The border of trade

With binational tensions unusually high, trends in key Midwest sectors are reminder of value of U.S.-Canada partnership

by Ilene K. Grossman (igrossman@csg.org)

Recent headlines have pointed to some of the strains (a mix of new tensions and a flare-up of long-standing conflicts) in the U.S.-Canada relationship. There have been proposed U.S. tariffs on steel, harsh words exchanged on Canadian dairy policy, and threats by President Donald Trump to end the North American Free Trade Agreement.

But dig a little deeper, and a much different story emerges — one of economic interdependence and cooperation in key areas such as energy and the environment.

“The relationship at the provincial-state level is probably as strong, if not stronger, than it has been since the mid-1980s,” says Carlo Dade, director of the Canada West Foundation’s Trade and Investment Centre, pointing, in particular, to the deeper relations built between state governors and provincial premiers.

Canada and the United States share much more than the largest binational trading partnership. “We are moving away from just being trading partners; now we are business associates that build things together and sell the finished products both domestically and around the world,” notes Christopher Sands, director of the Canadian Studies Program at the School of Advanced International Studies at Johns Hopkins University.

This thriving cross-border supply chain is one of several critical pieces of the U.S.-Canada relationship, and much of it is centered in the Midwest.

Trade data only tell part of story

Canada is the largest purchaser of U.S. exports (goods and services combined) in the world; likewise, the United States is Canada’s largest trading partner.

According to the U.S. Trade Representative, trade in goods and services between Canada and the United States totaled $674 billion in 2017, with U.S. exports to its northern neighbor exceeding imports.

Services, a sometimes overlooked part of the trading relationship, produced this $8 billion surplus for the United States. In Illinois alone, for example, $2.6 billion worth of business, professional, technical, financial and other services were exported to Canada last year.

On the goods side, several states in the Midwest have particularly close economic ties with their Canadian neighbors, thanks to this region being a hub of production activity related to the making of cars, industrial engines, plastics, food and energy products. Here are some trade statistics that underscore the point:

• Canada is the biggest customer for exports from all 11 states in the Midwest (see map).
• Illinois sells more to Canada than it does to China and Mexico combined.
• For Michigan and Ohio, exports to Canada exceed those to the two states’ next seven largest trading partners.
• In North Dakota, exports to Canada are greater than those to all other countries combined.
• The United States accounts for a majority of the imports coming to the provinces of Alberta (66 percent), Manitoba (more than 75 percent), Ontario (55 percent) and Saskatchewan (85 percent).
• The majority of these provinces’ exports go to the United States — Alberta, 87 percent; Manitoba, 65 percent; Ontario, 82 percent; and Saskatchewan, 85 percent.

There also is much more than this sheer volume of trade. The two countries are not simply moving finished goods (as, say, the United States often does with China); their businesses frequently make products together, thanks to the growth...
Great Lakes

Ohio’s Clean Lake 2020 plan represents next step in efforts to prevent runoff, algal blooms

Last fall, nine Lake Erie experts identified specific strategies that they viewed as most important to reducing phosphorus runoff and preventing harmful algal blooms in the lake’s western basin. As of early June, Ohio legislators were moving toward passage of a bill backing those scientists’ findings with state dollars.

“That was the blueprint — use those evidence-based strategies and then target the funds to critical areas in the sub-watersheds [of the western basin],” says Rep. Steven Arndt. Ohio admittedly has a long way to go to reach its target — a 40 percent reduction in phosphorus loads by 2025. That is the amount specified in binational agreements between the United States and Canada and among the governments of Michigan, Ohio and Ontario. The Ohio Senate passed SB 299 with a unanimous vote, and Arndt (sponsor of the companion bill, HB 645) also expects high levels of support in the House. Under the proposal, the legislature would appropriate $36 million — a mix of general fund dollars and capital funding — for a variety of projects.

Some of the dollars would be used to prevent the open-lake disposal of dredged materials and to improve in-lake monitoring, but the greatest emphasis is placed on agricultural practices. (Previous studies have found that 85 percent of the phosphorus entering Lake Erie from the Maumee River comes from farm fertilizers and manure.)

Reflecting the scientists’ findings, the legislation specifies how the money should be used, for example:
• avoiding excess use of fertilizer through more soil testing and the implementation of technologies that allow farmers to vary application rates in different locations;
• purchasing equipment that allows for the placement of fertilizer in the subsurface of soil;
• employing the use of filter strips, blind inlets or other practices to prevent nutrient runoff; and
• installing drainage water management systems to minimize the amount of water leaving farm fields.

Central to the success of Ohio’s Clean Lake 2020 Plan, Arndt says, is convincing enough farmers to implement these practices. (New regulations are not part of SB 299.)

“We already have one-third of the agriculture community engaged in using these practices,” he notes. “But there’s still the other two-thirds.

They’re intrigued, and they’d like to see the evidence and the science. That’s where our local soil and water conservation districts really can help [with outreach and education].”

Brief written by Tim Anderson, who can be reached at tanderson@csg.org. CSG Midwest provides staffing services to the Great Lakes Legislative Caucus, a nonpartisan group of lawmakers from eight U.S. states and two Canadian provinces. The caucus chair is Michigan Sen. Darwin Booher. More information on the caucus is available at greatlakeslegislators.org.

Health and Human Services

Lawsuits as public health policy: North Dakota joins list of states suing opioid makers

North Dakota was one of six states to sue an opioid maker in May, alleging in part that it violated state consumer protection laws by falsely denying or downplaying the risk of addiction from opioids while overstating their benefits.

North Dakota’s lawsuit alleges the manufacturer made unsubstantiated claims regarding the benefits of long-term opioid treatment and falsely represented that opioids use improved patients’ function and quality of life; targeted vulnerable patient populations, such as the elderly and veterans; and disguised its role in the deceptive marketing of opioids by working through third-party front groups and key “opinion leaders.”

“As a matter of common sense, drugs that can kill patients or commit them to a life of addiction or recovery do not ‘improve their function and quality of life,’” North Dakota Attorney General Wayne Stenehjem said in a press release.

North Dakota’s allegations echo those Ohio levied in a May 2017 lawsuit, which is still in the discovery and pre-trial motions phase, says Dan Tierney, a spokesman for Ohio Attorney General Mike DeWine. (In February, Ohio also sued four opioid distributors, alleging they were negligent and “created a public health nuisance” by ignoring responsibilities to provide effective controls against the diversion of opioids from legal to illegal supply channels.)

In March, South Dakota Attorney General Marty Jackley filed a lawsuit akin to the Ohio and North Dakota suits in state circuit court, while Indiana Attorney General Curtis Hill’s office hired a Washington, D.C.-based law firm to help investigate whether to file one.

Additionally, Illinois, Kansas, Michigan, Minnesota, Nebraska and South Dakota are among a group of 41 states whose attorneys general are jointly investigating opioid makers.

Opioid-related lawsuits have a function as public health policy in dealing with the opioid epidemic, but they can’t be the only tactic because manufacturers are just one facet of the problem, says Rep. Patricia Belloch, who sits on the Illinois House Human Services and Mental Health committees.

“I would say, ‘Yeah, remember tobacco?’ “ she says, referencing the 1998 Tobacco Master Agreement between cigarette makers and 46 state attorneys general.

In that agreement, states settled their Medicaid lawsuits against the tobacco industry for recovery of tobacco-related health care costs in exchange for annual payments to compensate for the costs of caring for people with smoking-related illnesses.

With opioids, Belloch adds, the problem extends beyond manufacturers to doctors willing to prescribe opioids and patients who demand them, and to the public, which still needs to be educated about the crisis.

“We have to deal with all of the issues involved in this crisis, not just one,” she says.

Brief written by Jon Davis, CSG Midwest staff liaison to the Midwestern Legislative Conference Health and Human Services Committee. He can be reached at jndavis@csg.org. The committee’s co-chairs are Illinois Rep. Robin Gabel and Kansas Rep. Susan Concannon, its vice chair is Nebraska Sen. John McCallister.
Agriculture & Natural Resources

Two-year-old law has brightened future of solar energy in Illinois, led to new proposals in 2018

With one glance at the most recent U.S. rankings on solar energy, it becomes clear the Midwest has a long way to go if it wants to catch up to other regions on the use of this renewable source.

Only Minnesota and Indiana placed in the top half of states as of 2017. But in a third Midwestern state, Illinois, big changes appear on the horizon, with landowners and county governments alike showing interest in making solar a new “cash crop” — whether it be on farmland, brownfields or even publicly owned property.

The Solar Energy Industries Association is projecting that Illinois’ solar capacity will increase by 1,501 megawatts over the next five years, one of the bigger jumps in the nation. If that happens, and the state begins to climb in the U.S. rankings, legislative passage of the Future Energy Jobs Act in 2016 will be cited as a major catalyst.

“It is important that the gains and benefits from expanded solar power be available to everyone,” Hammond says, “regardless of where they live or their income level.”

As a result of this 2016 law, rural parts of Illinois are expected to be home to all types of new solar projects. The state’s largest solar farm will be located in Perry County (population 22,000) and is expected to double Illinois’ solar production when it goes on line in 2021. It will be owned by a nonprofit cooperative and supply electricity to 23 rural electric cooperatives in Illinois, Indiana and Missouri. This is but one of an estimated 57 solar development projects proposed in 64 counties. Some local governments, meanwhile, are seeking solar developers interested in using vacant public land or facilities.

These new solar projects require local approval, and some counties are having difficulty determining how to regulate or tax them. State legislation (HB 5284) has been introduced to create a formula for assessing solar property. A second bill (SB 2591) would continue to allow counties to establish their own siting regulations and standards, but it would require solar developers, when using farmland, to complete an agriculture-impact mitigation agreement in cooperation with the state Department of Agriculture. This agreement would specify the steps to be taken to make land usable for farming again if the solar equipment is decommissioned.

SB 2591 passed with unanimous support in the Illinois House and Senate; as of mid-June, it was awaiting the governor’s signature.

Brief written by Carolyn Orr, staff liaison to the Midwestern Legislative Conference Agriculture & Natural Resources Committee. She can be reached at corr@csrg.org. The committee’s cochairs are Iowa Sen. Kevin Kinney and Minnesota Rep. Paul Anderson; its vice chair is Illinois Rep. Norine Hammond.

Education

Concerns about cost of college textbooks focus of proposal in Minnesota, new federal grants

Five years ago, a little more than 2,000 students from 150 different U.S. university campuses were asked the following question: Have you ever decided against buying (or renting) a textbook because it was too expensive?

Sixty-five percent of the respondents to this U.S. Public Interest Research Group survey said “yes,” and nearly all of them also noted that they were concerned the decision would hurt them academically.

The survey results helped bring attention to a sometimes overlooked facet of college expenses — the cost of books and supplies. During the most recent school year, students at four-year public colleges spent an average of $1,250 on these materials, according to the College Board.

An average of $1,250 on these materials, according to the Minnesota State Board of Higher Education. The board passed legislation earlier this year creating a $5 million competitive grant program for colleges to expand the use of “open source” textbooks. These materials are available under an “open license,” thus allowing professors, students and others to freely access them.

Brief written by Tim Anderson, CSG Midwest staff liaison to the Midwestern Legislative Conference Education Committee. He can be reached at tanderson@csrg.org. The committee’s co-chairs are Wisconsin Rep. Eric Genrich and Kansas Rep. Melissa Hooker; its vice chair is South Dakota Sen. Jim Bolin.

Rise in consumer prices for three college-related expenses: 2006 to 2016

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<thead>
<tr>
<th>Expense</th>
<th>% Increase</th>
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<tr>
<td>College textbooks</td>
<td>88%</td>
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<tr>
<td>College tuition/fees</td>
<td>63%</td>
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<tr>
<td>Housing at school (including board)</td>
<td>51%</td>
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Source: U.S. Bureau of Labor Statistics

STATELINE MIDWEST  JUNE/JULY 2018
With bipartisan bill, Minnesota shores up its public pension system

Minnesota has become the latest state in the Midwest to enact major legislative reforms designed to improve the long-term health of its public retirement system. SF 2620 received unanimous support in the state House and Senate.

“One can’t talk about these state initiatives without talking about the larger shift in our economy, from employer-based benefits to more portable, individual accounts. Individuals also can decide to opt out entirely,” says Jim Malatras, president of the Rockefeller Institute of Government.

“You can’t talk about these state initiatives without talking about the larger shift in our economy, from employer-based benefits to more independent-contracting rules. Yes, it’s being fueled by the Uber of the world, but even blue-chip companies are doing more subcontracting. It’s a much different environment.”

In a Rockefeller Institute study issued earlier this year, Malatras and his two co-authors highlighted three types of policy approaches now being tried by states.

The first is “Auto-IRA”: requiring employers to enroll workers in these savings plans via their payroll systems (the businesses don’t contribute money, and individual workers can opt out). This is the model being used in Illinois.

A second option is to make employer participation voluntary, and a third is establishing online marketplaces that connect workers and businesses to retirement-plan options.

In some ways, Eccles says, Secure Choice is similar in structure to the college-savings plans already being offered in Illinois and states across the country. Led by the Illinois treasurer, a seven-member board oversees Secure Choice, but day-to-day operations and investment management will be handled by private entities.

Illinois and other states have moved ahead with their plans despite some uncertainty at the federal level, including questions about whether these new retirement plans are exempt from or must comply with the U.S. Employment Retirement Income Security Act.

“We saw some changes [in federal policy] that were unfortunate, but they haven’t changed our feelings about the program and its ability to move forward,” Eccles says.

In the years ahead, Malatras expects more states to follow Illinois’ lead.

“By offering exchanges for retirement plans, or having them offered through an employer, you simplify the process, make it easier to understand and give people confidence that they’re choosing something that comes from a governmental entity,” he says.
Replacing a speaker in mid-session? Read the rules carefully

by Jon Davis (jdavis@csg.org)

W hen Ohio’s speaker of the House resigned on April 12, his departure kicked off a weeks-long legislative and political logjam: No legislation could advance to the Senate without the speaker’s signature, but until members voted in his replacement (which proved difficult due to differences among members on whom that should be), there was no speaker.

While Ohio House Rule 12 states that the speaker pro tempore “shall perform the duties of the Speaker as presiding officer during the Speaker’s absence,” in this case it was deemed that the speaker wasn’t absent because the office itself was vacant. The logjam broke on June 6 when Rep. Ryan Smith was elected as the new speaker.

Could that situation happen in other Midwestern states when such a vacancy occurs? The answer would depend on language in the legislative rules, and/or an interpretation of them.

The Michigan House doesn’t spell out what happens if a speaker vacates the office, but Clerk Gary Randall says a new election would be held immediately and that this vote would supersede all other business — a step extrapolated from existing House rules during a previous legislative session, when it seemed that the speaker at the time might leave office in mid-session.

The speaker pro tempore does not automatically take over because “we have never viewed that position as the establishment of a chain of movement,” he adds.

In other states, the rules set a fairly clear path on succession of the speaker (who is typically the presiding officer of a state’s lower chamber).

The Minnesota House devotes an entire article (Rule 7.02) to the “Successor in Office of Speaker.” If a vacancy occurs, the chair of the House Committee on Rules and Legislative Administration “has the powers and must discharge the duties of the office as necessary” until a new speaker is elected by the House, or until a speaker designate is selected. The rule also says representatives must elect a speaker when the House is next called to order. If the Legislature is not in session, that committee must meet and select a speaker designate within 30 days after the office of speaker becomes vacant.

In other states, including Iowa and Kansas, the speaker pro tempore takes over until a new speaker is chosen. Kansas Rule 3304(a) specifies that when a vacancy occurs in the speakership and the Legislature won’t reconvene for at least 60 days “after the occurrence of the vacancy,” then the House shall meet within 30 days and elect a member to fill the vacancy. The rule also specifies that in that scenario, the speaker pro tempore shall call for a meeting of the House within 10 days of the vacancy, to take place from 10 days to 20 days after the date of that call.

In Wisconsin, Assembly Rule 3, sub (2), specifies that if the speaker is “separated by death, resignation, or removal from office, the speaker pro tempore may exercise all of the powers and shall carry out all of the duties of the speaker until a speaker is elected.”

Similarly, Iowa Rule 6 states that if a vacancy occurs in the office of the speaker, the speaker pro tempore shall assume the duties and responsibilities of the speaker “until such time as the house shall elect a new speaker.”

In the Illinois House and Nebraska Unicameral Legislature, the rules of those respective chambers call for a new speaker to be chosen immediately.

Capital Closeup is an ongoing series of articles focusing on institutional issues in state governments and legislatures. Previous articles are available at csgmidwest.org.

QUESTION: Do any states in the Midwest have a constitutional ban on an income tax, or require super-majorities to raise any state taxes?

To the first question, no. In fact, quite the opposite: 10 of 11 Midwestern states have income taxes and the other, South Dakota, allows for the possibility in two different parts of its Constitution.

However, since the early 1940s, South Dakota has had no individual income tax. Outside the Midwest, Alaska, Florida, Nevada, Texas, Washington and Wyoming also don’t have one. (New Hampshire and Tennessee don’t tax earned income, but they do tax investment interest and dividends at 5 percent and 6 percent, respectively.)

The Texas Constitution specifically acknowledges that incomes may be taxed, but also requires that the imposition of any new tax (or any increase in existing rates) be approved by voters through a referendum.

In some states, too, any or most kinds of tax increases by the legislatures require super-majorities. For example, Delaware, Kentucky, Mississippi and Oregon require a three-fifths vote of each house to raise taxes, while Arkansas and Oklahoma require a three-quarters majority. Arizona, California, Nevada and Louisiana require a two-thirds vote of each house.

In South Dakota, while the Legislature has the power of taxation, a two-thirds vote in the House and Senate is required for increasing existing taxes or imposing new ones; the other alternative is a direct vote of the people to raise taxes.

Other states in the Midwest also operate under constitutional limits on taxation. For example, a flat income tax must be imposed on Illinois’ residents and businesses, and the corporate rate cannot be greater than the individual rate by more than a ratio of 8:5.

Michigan’s Constitution limits the total amount of taxes that can be imposed in any fiscal year; under the 1978 “Headlee Amendment” (named for Richard Headlee, who spearheaded the initiative), the state’s total revenue is limited to no more than 9.49 percent of personal income in Michigan.

That limit cannot be changed except by a voter-approved constitutional amendment, or a gubernatorial request that the Legislature declare an emergency. Such a request must state the emergency’s nature, dollar amount and method of funding, and the Legislature must declare the emergency by a two-thirds vote of each house.

In addition, Article IX, Section 3, of the Michigan Constitution requires a three-fourths majority of both houses to increase the state property tax, which is used to support school funding. That tax was created in a successful 1994 referendum that revamped how Michigan’s public schools were funded.

Wisconsin has a statutory requirement for a two-thirds majority of both houses to raise the state sales tax and income or franchise tax rates.

Article written by Jon Davis (jdavis@csg.org), CSG Midwest policy analyst and assistant editor. Question of the Month highlights an inquiry sent to the CSG Midwest Information Help Line: csgm@csg.org or 630.923.1922.

QUESTION OF THE MONTH

Top marginal individual income tax rates, 2018

Michigan

5.7%

10.4%

6.84%

4.997%

6.84%

8.98%

6.65%

9.85%

Source: Tax Foundation

Capital Closeup
Cross-border activity contributes significantly to Midwest’s core economic sectors

of cross-border supply chains in sectors ranging from manufacturing to agriculture. Take the Midwest’s auto industry as one prime example. Each vehicle has about 40,000 parts, many of which cross the border a number of times before a vehicle is ready to drive off the assembly line.

According to a report commissioned by the Canadian government in 2016, U.S. content accounted for 8.5 percent ($70 billion) of the value of Canada’s manufacturing sector. Conversely, Canadian content in U.S. manufactured goods accounted for $44 billion, or 2.5 percent of the value of U.S. exports.

Supply chains allow for companies to specialize in certain aspects of production. They often initially develop where they can get the supplies or natural resources they need, at a good price. Many companies keep low inventory on hand, which allows them to hold down costs. But, when a business needs components, it must be able to get to them quickly so production is not delayed. This requires the United States and Canada to have a smooth-functioning border, with few delays and programs to expedite safe truckers and shipments, along with open trade policies.

NAFTA has helped integrate farm sectors

The U.S. agriculture sector may be responsible for an important way for saving NAFTA, at least for now.

Last fall, a coalition of agriculture organizations and companies sent a letter to all 50 governors, warning that withdrawal from NAFTA would have a serious impact on the farm sector. Without the agreement, the countries (especially Mexico, which, unlike Canada, had no previous trade agreement with the United States) would return to a tariff system for agricultural products, including American pork, corn and soybeans.

This letter, and the report and data behind it, mobilized governors, members of U.S. Congress and state legislators to make their concerns known to President Trump and the U.S. Trade Representative.

Jonathan Coppess, director of the Gardner Agriculture Policy Program at the University of Illinois, says “there has been an incredibly positive increase in [agricultural] trade under NAFTA.” One reason why is how the free-trade deal enables specialized, integrated sectors (much like in manufacturing). In the livestock industry, for example, animals sometimes cross the border several times between birth and slaughter. Related industries, such as food processing, also are part of this integrated supply chain.

In addition, commodities are openly traded to meet the two countries’ needs for food or food-related products, and a number of Midwestern states are major producers of the tractors and other farm equipment used in NAFTA countries.

Still, as in other sectors and among other trading partners, conflicts are bound to arise.

Neighbors and economic partners: Value of goods traded between Midwest’s 11 states, 4 Canadian provinces (in U.S. dollars, 2017)

<table>
<thead>
<tr>
<th>State</th>
<th>Imports from Alberta</th>
<th>Imports from Manitoba</th>
<th>Imports from Ontario</th>
<th>Imports from Saskatchewan</th>
<th>Exports to Alberta</th>
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Sources: Government of Canada, U.S. Census Bureau, U.S. Bureau of Economic Analysis, provincial governments and CIG Midwest calculations.
First four months of 2018, Canada exported close to 73 billion kWh of electricity to the United States, while sales on the term contracts assure that they have enough power. About 40 percent of Canada's electricity exports come from renewable sources of energy, such as Manitoba's hydropower.

Electricity flows between two nations

Connection of the electricity systems in Canada and the U.S. is seen as a way of supplying more reliable, affordable power on both sides of the border. There currently are 37 cross-border connections allowing for electricity transmission between the two countries. Most of this energy goes from Canada to the United States, though there is a two-way flow of electricity. When selling their power, provincial electricity generators look more to U.S. markets than to those in other provinces. Much of Canada's electricity exports come from renewable sources of energy, such as Manitoba's hydropower.

These interconnected electricity systems provide greater security to utilities, which can enter into long-term contracts assuring that they have enough power. Long-term contracts account for about a quarter of electricity exports, while sales on the short-term, spot market to system operators (such as MISO, the Midcontinent Independent System Operator) to meet a more immediate need make up about three-quarters of exports, according to a report by Doug Vine, a senior energy fellow with the Center for Climate and Energy Solutions. Demand for electricity peaks in Canada in the winter, while U.S. demand increases in the summer. This is one reason, Vine notes, that “connecting the two systems together provides a lot of efficiencies.”

The siting of transmission lines is often a difficult task, including when they must cross the border. Still, two major cross-border projects are progressing. The Great Northern Transmission Line is being constructed by Minnesota Power to bring hydropower from Manitoba, which is building a transmission line to connect with the Great Northern Line and also is upgrading several converter stations. Plans are to have the project up and running by 2020.

The proposed ITC Lake Erie Connector is a 73-mile-long underwater transmission line that will connect Ontario's independent electricity operator to U.S. independent service provider (PJM), which covers much of the mid-eastern United States (including several states in the Midwest). Permitting for this project is well underway.

The two countries have a close energy partnership in other ways as well. Canada, for example, is by far the largest source of U.S. crude oil imports, providing 41 percent of the total in 2016, according to the U.S. Energy Information Administration. And in the Midwest, the rise in oil production in places such as North Dakota has greatly increased the amount of energy products moving between the two countries.

**Update on NAFTA: A look at key sticking points, and the ramifications if negotiations fail**

Officials from Canada, Mexico and the United States have been meeting regularly since August 2017 to negotiate a potentially new North American Free Trade Agreement.

As a presidential candidate, and now as president, President Donald Trump has been very critical of the current three-nation deal and its impact on American workers. Canada and Mexico may have believed, as many American trade specialists did as well, that NAFTA needed updating (to cover issues such as intellectual property, for example) but they weren't anxious to renegotiate the entire agreement.

NAFTA negotiators were initially hopeful that they could finish an agreement well before Mexico's July 1 presidential election. But there are more than 30 chapters under negotiation. Preliminary deals have been reached on nine of those chapters, including regulatory practices, environment and energy. The sides are still far apart, however, in a number of areas.

Here are some of the U.S. proposals that Canada and Mexico oppose in their current form.

- **Rules of origin for the auto sector** — Currently, for vehicles to avoid tariffs, at least 62.5 percent of their net costs must come from NAFTA countries. U.S. negotiators are proposing to raise that threshold to 75 percent. Canada and Mexico, though, say automakers would likely choose to keep their existing supply chains and simply pay a non-NAFTA tariff on cars (about 2.5 percent). If this occurred, the result would be more expensive cars and possibly less North American content. A related U.S. proposal would require that 40 percent of a vehicle's product be made by workers who earn at least $16 per hour — a reflection of U.S. and Canadian concerns about the loss of jobs to Mexico.

- **Dispute resolution** — Trade disputes are currently heard by trilateral courts.

The United States has proposed that cases involving the U.S. government or businesses be moved to U.S. courts.

- **Bidding on public works projects** — The United States has tried to protect its domestic public-works projects from being bid on by foreign companies, often through Buy American provisions in legislation. The United States is now proposing a cap on the dollar amount of these projects that can be bid on by foreign companies, at the same level that Canada and Mexico currently have. But, with smaller economies and fewer projects to bid on, both countries believe they would be unfairly restricted in the larger U.S. market if they were capped at that level.

- **Sunset clause** — The United States has proposed a five-year sunset clause for NAFTA. Without a new agreement, an end to NAFTA is possible, as is a period of more protectionist trade policies.

“The concern is that we are entering an era that is not status quo; it’s more aggressive and dispute-focused,” says Scotty Greenwood, CEO of the Canadian American Business Council.

Christopher Sands, director of the Canadian Studies Program at the School of Advanced International Studies at Johns Hopkins University, says “the three big sectors that would suffer without NAFTA are agriculture, energy and manufacturing.”

“All three rely on specialization and tapping the best producers in all three countries, and once barriers go up, many of these sectors will lose competitiveness against imports from [lower-cost producers like those in] Asia,” he says.

The three states that would be most affected by a NAFTA withdrawal (without an agreement to take its place) are Michigan, Wisconsin and North Dakota, according to a 2017 U.S. Chamber of Commerce study.
For Don Hineman, juggling the responsibilities of farmer and legislator is nothing new, in fact, it’s a family tradition. The native of western Kansas watched his father, Kalo, do the same thing in the late 1970s and early 1980s.

It was around that same time, too, that Hineman began to gain an interest in state politics himself, eventually leading to 16 years of service as a county commissioner as well as active membership in farmer-based associations.

In 2008, he followed his father’s footsteps to Topeka, winning election to the Kansas House and making tax policy an immediate focus. From the start, Hineman says, an overarching philosophy has guided much of his legislative work: “broad-based, balanced, equitable tax policy where everyone carries their share of the tax burden for the good of society.”

That interest in fiscal affairs has served Hineman well as a legislative leader, an additional responsibility he took on last year as the Legislature faced thorny questions about how to close budget deficits.

Back home, he turned over farm operations to his son a decade ago after the younger Hineman returned home from school (much like Kalo had done with him).

“[My son] is in charge, and when I am available, he tells me what to do,” Hineman says. “I think that is the way it should be — give the younger generation a chance to do it and make their own way.”

Meanwhile, in the Legislature, Hineman continues to have a big role in the policies affecting the next generation of Kansans. In a recent interview, he reflected on some of the important decisions made over the past few years, as well as his views on legislative leadership.

Q: What do you view as your most important legislative accomplishment?
A: Probably the tax reform package that passed last year, which was made necessary by a persistent imbalance between revenues and expenditures that could no longer be met through budget cuts — at least not responsibly.

So the Legislature collectively concluded that some tax reform was needed to somewhat overturn the tax cut that was passed in 2012. I was one who voted “no” in 2012, and I made the remark at that time that cutting taxes was a very worthwhile objective, but that the particular bill was a case of too much, too fast. [Editor’s note: In 2012, at then-Gov. Sam Brownback’s urging, the Legislature cut individual tax rates by 25 percent and repealed the tax on sole proprietorships and other “pass-through” businesses. In 2017, the Legislature voted to repeal most of the tax cuts instituted in 2012.]

Q: Regarding those changes made in 2017, what do you recall about the process for finding enough votes among legislators for a new tax plan?
A: I was involved in examining a number of different alternatives last year, in concert with the tax committee chair and [legislative] leadership. ... It took a long time to come to a consensus.

It reminds me of some advice that one of my legislative mentors shared with me, probably during my very first session. He was fond of saying, “You just have to let the session come to you.” You have a difficult problem that is begging for a solution, but you cannot get consensus. In those instances, it just takes time for that consensus to build until you eventually have a product that is agreeable enough to get passed.

Q: What are some of your future goals in terms of state policy?
A: The tax bill we passed last year restored some fiscal sanity, some fiscal stability, to state government. It’s now our challenge to address the pent-up needs and demands that are in state government without further adjustment of taxes. We did what we did because we had to, and yet we recognize that raising taxes always has negative consequences, and there is no appetite for doing that anytime soon.

So it’s a matter of prioritization. There are always more budget requests — more needs and wants within state government — than we can ever adequately fund, and I think that is probably the way state government ought to operate. It’s not healthy for state government to be awash in funds. Now that we have restored a base of fiscal stability, it is a matter of deciding the top priorities within government.

Q: The tax agreement came during your first year as majority leader. Can you talk about your path to leadership?
A: The Kansas Republican Party is maybe somewhat atypical compared to most states. There is both a fairly conservative branch of the party, and there is also a fairly centrist/moderate wing of the party. I am in the centrist wing. We sometimes call ourselves “civic Republicans” because when we talk amongst ourselves, we learn that many of us had a history of civic involvement back home (on city councils, school boards, county commissions) that kind of shaped our view of government and the legitimacy of it.

The election of 2016 created a circumstance where those two wings were fairly equally represented within the House of Representatives. The result was that Speaker [Ron] Ryckman, who represents the conservative wing, was elected speaker, and I was elected majority leader. I have really enjoyed working with Speaker Ryckman. It has been sometimes a challenge to keep our two wings working toward a common goal, but we have made it a priority for both of us to work together to achieve the best possible results.

Q: What has been your biggest challenge as a legislative leader?
A: Probably communication, communication with membership, communication with other members of the leadership team — that’s a high responsibility if you want things to work, and that’s not always easy to achieve. There are only so many hours in the day. It’s easy to get distracted with the issue of the moment and forget to communicate with someone else who needs to know what is going on. Frankly, the advent of texting has been a godsend. There is a lot of texting that goes on, and if we didn’t have that, communication would really lack.

Q: How would you describe your style of legislative leadership?
A: Consensus building. It goes back to that advice [from a legislative mentor] of letting the session come to you. Try not to rush an issue, try to build consensus through communication and collaboration with other interest groups or factions within the Legislature.
Jump-starting efficiency

The South Dakota Legislature is using oversight authority and its own budget to eliminate waste, help transform operations in state agencies

by South Dakota Sen. Jeffrey Partridge (Jeffrey.Partridge@sdlegislature.gov)

Another election year is upon us, and for state lawmakers across the Midwest, that means trying to get rehired by our constituents.

And let’s face it: The path to re-election can be a difficult course to navigate. While the voters may know who you are, they may be less certain about what you have done.

But there is at least one clear-cut accomplishment that I believe South Dakota’s incumbents can make part of their message in the weeks and months ahead — our Legislature’s leading role in starting a process to eliminate waste, improve operations and maximize results in state government.

We’ve done this by directing and helping our state agencies to utilize a process known as the “LEAN” methodology.

Simply put, LEAN focuses on improving government performance. It builds on an approach first pioneered in the private sector, namely with Toyota and its creation of a just-in-time manufacturing model that tied production more closely to customer demand in order to reduce waste and create more value.

In our case, the customers are the residents (and voters) of our home state, and we already can create more value.

The South Dakota Legislature is using oversight authority and its own force of law, a letter of intent helps explain our intentions and meeting benchmarks.

Two years ago, our committee was not satisfied with answers from the South Dakota Bureau of Information & Telecommunications. The committee peppered the department with questions, and all sides left frustrated.

But that dissatisfaction ultimately led us to implementation of the LEAN methodology, through a common legislative practice in our state known as a “letter of intent.”

Our joint, interim South Dakota Appropriations Committee will often write these letters to cabinet secretaries or commissioners after a general bill has been passed. Though it does not have the force of law, a letter of intent helps explain our intentions or expectations — whether they be for a specific piece of legislation or an appropriation.

We decided that a letter of intent was the perfect tool for implementing LEAN in a specific department. We simply wrote, “Your budget is approved on the condition that you implement the LEAN Methodology over the next year.”

That same year, we made another important decision. Because our leadership teams in both the House and Senate understood the value of implementing LEAN, we agreed to use our own legislative budget to help fund specific consulting projects for identified agencies. The first of these agencies was the Bureau of Information & Telecommunications.

Since then, we also have written letters of intent for South Dakota’s departments of Labor & Regulation, Correction and the Bureau of Administration to implement LEAN.

In each of these instances, we use the legislative budget to pay for initial project costs (our Legislative Research Council actually issues the request for proposal). Our goal is to “prime the pump” so that LEAN gets up and running in these agencies.

Once the initial consulting contract is complete, our hope is that departments will continue to engage where they see fit.

Our goal is to “prime the pump” so that LEAN gets up and running in these [state] agencies.

Praising early results from LEAN

The results have been amazing. Our Department of Revenue had already implemented LEAN before we started issuing these letters of intent. Andy Getlach, secretary of the Department of Revenue, says the process has been “transformational.”

“It has been exciting to see our employees learn the fundamentals and then put them into practice,” he says.

“We have become more efficient, which is both a benefit to the citizens of South Dakota and our organization,” says Marcia Hultman, secretary of the Department of Labor & Regulation, says the process has helped her agency streamline the travel-voucher system for employees, while also leading to collaboration with other agencies.

And what about our first group, the Bureau of Information & Telecommunications, which provides technology services for the state?

“Implementing the LEAN methodology has allowed our development division to greatly improve our software development processes,” says Jim Edman, the department’s deputy secretary. “Through the collection of valuable metrics surrounding our modified processes, we are able to see how those process changes affect our work flow.”

As our state’s employees work together on process improvement, another interesting thing has transpired: They are building trust within the workplace. Trust leads to enhanced communication and a greater employment experience.

As legislators, we should talk about LEAN, especially during election years. If your state has not engaged in it, I encourage you to become a champion of this successful program, which benefits elected officials, state employees and constituent taxpayers — and make it a win for all.

Sen. Jeffrey Partridge was elected to the South Dakota Senate in 2016 and previously served in the House.

Submissions welcome

This page is designed to be a forum for legislators and constitutional officials. The opinions expressed on this page do not reflect those of the Council of State Governments or the Midwestern Legislative Conference. Responses to any FirstPerson article are welcome, as are pieces written on other topics. For more information, contact Tim Anderson at 630.925.1922 or tanderson@csg.org.
Class of BILLD Fellows chosen, will take part in five days of leadership training

Institute is premier development program for Midwest’s newer legislators

Thirty-eight of the Midwest’s state and provincial legislators will travel to Minneapolis in August for five days of intensive training that hones their leadership and policymaking skills. Now in its 24th year, the highly regarded Bowhay Institute for Legislative Leadership Development is one of the many services provided to state legislators by the Midwestern Office of The Council of State Governments. BILLD’s programming is designed for individuals in their first four years of legislative service.

A bipartisan group of legislators from the 11 Midwestern states — the Midwestern Legislative Conference BILLD Steering Committee — oversees the institute and the selection of BILLD fellows. Those selections were made in May.

While in Minneapolis, participants will take part in seminars covering a wide range of topics — from media relations and priority management, to consensus building, negotiation and conflict resolution. In addition, policy sessions will be led by scholars at the Center for the Study of Politics and Governance at the University of Minnesota’s Humphrey School of Public Affairs. (CSG Midwest partners with the center for BILLD.)

More than 800 lawmakers have now graduated from BILLD, including many who have gone on to serve in key leadership positions in their respective states. Others have been elected to the U.S. Congress.

New four-legislator officer team for the BILLD Steering Committee

Nebraska Sen. Sara Howard, co-chair
Iowa Rep. Rob Taylor, co-chair
Minnesota Rep. Laurie Halverson, vice chair
Iowa Sen. Amy Sinclair, vice chair

Illinois
• Rep. Carol Ammons
• Sen. Dale Fowler
• Rep. Theresa Mah
• Sen. Paul Schimpf

Indiana
• Sen. Erin Houchin
• Sen. Eddie Melton
• Rep. Doug Miller

Kansas
• Rep. Brenda Dietrich
• Rep. Jarrod Ousley
• Sen. Lynn Rogers

Michigan
• Rep. Sara Cambensy
• Rep. Eric Leuthesser
• Rep. Jim Tedder
• Rep. Tenisha R. Yancey

Minnesota
• Rep. Dario Anselmo
• Rep. Randy Jessup

North Dakota
• Rep. Jim Grueneich
• Rep. Karla Rose Hanson
• Sen. Scott Meyer

Ohio
• Rep. Catherine Ingram
• Rep. Emilia Sykes

South Dakota
• Rep. Oren Lesmeister
• Sen. Reynold Nesiba
• Rep. Sue Peterson

Wisconsin
• Rep. David Crowley
• Sen. Patrick Testin
• Rep. Ron Tusler

MLC Affiliate Provinces
• Manitoba MLA Janice Morley-Lecomte
• Saskatchewan MLA David Buckingham

The Council of State Governments was founded in 1933 as a national, nonpartisan organization to assist and advance state government. The headquarters office, in Lexington, Ky., is responsible for a variety of national programs and services, including research, reference publications, innovations transfer, state legislation and interstate consulting services. The Midwestern Office supports several groups of state officials, including the Midwestern Legislative Conference, an association of all legislators in 11 states. Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. The Canadian provinces of Alberta, Manitoba, Ontario and Saskatchewan are MLC affiliate members.

Annual meeting of Midwest’s legislators begins July 15 in Winnipeg

The premier gathering of the region’s state and provincial legislators is coming soon. This year’s Midwestern Legislative Conference Annual Meeting will be held July 15-18 in Manitoba’s culturally vibrant capital city of Winnipeg. Registration remains open and can be completed at csgmidwest.org.

73rd Annual Meeting Midwestern Legislative Conference
Winnipeg, Manitoba July 15-18, 2018

Here is some of what has been planned for meeting participants and their guests:
• MLC committee meetings on agriculture and natural resources, criminal justice, economic development, education, health care, and Midwest-Canada relations;
• a keynote address from Gary Doer, the former Manitoba premier and former Canadian ambassador to the United States;
• a featured presentation by Amy Walter, national editor of the Cook Political Report;
• a luncheon presentation by Roberta Bondar, the first Canadian woman and neurologist to fly in space;
• a plenary session on energy policy featuring Bill Ritter, the former governor of Colorado and current director of the Center for the New Energy Economy;
• a plenary session on transportation policy;
• presentations and a roundtable discussion on state fiscal conditions;
• a luncheon presentation by Canadian historian Brian Tennyson;
• a professional development workshop on media relations with Adam Schrager, an investigative reporter and producer at WISC-TV in Madison, Wis.;
• evening events at the Manitoba Legislative Building, the Assiniboine Park Zoo’s Journey To Churchill Exhibit and the Canadian Museum for Human Rights; and
• daytime programming for the children, spouses and adult guests of MLC meeting attendees.
CSG focusing on election cybersecurity, state responses to threats and breaches

To help states address election cybersecurity concerns, The Council of State Governments has partnered with the Democracy Fund to create an advisory group of state and local government officials and experts in cybersecurity, information technology and election administration, as well as other stakeholders.

That group met in May in Washington, D.C. Its next step is to hold a consortium meeting this summer that includes participation by eight states (two each from CSG’s four regions). Each state’s delegation will include, at a minimum:

- the state chief information officer or technology director,
- an election official at the state level,
- a representative from the governor’s office,
- two legislative representatives, and
- a representative from the local elections community.

At the summer meeting, in collaboration with cybersecurity experts, these state delegations will map their election processes and develop incident-response communication protocols for election-related cybersecurity breaches. Observations and lessons learned from this summer’s meeting will be distilled into a toolkit that any state can use to map a communications plan for an election cybersecurity breach.

“Election cybersecurity is an increasingly complex and important concern for state officials at all levels of government and across various departments and agencies,” says Kamani Kalisa, who leads election policy efforts at CSG. “The news has been dominated by stories of attempted cyber breaches by bad actors, which threatens to destabilize our election systems, the bedrock of our democracy.”

In 2016, the media reported on a number of election cybersecurity incidents around the country, including the attempted penetration of the voter registration system in Arizona and a breach of voter data in Illinois. While none of the election rolls of those states was affected, the incidents exposed a lack of response protocols and communication strategies. Without such plans in place, valuable time can be lost addressing a breach and communicating the problem to other stakeholders and the public. Equally serious is the impact a chaotic response, with its accompanying confusion, will have on the public’s faith in the election system.

“CSG provides a unique opportunity for all three branches of state government to work together to ensure that state laws, policies and procedures protect the integrity of the electoral process,” says Tammy Patrick, senior adviser for the elections program at the Democracy Fund, which has devoted more than $1.4 million in grants to organizations supporting election cybersecurity.

“CSG’s voting initiatives have a track record of effectively convening state and local election officials to tackle the big issues facing our voters. From military and overseas voters to technological efficiencies, they have provided practical recommendations to improve the voting experience of millions.”

### What’s at stake? Snapshot of offices up for election in Midwest in 2018

<table>
<thead>
<tr>
<th>State</th>
<th># of state legislative elections</th>
<th>Race for governor?</th>
<th># of U.S. congressional elections</th>
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<td>10 (includes 1 U.S. Senate race)</td>
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</tr>
<tr>
<td>Wisconsin</td>
<td>116</td>
<td>Yes</td>
<td>9 (includes 1 U.S. Senate race)</td>
</tr>
</tbody>
</table>

*All seats are up for election in most of the Midwest’s lower legislative chambers. (The lone exception is North Dakota, where only half of the House seats are up for election.) Among the Midwest’s upper chambers, all Senate seats are up in Michigan and South Dakota, some are up in Illinois, Indiana, Iowa, Kansas (only one), North Dakota, Ohio and Wisconsin, and none are up in Minnesota.*

**Midwest legislators take part in CSG Leadership Council**

Wisconsin Rep. Joan Ballweg (far right), vice chair of The Council of State Governments, participates in a May meeting of the CSG Leadership Council. Illinois Sen. Elgie Sims, vice chair of CSG’s Midwestern Legislative Conference, also took part in the meeting. Indiana Sen. Ed Chaparro, current MLA chair, is the other Midwestern legislator who serves on the council. Pictured with Ballweg (from left to right) are Delaware Rep. Helene Keeley, CSG chair-elect; Kentucky Senate President Robert Stivers, CSG chair, and David Adkins, CSG executive director.
This legislative action came in June and did not require gubernatorial action. That is because the prevailing-wage repeal was scheduled to appear on the fall ballot. Under Michigan law, the Legislature has 40 days to adopt or reject a ballot proposal. If a proposal is not enacted within this time frame, it goes to the voters. The Detroit Free Press called the Legislature’s decision “the latest blow to organized labor.”

In 2015, Indiana legislators removed prevailing wage with the passage of HB 1019. The end of this law in Wisconsin came in two steps. The Legislature repealed prevailing wage for local government projects as part of the state’s last budget (SB 21) and then extended the repeal to state-funded projects in the current budget (AB 64).

According to the U.S. Department of Labor, Illinois, Minnesota, Nebraska and Ohio have prevailing-wage laws. Ohio exempts local school projects; it and Minnesota set thresholds that trigger the prevailing wage based on the cost of a project.

In a 2015 study, the Obama administration found significant state-by-state variation in the portion of workers requiring a license — from a low of 12 percent in South Carolina to a high of 33 percent in Iowa.

Since the 1950s, there has been a five-fold increase in the share of workers subject to state licensing. Today, about 25 percent of U.S. workers need a license to do their jobs. In 2013, the Obama administration found significant state-by-state variation in the portion of workers requiring a license — from a low of 12 percent in South Carolina to a high of 33 percent in Iowa.

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