitration,” said University of Toledo law professor Joseph Slater.
- 2011** ▶ Wisconsin and Ohio legislators passed laws to limit collective bargaining rights for public employees. Most U.S. states now have laws that guarantee collective bargaining rights for at least some public workers; a handful of states prohibit collective bargaining.

tion between unionization in the public sector and the fiscal health of state pension systems.

To measure the true costs, Edwards said, states must look beyond salaries, pensions and health benefits.

“It’s not just the wages that raise the costs,” he said. “You have resistance by the unions to cost-cutting reforms, and these unions have excessive leverage over the policymaking process.”

Changes Coming

The 2011 Wisconsin law limits collective bargaining to wages and says salary increases cannot exceed the consumer price index without voter approval. Police of-

ficers and firefighters are exempt from these and other provisions of the law.

The wages-only provision was essential to controlling “other factors that have a fiscal impact when it comes to union negotiations,” Wisconsin Rep. Joan Ballweg said.

She notes, for example, that local school districts will have more flexibility in staffing and setting the school calendar, while all local governments will be better able to rein in the rising costs associated with employee health benefits.

Two other provisions in Assembly Bill 11 require public employee unions to recertify every year with affirmative votes by 51 percent of the full membership and prohibit the use of check-off programs, in which union dues are automatically deducted from the paychecks of members.

Larson cites those two provisions in particular as evidence that Assembly Bill 11 is not an effort to solve the state’s budget woes, but rather an attempt to crush public employee unions.

Ohio’s law has different provisions, but the underlying debate about its impact is the same.

Bacon said the most significant parts of Senate Bill 5 give local government officials more tools to better manage their employees and finances. For example, issues such as hiring practices, shifts and purchasing are taken off the bargaining table. In addition, the law explicitly states that provisions in previous worker-employer agreements cannot be a mandatory subject of negotiations over a new contract.

Under Senate Bill 5, no public employees are allowed to strike. This ban previously applied only to public safety workers, who instead had the option of binding interest arbitration when an impasse in negotiations occurred. Binding interest arbitration has been eliminated for Ohio police officers and firefighters. Instead, for all public employees, the local governing body or voters will ultimately decide an impasse in negotiations.

Other provisions in Senate Bill 5 lower the threshold for union members to seek decertification, prohibit public employees from having to pay “fair share” dues and institute merit-based pay for teachers.

The Ohio and Wisconsin laws face an uncertain future.

In Ohio, the first obstacle for Senate Bill 5 proponents will be a statewide ballot measure in the fall seeking a repeal of the law. In Wisconsin, legal challenges and recall elections will be among the first tests of the staying power of Assembly Bill 11. ◻

STATE WORKFORCE ►

Fiscal Realities Will Affect State Workforce Long-Term

By Leslie Scott



Leslie Scott is the executive director of the National Association of State Personnel Executives, an affiliate of The Council of State Governments.

It's no secret that state government employees—the number of them, their compensation and their benefits—have been the subject of much inquiry and debate as state governments wrestle with significant budget shortfalls.

Governors across the country have asked state employees to sacrifice as tough decisions such as hiring freezes, furloughs, pay cuts and layoffs, as well as con-

tribution changes to health care benefits and employee pensions, are being made to balance state budgets.

In a recent report by the National Association of State Chief Information Officers, "IT Workforce Under Pressure," state CIOs indicate hiring freezes and elimination of vacant positions continue to be the biggest challenges when developing, supporting and maintaining IT services for state government.

While the current fiscal realities have dictated these actions, the long-term ramifications these actions will have on the state government workforce raise concerns.

Members of the National Association of State Personnel Executives indicated the number one issue they face in 2011 is low morale among state government employees. Stagnant or decreased pay, along with concern about job security, has had a major impact on employee morale. In addition, negative portrayals in the media and public perception of state employees also have contributed to the low morale. In many cases, reductions in force have required state employees to take on additional work responsibilities with little or no training in how to do the new work they've inherited.

State human resource directors fear a tidal wave of factors that could leave the state government workforce with limited experience, talent and needed skill sets. Approximately 30 percent of state government employees are eligible to retire within the next five years, accord-



SHRINKING WORKFORCE

DULUTH, GA.—Georgia Gov. Nathan Deal said before taking office the state would need to lay off government employees to balance the budget. He said the state must shrink its 104,000-person workforce.

© AP Photo/David Goldman

ing to 2010 research by Dr. Sally Selden of Lynchburg College. An economic recovery is anticipated to spur retirements, according to a 2010 joint survey by NASPE, the International Public Management Association for Human Resources and the Center for State and Local Government Excellence. These retirements will mean a significant loss of institutional knowledge and experience.

At the same time, with training and development budgets slashed, and employees with less seniority often affected first by layoffs, little is being done to prepare employees to take on the leadership and experienced roles that will be vacated by retirees. Also of concern is that the private sector, which typically experiences an economic recovery about 18 to 24 months before the public sector and hence begins increasing hiring first, will lure away high-performing, high-potential state government employees.

While state HR directors have indicated little is known now about how the changes to the benefits packages will affect future recruitment, the National Association of State Chief Information Officers' report indicates reduced benefits are a major concern in their recruitment efforts. Benefits and stability have been the recruitment tools they've utilized most often because they can't compete with private-sector salaries.

While budgets will remain tight, it will be more critical than ever for states to recruit, retain and develop talent as they are stretched to deliver services with a significantly leaner workforce. ■

JUSTICE REINVESTMENT ►

BIPARTISAN EFFORT SHAKES UP JUSTICE SYSTEM

JUSTICE REINVESTMENT LEGISLATION WILL SAVE STATE MONEY,
STRENGTHEN CORRECTIONS PROGRAMS

By Robert Coombs and Jason D. Newman

Kentucky policymakers during the 2011 legislative session enacted significant changes to criminal justice policies that will save the state \$422 million over 10 years while strengthening probation and parole programs for substance abusing offenders.

Justice reinvestment is a data-driven approach to reducing corrections spending and reinvesting the savings in strategies that can decrease crime. Kentucky House Bill 463, titled the Public Safety and Offender Accountability Act, is a comprehensive package of sentencing and corrections legislation meant to increase public safety, hold offenders accountable and control corrections spending.

The way the bill came to pass is just as striking as its breadth.

Kentucky Senate President David Williams, former national chair of The Council of State Governments, a Republican, teamed up with Democratic Gov. Steve Beshear and House Speaker Greg Stumbo, along with other state leaders, to create a bipartisan, interbranch Task Force on the Penal Code and Controlled Substances Act. The Pew Center on the States' Public Safety Performance Project facilitated the justice reinvestment process and provided technical assistance to the task force.

For more than six months, the task force conducted a detailed analysis of Kentucky's sentencing and corrections data, engaged a wide range of stakeholders, and developed a package of tailored legislative and adminis-

trative reforms that became House Bill 463. By the time the General Assembly overwhelmingly passed the bill, members on both sides of the aisle stood in both chambers and applauded.

Williams said passage of the law represented "a good day for the legislature, one of the best days" he's had in his 26 years in the legislature.

Williams and others had plenty to be proud of. In a single act, they addressed problems that had been mounting for decades, while attending to some of the more immediate fiscal challenges.

Like most states, Kentucky's economy has been hit hard in recent years, raising the visibility of big-ticket budget items like corrections spending. Over the past decade, the commonwealth had one of the fastest-growing prison populations in the nation, increasing by 45 percent since 1999, compared to 13 percent for the U.S. state prison system as a whole.

This increase in population had driven up costs significantly. For the 1990 fiscal year, general fund corrections spending in Kentucky totaled \$140 million. Twenty years later, that amount had grown to \$440 million, an increase of 214 percent. Meanwhile, recidivism rates remained high and above the levels from the late 1990s.

Republican Sen. Tom Jensen and Democratic Rep. John Tilley led the bipartisan task force. Pew's analysis indicated several key drivers leading to Kentucky's prison



"In Kentucky, and nationally, policymakers on both sides of the aisle are recognizing that there are alternatives for nonviolent offenders that are more effective and less expensive."

—Adam Gelb, director, Public Safety Performance Project at Pew Center on the States

JUSTICE REINVESTMENT

FRANKFORT, KY.—Task force members and legislators flanked Kentucky Gov. Steve Beshear when he signed the criminal justice reform bill into law in March. Sen. Tom Jenson, right, sponsored the bipartisan bill in the Kentucky Senate. To Beshear's immediate left is House Speaker Greg Stumbo.

© AP Photo/Ed Reinke



growth. Some of the biggest contributors included an increase in the percentage of parolees revoked to prison without a new felony conviction and a rising proportion of admissions for drug offenses.

To address these challenges, the task force recommended a series of improvements to state sentencing and corrections policies. Task force members worked closely with criminal justice stakeholders—including law enforcement, county officials and jailers, prosecutors, defense attorneys, crime victims and judges—during the development of the recommendations.

Beshear called it “an historic piece of legislation” that will serve as a model for other states.

“In Kentucky, and nationally, policymakers on both sides of the aisle are recognizing that there are alternatives for nonviolent offenders that are more effective and less expensive,” said Adam Gelb, director of the Public Safety Performance Project at Pew.

In the end, the bill passed the Senate unanimously and the House by a vote of 96-2. Task force Co-Chairs Jensen and Tilley developed a close working relationship through the process, negotiating with stakeholders and briefing each party’s caucuses together.

Chief Justice John Minton called their relationship critical.

“They were from two different parties, from two separate parts of the state, but their perseverance caused all of us to lay down our differences for the greater good,” he said. □

—Robert Coombs is a senior policy analyst and public affairs manager with The Council of State Governments Justice Center. Jason D. Newman is a senior associate, Public Safety Performance Project at The Pew Charitable Trusts.

Justice Reinvestment in Kentucky is being carried out by the Public Safety Performance Project of The Pew Center on the States and its partners, the Crime and Justice Institute and JFA Institute, which provided technical assistance. The CSG Justice Center is one of several organizations doing justice reinvestment in states. The CSG Justice Center partners with The Pew Center on the States in many justice reinvestment initiatives, including a recent effort in Indiana focused on sentencing reform.

Reforming the Justice System

The Public Safety and Offender Accountability Act strengthens probation and parole, and improves government performance to reduce recidivism. Among the reforms, the bill:

- ▶ Focuses expensive prison beds on serious offenders
- ▶ Maintains penalties for serious drug offenders and traffickers
- ▶ Establishes more proportionate penalties that help to differentiate crimes like drug trafficking from minor drug peddling
- ▶ Allows courts to divert first- and second-time possession offenders from prison and expands treatment opportunities
- ▶ Reinvests a significant portion of the savings achieved by the bill into evidence-based programs, including substance abuse treatment and mental health programs

Probation and Parole System

- ▶ Focuses supervision on high-risk offenders
- ▶ Requires courts and corrections authorities to incorporate risk and needs information in their decision-making process
- ▶ Utilizes evidence-based practices for reducing recidivism

Offenders

- ▶ Face increased accountability for violations through the use of intermediate sanctions for technical parole and probation violations
- ▶ Face frequent drug testing with swift and certain sanctions for positive tests and referral to treatment if necessary—pilot projects will be based on Hawaii’s HOPE probation model

Straight TALK

WHAT SIGNS OF RECOVERY ARE YOU SEEING?



JOSHUA MILLER

Rhode Island Senator
Owner of Trinity Brewhouse and
Local 121

JOBS, REVENUE MAKE SLIGHT GAINS

"My state suffers from the fourth-highest unemployment rate in the country, but there is a **slight and steady improvement** over the last year. Revenue has also had a slight gain over the same period. I own two restaurants in downtown Providence. Both have had steady gains in revenue every year since opening in 1994 (Trinity Brewhouse) and 2007 (Local 121). In the last two years, increases came only after a much greater effort than in any previous years. Like the state as a whole, growth came with very few additional jobs, a high dose of very hard work by all, innovation that exploited new technologies, and tough decisions that included reduction in benefits and investments in equipment that reduced energy expenses and increased productivity."



RICH CRANDALL

Arizona Senator
President/CFO of
Crandall Corporate Dietitians

MOOD IS VERY POSITIVE

"With the general mood of government to privatize services, our company has seen a **nice uptick** in both hiring and wages. As the nation's largest consulting dietitian firm, we appreciate the opportunity to partner with government in both health care and child nutrition agencies to streamline regulatory oversight. We continue to have a difficult time finding qualified dietitians in areas such as California and Florida, so we know our industry has work to do. Long-term, we see pressure on our clients from reduced federal reimbursement that will start to have a trickle-down effect; however, the mood in Arizona and elsewhere is very positive."



RANDY WOOD

Alabama Representative

Owner of
Wood's Body Shop

AUTO INDUSTRY KEEPS STATE ABOVE WATER

"Alabama's auto industry, which includes some of the top brand names in the world, has been important in keeping state employment **above water**—but barely. The state's unemployment rate is currently 9.3 percent, slightly below the national average. However, rising fuel costs are crimping the earnings of working families. While the housing market is spotty around the state, our people are in need of more jobs, less government interference in business and a health care system that doesn't penalize the economy."



ANDREA STILLMAN

Connecticut Senator

Owner of J. Solomon
Office Supply

BUDGET DEAL AHEAD OF SCHEDULE

"A sure sign of **improving economic fortunes** in Connecticut is an ahead-of-schedule budget agreement. The plan includes spending cuts, tax increases and expected labor savings to address a daunting projected deficit. This budget won't completely resolve Connecticut's economic woes, but we're certainly on the right track. From my perspective as a small business owner, I see relief coming in the private sector too, albeit very slowly. Vendors say they hear comparable, **qualified optimism** from customers throughout the region. Even better news is the pervasive sense we've weathered the worst of this recession in Connecticut and a **brighter economic forecast** is at hand."



GREG BABE

President/CEO Bayer Corp. and
Bayer MaterialScience LLC

MANUFACTURING SITES ACTIVE, DEMAND FOR PRODUCT GROWS

"We continue to see **positive signs** that the economic recovery is progressing. Our manufacturing sites throughout the U.S. are very active right now and the demand for our MaterialScience products continues to grow. We expect the **favorable business conditions** to remain through the year and we are optimistic for the future."

Learning Communication Skills at CSG WEST Annual Meeting

Communications expert Bill Graham will kick off a full day of communications training July 30 at CSG West's Annual Legislative Training Assembly in Honolulu. Using his background in theater and television, Graham helps policymakers find the keys to being more likeable, making great first impressions and telling stories that listeners will never forget.

Nevada Assemblyman David Bobzien and Washington Senate Counsel Mike Hoover will lead a session to help attendees use 21st century communication tools to maximize legislative effectiveness.

Take a Look at 50 State Capitols

The 50 State Capitols display the formality, timelessness and public grandeur of representative government. Common elements include a prominent site with manicured grounds, legislative chambers in opposing wings, public galleries in those legislative chambers, a temple-like entrance and a central dome or tower covering a rotunda. Jim Stenbridge, a former staff member of the Oregon legislature, visited each state capital to document each building's exterior and interior through vivid color photography. He hopes to sell the book in capital gift shops, capital city independent bookstores, on Amazon and his website, www.fiftystatecapitols.com.



CSG West Director Sets Retirement Date

Hawaii Rep. Marcus Oshiro, chair of The Council of State Governments-West, announced CSG West Director Kent Briggs has decided to retire effective Aug. 2 after 15 years leading CSG's Western region.

CSG Executive Director/CEO David Adkins said CSG will work closely with regional leaders to conduct a national search for Briggs' replacement.

'Kent leaves big shoes to fill,' Adkins said. 'His dedication to the job and the work he has accomplished throughout his long tenure reinforces one of CSG's greatest strengths—our ability to focus on regional issues.'



← New State Emergency Management Director Training

The National Emergency Management Association (NEMA) hosted a training session March 20 for new state emergency management directors. NEMA briefed the group on issues facing emergency managers and experienced state directors offered expert advice. NEMA also arranged a meeting with the Federal Emergency Management Agency administrator and his senior management team. Governors appoint the emergency management director in 32 states.



WLA Sends Well Wishes

Classmates from the 2004 Western Legislative Academy, the leadership training program for CSG WEST, sent a get well card to U.S. Rep. Gabrielle Giffords of Arizona. Giffords, a member of the 2004 class, was seriously injured in a January shooting in Tucson.

What Works for Public Safety

A recent report from The Council of State Governments' Justice Center highlights research demonstrating what works in increasing public safety, zeroes in on strategies that reduce recidivism and features various promising practices across the country. The report summarizes the information presented during a 2010 summit convened by Congressman Frank Wolf and Sen. Sheldon Whitehouse and hosted by the CSG Justice Center, the Bureau of Justice Assistance/U.S. Department of Justice, the Public Safety Performance Project of the Pew Center on the States, the Open Society Foundation and the Public Welfare Foundation. Find the report on the CSG Justice Center's website, justicecenter.csg.org.

Kudos for Capitol Ideas

Capitol Ideas, The Council of State Governments' bimonthly magazine, will be recognized June 1 with two Excel Awards from Association Media & Publishing. Capitol Ideas received a gold award for "Most Improved," and a bronze award for "Best Redesign." CSG's magazine was previously known as State News, and underwent a complete retooling in 2010.

NGA Executive Director Ready to Serve Nation's Governors



When **Dan Crippen** took over as executive director of the National Governors Association April 1, he brought a wealth of experience to an organization that serves

as the collective voice for the nation's governors.

Crippen has had a wide range of experience on the federal level. He was chief counsel and economic adviser for Senate Majority Leader Howard Baker. He also had two positions in President Ronald Reagan's administration, serving as deputy assistant to the president for domestic policy and domestic policy adviser and assistant to the president for domestic policy.

"Dan has earned the respect of his peers throughout his career," said Washington Gov. Chris Gregoire, NGA's 2011 chair. "His commitment to, and experience in, public service and his demonstrated ability to work in a bipartisan fashion will be a valuable asset to the NGA."

Crippen also is a member of the Board of Trustees for the Center for Health Care Strategies. He served as a senior adviser to the chair of the Securities and Exchange Commission, was a member of the CEO Health Transformation Community, the NASA Aeronautics and Safety Advisory Panel and the Google Health Advisory Committee.

"I look forward to working with Dan as together we advocate for the states in D.C.," said David Adkins, executive director of The Council of State Governments. "This is a very important era in federal/state relations and Dan's expertise and experience will be valuable to the nation's governors."

STATES GET DOWN TO BUSINESS, FIGHTING CORPORATE ID THEFT

by Kay Stimson

States are facing a new wave of crime—thieves are targeting businesses, stealing their identities to open up phony lines of credit to illegally obtain goods and services.

“This can explode quickly and become a big problem,” said Colorado Secretary of State Scott Gessler, who noted his state has registered 85 victim entities with total losses of approximately \$3.4 million. One business, he said, suffered a loss of at least \$250,000 at the hands of corporate identity thieves.

Colorado isn't alone. While national numbers

on business identity theft are virtually impossible to calculate, Dun & Bradstreet, a leading provider of business credit information in the United States, has reported documented cases of business identity theft in at least 22 states.

“What is particularly disturbing about this trend is the significant dollar amounts involved,” said Robert Strezze, a senior risk analyst with Dun & Bradstreet. “It's not unusual for the losses to be in the mid-six figures by the time the criminal activity is detected, and it's a lot more lucrative than stealing individual identities.”

But secretaries of state, who oversee corporate registrations and other business filing processes on behalf of the states, are fighting back.

“We are committed to making Colorado a hard target for identity thieves, and that means identifying new policies and protections for state-based businesses as well,” said Gessler.

Secretaries of state say business identity theft—a mutation of classic identity theft—is on the rise and spreading. Computer-savvy thieves are hijacking business entities from their owners, leaving behind a digital vapor trail of fraudulent credit purchases and other damages. Several states have adopted new or improved safeguards for protecting the state-held data that offers a potential gateway to this type of crime, and they are warning others to do the same.

Methods of Deception

Experts say business identity theft is similar to regular identity theft. Criminals look for ways to steal a legitimate business identity, securing

lines of credit with banks and retailers. Once the fraudsters get the money or goods involved, they leave the legitimate business owners steeped in debt and typically unaware that a crime has occurred until creditors come calling.

Enterprising thieves are stealing business identities in a number of ways. In California, they have rented office space, sometimes in the same building as the victim entity, ordering everything from corporate credit cards to electronics and hot tubs, according to an article in *Bloomberg Businessweek*. The crooks sell the illegally obtained merchandise, shut down the office and move on to the next victim.

In other states, thieves have carried out their scheme by gaining access to legitimate business records. This happened in Colorado, where criminals were able to exploit the state business registration website, altering the names of company officers and addresses for at least 85 entities.

Once the criminals were able to change the corporate registration information, they were able to use the business's corporate registration history—along with additional false documents—to establish lines of credit with banks or retailers. Identity thieves then purchased items that could be bought and exchanged for cash or sold with relative ease.

“Make no mistake about it, this is organized crime,” warned Georgia Secretary of State Brian Kemp, who has championed new protections in his state. “And there is more than one victim—it's actually much larger than some might think.”

Kemp pointed to a chain of victims that must clean up in the wake of such fraud, including companies that have received orders for stolen



“We are trying to protect businesses in every way that we can, but this type of crime is relatively new and the methods of fraud are constantly changing.”

—Nevada Secretary of State Ross Miller



goods and services, banks or lending companies that have issued credit and entities like state governments that house “proof of right” documents to provide confidence in commercial transactions.

Thieves most often target small and midsize companies, according to Dun & Bradstreet, because they have extensive credit lines and cash reserves, but fewer legal and financial protections than larger corporations. Churches, family-owned businesses and dormant companies that are no longer actively doing business also have been targets of such fraud.

State Solutions

Secretaries of state are urging policymakers to take action. It often means ensuring state safeguards keep pace with advances in online services for the business community.

Nevada, home to one of the largest numbers of corporate registrations in the nation, unveiled its Nevada Business Portal this spring. The unique, one-stop shop for business/government transactions will help guard against business identity theft by incorporating single sign-on and identity management elements in the online service.

Meanwhile, Colorado is establishing an optional password system for businesses on

its corporate registration website, along with an email alert system that will send electronic notices whenever a company’s information is changed online. Georgia already has established a similar system for email alerts.

The real challenge, secretaries of state say, is ensuring business owners are aware of the relatively new risk of corporate identity theft, and getting them to sign up for email alerts or password protections while checking their filings regularly.

“We are trying to protect businesses in every way that we can,” said Nevada Secretary of State Ross Miller, “but this type of crime is relatively new and the methods of fraud are constantly changing.”

He said states should engage multiple partners in their efforts. “Otherwise, the criminals will just figure out new ways to pull off this crime,” Miller said.

Miller pointed out that because catching the perpetrators of business identity theft can be difficult—and sometimes impossible if they are based overseas or moving from state to state—states should focus on prevention.

Since nearly every state offers a searchable

database that can tell users whether a company is in good standing and can identify the names and

addresses of registered agents, Miller and his colleagues have formed a national business identity theft task force.

“These business records are documents that are supposed to be used as a tool for commerce,” said Leslie Reynolds, executive director at the National Association of Secretaries of State, an affiliate of The Council of State Governments. “While banks and other entities can use the data for legitimate purposes in business transactions, there is a growing number of would-be criminals who are looking to exploit this information for illicit gains. It has raised some important policy implications for state officials.”

Reynolds added states should work together to combat corporate identity theft crimes, share strategies for communicating with the business community and others who deal with state business registrations and reporting, and discuss ideas for engaging law enforcement in helping to prevent or detect this type of fraud. □

For more on this article, and similar articles about state government, check out the [2011 Book of the States](#), which will be available in July.



PLAN AHEAD, FIND THE RIGHT FIT

Kelley Arnold, director of Membership, Marketing and Media at The Council of State Governments, shares tips she learned about reaching an audience through technology during CSG's first virtual summit in April.

Content from **CSG's Virtual Summit** is now online at www.csg.org.

KNOW YOUR PURPOSE.

Both location-based meetings where people travel to a venue and virtual conferences that engage attendees over technology serve a purpose. Location-based meetings give you invaluable opportunity for face-to-face networking and high interactivity. Virtual conferences, however, really provide you with the opportunity to present specific information and knowledge to a wide base of interested people at a much lower cost. The purpose of your virtual meeting should never be to electronically recreate the same interaction you would have at a location-based meeting. A virtual meeting allows you to deliver information quickly, effectively and at a low-cost to both you and your attendees. Organizations that learn to successfully utilize both styles of meetings are those that will thrive.

MAKE IT ACCESSIBLE.

The old saying, "just because you can doesn't mean you should," definitely comes into play with a virtual session. Choose a platform that meets your technological needs but doesn't alienate those in your audience who may not be as tech savvy. Use only the tools you need to best highlight your speakers and message. Chat windows, polls, embedded video and real-time surveys are all useful tools when used properly, but they don't ensure success. The most successful sessions will be those that offer attendees a hassle-free way to register, an easy login and process, are easy to follow and don't require a lot of advanced technical training for the attendee.

EMBRACE THE OPPORTUNITY.

Consider your audience. It may be the members of your committee, board or working group. But, in many instances, if you are hosting an open educational session for a larger group, the audience you attract may be slightly broader and different than your typical placed-based meeting group. You may attract members and constituents that normally don't have the budget or time to travel to location-based conferences and seminars. Consider these open sessions as a way to introduce your message or material to a new audience.

REMEMBER YOUR FORMAT.

Whether you utilize a traditional webinar approach with slide presentations or a live video feed, your message and delivery will inevitably come across differently than if you were in a room full of people. Your speakers and moderators should not only be dynamic speakers, but they also should be able to carry those dynamics over a telephone wire or video feed. In some instances, your audience will never see the speakers and will rely on voice and clean, crisp presentation slides to carry your message.

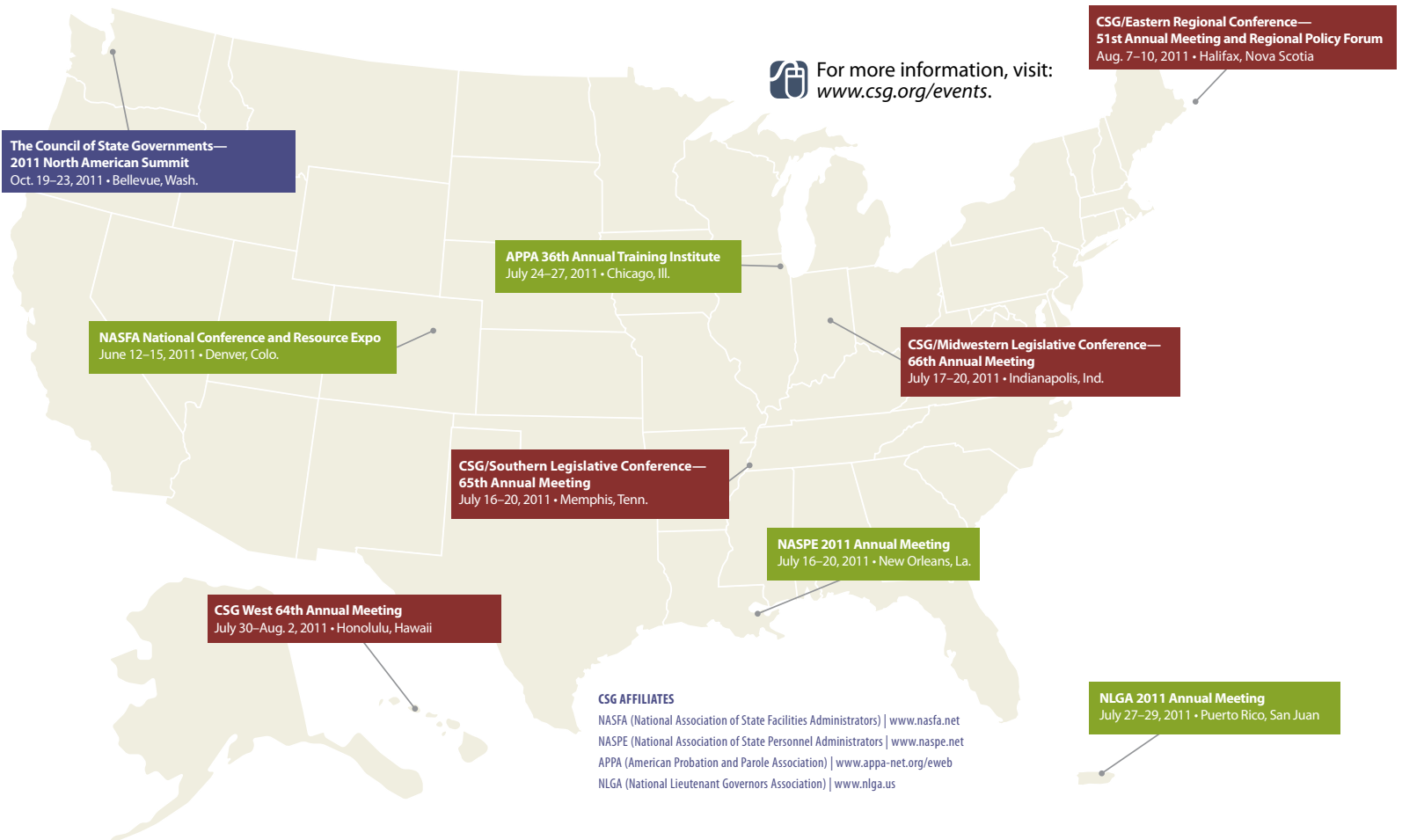
GET THE MILEAGE.

One of the most beneficial aspects of a virtual meeting or conference is longevity of each session. Video, audio, individual presentations and handouts can all be neatly organized and posted to your website. The link to those materials can then be emailed, tweeted, bookmarked, YouTubed and Facebooked. This allows both individuals who caught the live broadcast and those who may have missed the session to watch, share, revisit and access accompanying materials as many times as they want and as their time allows. This keeps both your information and your organization relevant long after the actual session.



National and Regional Meetings

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



Great Speakers & Family Fun Take the Checkered Flag at CSG Midwest Meeting



NPR's Mara Liasson, political journalist Ron Brownstein and financial historian John Steele Gordon are the featured speakers for the 66th Annual Meeting of the Midwestern Legislative Conference. The meeting, scheduled for July 17–20

in Indianapolis, offers lawmakers a unique opportunity to step outside the legislative arena and think about public policy issues in a welcoming, nonpartisan environment. The family-friendly event also offers daytime and evening activities for guests of all ages.

Registration materials are available at www.csgmidwest.org.

East-West Center Talks Trade at CSG West Meeting



The world-renowned East-West Center will provide a session with leading experts in Asia-Pacific trade and economic development during the CSG West 64th annual meeting in Honolulu July 30–Aug. 2. Lawmakers will learn about big-picture economic trends in the Pacific region. Keynote speakers

include CNN political correspondent Candy Crowley, Admiral Patrick M. Walsh, commander of the U.S. Pacific Fleet, and Joel Kotkin, author of the critically acclaimed *The Next Hundred Million: America in 2050*.

For more information, contact CSG West at csgw@csg.org or (916) 553-4423.




CURT BRAMBLE

Utah Senator / Legislative Trainer in Iraq

Curt Bramble has spent the past 11 years in the Utah Senate, where he now serves as majority leader, and during that time he's pretty much seen and done it all. That includes teaching a group of newly elected Iraqi legislators about how to be a legislator. He was the only instructor for the three-day program sponsored by the International Republican Institute in 2009. "Their form of government, however it ends up, will likely not be the same as we have here in America," Bramble said. "But there are certain principles of government, (such as) ... separation of powers, those principles transcend some of the differences." The experience gave Bramble new appreciation of American democracy. "... I think it (the trip) reaffirmed this profound recognition of how fortunate we are, as a country, to have embraced the concepts of liberty, individual liberties, freedom and self-determination," he said.

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

 For more on Curt Bramble, visit: capitolideas.csg.org.

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