A happier new budget year

States adopt 2013 budgets under improved fiscal conditions, but economic picture remains cloudy

by Tim Anderson (tanderson@csg.org)

The signs of improving fiscal conditions were apparent in most of the Midwestern states where new annual budgets were adopted this year.

In Iowa and Kansas, legislators adopted increases in general-fund spending, and the headlines from the two state capitols were less about reducing expenditures and more about proposals to cut taxes.

There was a modest increase in South Dakota's fiscal year 2013 budget as well (3.9 percent), following a year in which every major area of state government had been cut — between 10 percent and 22 percent for most departments.

In Michigan, after years in which revenue growth consistently fell below expectations, the state actually had an additional $300 million to work with in crafting its FY 2013 budget.

“There is no doubt things are getting better, a lot better,” says Kurt Weiss, public information officer for the Michigan Department of Technology, Management & Budget.

“We went through a decade where every time the [state] Revenue Estimating Conference would meet it was, ‘Here is how much less money you have.’ The last three conferences have been good news.”

Illinois faced perhaps the most difficult fiscal challenges of the five Midwestern states where new budgets were passed. (The six other Midwestern states in the region operate on biennial budget cycles.)

Though overall spending increased modestly, the budget adopted by Illinois legislators in late May included cuts in state aid to schools and to higher education. (Democratic Gov. Pat Quinn had not yet signed the budget bill as of early June, and some lawmakers were still pushing for a Senate-approved tax on satellite television services to bolster school funding.)

Perhaps most significant of all, too, the Illinois General Assembly moved ahead with a major restructuring of its Medicaid program in a single year,” Democratic Sen. Heather Steans said upon passage of SB 2840, which cuts $1.6 billion in FY 2013. On top of those reductions, legislators passed a $1-a-pack increase in the cigarette tax, with the additional revenue going to shore up the Medicaid program's finances. In all, the mix of cuts and the tax hike added up to $2.7 billion for the next fiscal year.

“Democratic Rep. Sara Feigenholtz, who helped lead the legislative effort, described this year's Medicaid restructuring as both “herculean” and “painful.” But in the end, she says, the measures passed because lawmakers knew the program had reached a tipping point.

“If we didn’t address the crisis this year, our payment cycle [for Medicaid providers] would have gone from about 150 days to 300 days,” she says. “Providers’ doors were already closing. Had we not done what we did, I believe the whole system would have collapsed.

“As a state, we had to get back on track and stop pushing our liabilities into the next year.”

Economic uncertainty clouds improved budget conditions

The hope for leaders across the Midwest is that the worst budget conditions and toughest fiscal choices are behind them. Still, there will likely be much uncertainty in 2013, when all 11 legislatures in the Midwest meet again to craft new annual or biennial state budgets.

“I don’t think we’re going to see the same kind of crisis atmosphere; on the other hand, it is still not an easy time to govern,” says Tracy Gordon, a fellow at The Brookings Institution who tracks state and local finances.

Tax collections have gone up for nine straight quarters of the year, she says, but the increases are slowing. Meanwhile, the unemployment rate remains high, and overall U.S. economic growth is slow. In some states, too, revenues are starting to fall below expectations, and there are continued concerns about the future of the federal budget.

“I think it’s a foregone conclusion that states around the country are not going to be receiving as much from the federal government,” says Jason Dilges, South Dakota’s Bureau of Finance and Management com-
Great Lakes

Army Corps expedites Asian carp study; report due in 2013

Under an expedited timeline that had been sought by state and federal lawmakers alike, the U.S. Army Corps of Engineers is planning to release in 2013 a set of options for keeping Asian carp out of the Great Lakes.

“This new step will result in a more focused path forward that could mean faster implementation,” John Goss, Asian carp director at the White House Environmental Council, said in May.

Still, it remains to be seen whether a permanent solution can be found to the problem — which poses significant economic and ecological risks to the Great Lakes region, but which also has divided the region due to conflicting interests among the different states.

The Corps had originally planned to release a final study in late 2015, citing the need for enough time to collect data and investigate control technologies. But groups such as the Great Lakes Legislative Caucus urged the Corps to fast-track its study. In addition, legislation has been introduced in the U.S. Congress requiring an accelerated timeline, a move also requested in federal court by five Great Lakes attorneys general (Michigan, Minnesota, Ohio, Pennsylvania and Wisconsin).

By 2013, the Corps will deliver to the U.S. Congress a series of options along with cost estimates for each. It has already identified 90 technologies that are or could be used to keep invasive species from moving between the Great Lakes and Mississippi River watersheds — including hydrologic separation, sound and electric barriers, the application of chemicals and fish poison into waterways, mechanical fish harvesting and the use of pheromones.

The potential Great Lakes invasion of Asian carp — which has decimated fish populations in parts of the Mississippi River system — has led to calls to separate the two watersheds by constructing a permanent ecological barrier (or multiple barriers) in the Chicago Area Waterway System.

Earlier this year, the Great Lakes Commission and the Great Lakes and St. Lawrence Cities Initiative issued a report detailing the alternatives. The lowest-cost option for the physical separation of the two watersheds was pegged at $4.3 billion. Those costs include not only construction of an ecological barrier in the Chicago Area Waterway System, but also other changes that would likely have to be made: improving the region’s stormwater infrastructure, for example, and finding ways to accommodate the commercial and recreational traffic that uses the system.

Asian carp is one of 39 invasive species identified by the Army Corps as having the potential to move from one watershed to the other via the Chicago system. And that system is one of 19 pathways (see map) that the Corps has identified as potentially transferring aquatic invaders between the watersheds.

Health & Human Services

In Midwest, little legislative action thus far on adopting health insurance exchanges

While state policymakers prepare for and analyze the outcome of the Supreme Court case surrounding the U.S. Affordable Care Act, the federal government is moving forward with regulations to implement the law.

The U.S. Department of Health and Human Services in May issued guidance to states that their plans for health insurance exchanges must be submitted by Nov. 16. The federal government expects states for each. It has already identified 90 technologies that are or could be used to keep invasive species from moving between the Great Lakes and Mississippi River watersheds — including hydrologic separation, sound and electric barriers, the application of chemicals and fish poison into waterways, mechanical fish harvesting and the use of pheromones.

The potential Great Lakes invasion of Asian carp — which has decimated fish populations in parts of the Mississippi River system — has led to calls to separate the two watersheds by constructing a permanent ecological barrier (or multiple barriers) in the Chicago Area Waterway System.

Earlier this year, the Great Lakes Commission and the Great Lakes and St. Lawrence Cities Initiative issued a report detailing the alternatives. The lowest-cost option for the physical separation of the two watersheds was pegged at $4.3 billion. Those costs include not only construction of an ecological barrier in the Chicago Area Waterway System, but also other changes that would likely have to be made: improving the region’s stormwater infrastructure, for example, and finding ways to accommodate the commercial and recreational traffic that uses the system.

Asian carp is one of 39 invasive species identified by the Army Corps as having the potential to move from one watershed to the other via the Chicago system. And that system is one of 19 pathways (see map) that the Corps has identified as potentially transferring aquatic invaders between the watersheds.

In Midwest, little legislative action thus far on adopting health insurance exchanges

With state policymakers prepare for and analyze the outcome of the Supreme Court case surrounding the U.S. Affordable Care Act, the federal government is moving forward with regulations to implement the law.

The U.S. Department of Health and Human Services in May issued guidance to states that their plans for health insurance exchanges must be submitted by Nov. 16. The federal government expects states for each. It has already identified 90 technologies that are or could be used to keep invasive species from moving between the Great Lakes and Mississippi River watersheds — including hydrologic separation, sound and electric barriers, the application of chemicals and fish poison into waterways, mechanical fish harvesting and the use of pheromones.

The potential Great Lakes invasion of Asian carp — which has decimated fish populations in parts of the Mississippi River system — has led to calls to separate the two watersheds by constructing a permanent ecological barrier (or multiple barriers) in the Chicago Area Waterway System.

Earlier this year, the Great Lakes Commission and the Great Lakes and St. Lawrence Cities Initiative issued a report detailing the alternatives. The lowest-cost option for the physical separation of the two watersheds was pegged at $4.3 billion. Those costs include not only construction of an ecological barrier in the Chicago Area Waterway System, but also other changes that would likely have to be made: improving the region’s stormwater infrastructure, for example, and finding ways to accommodate the commercial and recreational traffic that uses the system.

Asian carp is one of 39 invasive species identified by the Army Corps as having the potential to move from one watershed to the other via the Chicago system. And that system is one of 19 pathways (see map) that the Corps has identified as potentially transferring aquatic invaders between the watersheds.

State action on Affordable Care Act health insurance exchanges

State plans to establish exchange

State is studying options

State has taken no significant action
Economic Development

Brookings report shows positive signs for Midwest manufacturing

Despite the significant amount of attention being given to the decline of American manufacturing, recent work by the Brookings Institution points to a survivability, if not thriving, sector. In a series of reports, experts point to manufacturing’s continued contributions to economic growth and importance to the U.S. economy.

In a report on the location of manufacturing, Brookings shows that metropolitan areas are home to the large majority of manufacturing jobs: nearly 80 percent of employment in this sector and 95 percent of its high-tech jobs.

In addition, metro areas have become increasingly specialized in manufacturing (a term meaning that a manufacturing industry’s percentage of the area’s total employment is at least 1.05 times its percentage of nationwide total employment). In 2010, 163 metro areas were strongly specialized in manufacturing, compared to 148 in 1980.

The authors of “Locating American Manufacturing: Trends in the Geography of Production” conclude that “manufacturers gain important advantages by being located in metropolitan areas,” particularly due to the geographic clustering of related industries. These advantages include promotion of innovation; access to specialized workers, suppliers and customers; and access to non-manufacturing industries, such as professional services.

The authors also examined regional trends in manufacturing employment. They found that the greatest gains in recent years have been made to be in the Midwest, where “manufacturing remains an important part of the economic base in a larger number of metropolitan areas today than [it was] three decades ago.”

Compared to the rest of the nation, here is how the Midwest stacks up. It is home to:

• 10 of the 20 metro areas with the highest percentage of manufacturing jobs (see table) and highest degree of manufacturing specialization;
• four of the 20 metro areas with the highest share of moderately high-tech manufacturing jobs (Peoria, Ill., Racine, Wis., Columbus, Ind., and Waterloo–Cedar Falls, Iowa); and
• two of the 20 metro areas with the highest share of very high-tech manufacturing jobs (Wichita, Kan., and Rochester, Minn.).

According to the authors, the Midwest is under-represented in the presence of very high-tech manufacturing. On the other hand, moderately high-tech manufacturing is more likely to be located in the Midwest or South. Of the 139 metro areas that specialize at least strongly in this sector, 53 are in the Midwest.

Among the significant findings for this region are that the long-term shift of manufacturing to the South ended during the past decade and that the Midwest had the largest gain in manufacturing jobs during the past two years — an increase of 5.2 percent, compared to national gains of 2.7 percent.

The authors conclude by suggesting that the movement of manufacturers away from cities would be undesirable. They favor policies that would foster development of urban clusters and centralized manufacturing (thus promoting innovation and collaboration), and that discourage “smokestack chasing,” the use of tax and other incentives to lure manufacturing jobs.

Agriculture & Natural Resources

Rural areas losing influence as legislative districts become increasingly urban, suburban

Across the Midwest there is expected to be a significant turnover this year in state legislatures.

And particularly after another round of redistricting, agriculture’s voice in the legislature is at risk of being drowned out as more districts become urban or suburban, a shift that has been occurring for decades.

Rural communities are looking at a future in which issues they care about are decided by people who know little about growing corn or无线 high-speed Internet.

“Even within rural districts, farmers are becoming a smaller percentage of voters as farming and ranching consolidates in fewer, larger operations,” says Brad Lubben, public policy specialist at the University of Nebraska.

Among the many rural lawmakers leaving office, few have served longer or have had a greater impact on agriculture policy than Indiana Republican Sen. Bev Kibbie, a Democrat.

Kibbie is retiring after 32 years in the legislature (much of it as an agriculture committee chairman), says one of the striking achievements has been the increased role of agriculture producers in growing the state’s overall economy.

These days, agriculture means more than raising commodity crops or raising livestock; it has become a key energy source for Iowa — from the rise in wind farms to growth in ethanol and biodiesel production. That transition, he says, has been aided by state policies designed to advance the agriculture-based energy sector in Iowa.

But Kibbie adds that the legislators job is not done. “Now we must move the energy from rural areas to urban populations,” he says. “Transmission lines, ethanol-compatible pipelines, and good rail lines and roads are critical to supplying the country’s energy needs.”

Both lawmakers say that one of the main disappointments of their tenure has been the failure to fully address the long-term infrastructure needs of rural areas. They worry, too, that rural economic development will be hampered by a lack of funding for rural schools.

These policy challenges will only become more daunting with fewer rural legislators having a say in education, road and infrastructure funding.

“It is important that we find ways to convince urban legislators how important the rural economy is to maintaining the entire state economy,” Kibbie says.

That very issue arose this year in Indiana when the state Supreme Court ruled that towns could regulate any body of water (including aquifers) within 10 miles of their municipal limits — a decision, Gard says, that could have left rural residents unable to drill a well for their home or for irrigation.

She worked to inform urban legislators of the impact of this ruling, and an amendment was passed removing underground aquifers from potential regulation.

With the likes of Gard and Kibbie leaving office and with rural representation declining, a new wave of lawmakers — many from suburban areas — will represent agriculture and the rural Midwest. Their votes will determine the fate of rural causes for decades to come.
A new stadium for the Vikings, the state's National Football League team. Under HF 3584, signed into law in May, the state will contribute $348 million to the project—about one-third of the costs. The team and the city of Minneapolis will cover the remaining expenses. Legislative supporters say the move was necessary to keep the team from leaving the city. They also note that the new facility will bring in revenue by serving as a venue for other events, and that its construction will create 13,000 jobs.

To pay for the state's portion of the costs, lawmakers agreed to add electronic bingo and pull-tabs to the list of games allowed under the state's charitable gambling law—which permits licensed nonprofit organizations to conduct gambling activities at locations that own or lease (including parts of bars and restaurants). If this does not cover the costs, the state will then start a sports-themed lottery game and institute a 10 percent tax on luxury seats at the stadium.

Minnesota joins several other Midwestern states where the public financing of new professional sports stadiums, or renovations to them, have been approved. Other examples include:

- Lucas Oil Stadium, Indianapolis Colts — Increases in local restaurant, auto rental taxes and admissions taxes were used to help finance the project. To raise money, too, the state began selling Colts license plates
- Soldier Field, Chicago Bears — Revenue for the public portion of the $557 million renovation came from a reallocation of city of Chicago hotel-tax revenue. The Illinois Sports Facilities Authority, established by the legislature in 1987, issued municipal bonds for the project.
- Lambeau Field, Green Bay Packers — Public financing came from state infrastructure funds and a voter-approved increase in local sales taxes.

Some studies have questioned the value of public financing of sports stadiums. A 2003 University of Maryland study found that professional sports teams decreased jobs and earnings in a number of U.S. cities due to “substitute” economic activity—spending inside stadiums replaces spending outside the venues. A 2005 study by Harvard professor Judith Grant also found that the true cost of these projects is underestimated “due to the routine omission of public subsidies for land and infrastructure and the ongoing costs of operations, capital improvements, municipal services and Foregone property taxes.”

Supporters of the Vikings project, though, say it’s a false choice. The project will bring in millions in tax revenue and employ thousands of Minnesotans. The team also predicts it will create 13,000 jobs.

Funding of new or renovated NFL stadiums in Midwest (since 1997)

<table>
<thead>
<tr>
<th>State</th>
<th>Stadium</th>
<th>Cost (in millions)</th>
<th>% from public funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>Soldier Field</td>
<td>$587</td>
<td>66%</td>
</tr>
<tr>
<td>Indiana</td>
<td>Lucas Oil</td>
<td>$720</td>
<td>86%</td>
</tr>
<tr>
<td>Michigan</td>
<td>Ford Field</td>
<td>$440</td>
<td>25%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>Vikings</td>
<td>$935</td>
<td>51%</td>
</tr>
<tr>
<td>Ohio</td>
<td>Paul Brown</td>
<td>$450</td>
<td>94%</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>Lambeau Field</td>
<td>$295</td>
<td>57%</td>
</tr>
</tbody>
</table>

Sources: Convention Sports & Leisure, International, Minnesota House Public Information Services

Leading drivers of growth between 2010 and 2011, by industry: % of contribution to state’s overall increase in personal income (based on industry’s earnings growth)

| Illinois | 1) Professional, scientific and technical services ~ 18.4% |
| 2) Manufacturing ~ 12.6% |
| 3) Farm ~ 11.4% |
| 4) Wholesale trade ~ 10.2% |

| Indiana | 1) Manufacturing ~ 20.1% |
| 2) Health care/social insurance ~ 11.9% |
| 3) Farm ~ 11.0% |
| 4) Professional, scientific and technical services ~ 10.2% |

| Kansas | 1) Administrative and waste management services ~ 14.9% |
| 2) Finance/insurance ~ 10.9% |
| 3) Manufacturing ~ 10.9% |
| 4) Professional, scientific and technical services ~ 10.1% |

| Michigan | 1) Manufacturing ~ 28.8% |
| 2) Professional, scientific and technical services ~ 17.2% |
| 3) Health care/social insurance ~ 8.8% |
| 4) Administrative and waste management services ~ 7.8% |

| Nebraska | 1) Farm ~ 39.3% |
| 2) Health care/social insurance ~ 12.0% |
| 3) Manufacturing ~ 7.8% |
| 4) Professional, scientific and technical services ~ 6.5% |

| North Dakota | 1) Mining ~ 31.5% |
| 2) Construction ~ 13.6% |
| 3) Transportation and warehousing ~ 13.5% |
| 4) Wholesale trade ~ 12.3% |

| South Dakota | 1) Farm ~ 43.5% |
| 2) Manufacturing ~ 12.2% |
| 3) Health care/social insurance ~ 9.7% |
| 4) Wholesale trade ~ 6.6% |

| Minnesota | 1) Manufacturing ~ 16.6% |
| 2) Finance/insurance ~ 15.0% |
| 3) Professional, scientific and technical services ~ 12.5% |
| 4) Wholesale trade ~ 9.9% |

| Ohio | 1) Manufacturing ~ 21.9% |
| 2) Professional, scientific and technical services ~ 13.3% |
| 3) Health care/social insurance ~ 8.6% |
| 4) Farm ~ 7.0% |

| Wisconsin | 1) Manufacturing ~ 22.9% |
| 2) Farm ~ 15.0% |
| 3) Health care/social insurance ~ 9.1% |
| 4) Professional, scientific and technical services ~ 7.9% |

Source: U.S. Bureau of Economic Analysis

In most Midwestern states, income growth is outpacing the nation’s

Increases in per capita personal income, 2010-2011; U.S. rank in parentheses *

Above U.S. average, 4.3 percent

Below U.S. average, 4.3 percent

* Percentages in map are rounded; rankings reflect differences in rates of growth (not simply due to rounding) among South Dakota, Nebraska and Michigan

Around the Region

Minneapolis latest state to OK new NFL stadium

Fueled in part by strong earnings growth in the farm and manufacturing sectors, most states in the Midwest are outpacing the rest of the nation on a key economic indicator — the change in per capita personal income.

Between 2010 and 2011, it increased in each of the region’s 11 states at a rate higher than inflation; Kansas was the only state in the region where the rise in per capita income trailed the national average of 4.3 percent (see map). The data, released this spring by the U.S. Bureau of Economic Analysis, also highlight the performance of various sectors of state economies.

Most striking is the continued growth in North Dakota’s mining industry (including oil and gas extraction); Personal income in this sector increased by 70 percent from 2010 to 2011. Mining accounted for close to one-third of the state’s total increases in personal income, which grew at the highest rate in the nation. Over the past 10 years, per capita income in North Dakota has risen by 72.1 percent, compared to the U.S. average of 33.7 percent.

For every Midwestern state, per capita income is now higher than pre-recession levels. Between 2007 and 2009, it had nearly flatlined in Kansas and Wisconsin and actually dropped in Illinois, Indiana, Michigan, Minnesota and Ohio. One big reason why was a decline in earnings over that time in manufacturing, the leading private industry in seven Midwestern states: Indiana, Iowa, Kansas, Michigan, Minnesota, Ohio and Wisconsin. (It is also the second-largest industry in Illinois and Nebraska.)

Though manufacturing earnings have not yet returned to pre-recession levels in most Midwestern states, they are on the upswing and, thus, contributing to an overall increase in per capita income. States such as Iowa, Nebraska and South Dakota, meanwhile, are getting a major boost from the farm sector of their economies (see data below).

One sector where income is not growing is state and local governments. Nationally, earnings fell 0.3 percent between 2010 and 2011 — a reflection of the budget cuts made in response to a slump in state and local revenues. Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin are among the U.S. states where this drop in earnings occurred.

The decline is not insignificant considering this fact: In every Midwestern state, the government sector (state, local and federal) ranks first or second in terms of total earnings by industry.
QUESTION: What states in the Midwest have freedom-of-conscience language in their constitutions or statutes?

Every state constitution in the Midwest has language guaranteeing freedom of religion, with wording such as the “right to worship God” or “the free exercise and enjoyment of religious profession and worship.” These sections also refer to an individual’s “right” or “liberty” of conscience with regard to religious worship. (Iowa’s constitution is the only one in this region that does not use the word “conscience.”)

In addition to these constitutional protections, many states have inserted statutory language often referred to as “conscience” or “refusal” clauses. These laws most commonly give health care providers and/or institutions the legal right to refuse to provide abortion-related services. The statutes also sometimes extend to other services.

According to the Guttmacher Institute, all 11 Midwestern states permit individual health care providers and institutions to refuse to provide abortion services. In recent years, a legal and policy debate has surfaced over whether the right to refuse should be extended to pharmacists. Guttmacher notes that this rise in state activity is the result of the introduction in the United States of emergency contraception, sometimes referred to as the “morning-after pill.” Illinois has been at the center of this controversy. That state has one of the most broadly written conscience clauses in the country, the Health Care Right of Conscience Act. Whether this act gives pharmacists the right to refuse to dispense contraception has been part of a multi-year legal battle since a state regulation was adopted requiring pharmacists to do so. In 2011, an Illinois Circuit Court judge ruled that the regulation violated state and federal religious freedom laws, including the Health Care Right of Conscience Act. That decision has been appealed by the state attorney general’s office.

According to the Guttmacher Institute, South Dakota is the only Midwestern state — and one of six in the country — that explicitly permits pharmacists to refuse to dispense contraceptives.

Earlier this year, Kansas legislators passed a measure (SB 62) that protects an individual from having to prescribe “any device or drug which results in the termination of a pregnancy.” Michigan and Nebraska are among the other states where “conscience” or “refusal” legislation has been introduced or considered in 2012. Michigan’s SB 975 was introduced earlier this year. Under the legislation, health facilities (including pharmacies) could decline to perform certain services, and individual employees could ask to be reassigned to avoid duties that conflict with their religious convictions. In addition, those who purchase or sell health insurance plans could decline to cover a service that, as a matter of conscience, they deem objectionable. SB 975 extends these refusal protections to scientific and medical researchers as well. Nebraska’s LB 461, the Freedom of Conscience Act, did not advance out of committee this year.

Michigan imposes lifetime limit on legislative service; three-term limit in House is shortest in the region

When voters in California, Colorado and Oklahoma approved the nation’s first state constitutional term limits in 1992, they triggered a wave of similar reforms that eventually produced term limit laws in more than 20 states. A decade later, the wave had crested, and it’s now been almost a dozen years since such a measure has been approved. A reversal in momentum has seen term limits repealed by legislatures or thrown out by courts in six of the 23 states that previously approved them. But they continue to shape the legislative environment in 15 states — including four in the Midwest (Michigan, Nebraska, Ohio and South Dakota).

The impact of term limits remains the subject of much debate. But most policymakers can agree on this: In states that have adopted them, term limits represent one of the most significant institutional changes in legislative history.

Michigan stands alone in Midwest

All four of the states in the Midwest that have term limits initially adopted their laws in 1992, at the height of the term limits wave. (Nebraska’s provision was later struck down by the state Supreme Court — a pattern that would be repeated two more times before Nebraska voters approved a measure in 2000 that still stands today.)

These voter-initiated constitutional amendments were similar in many ways, but Michigan’s provision ultimately stood out from the pack. Alone among the Midwestern states, Michigan is one of just six states nationwide to impose a lifetime limit on legislators, as opposed to a limit on consecutive years of service. And its restriction on service in the state House of Representatives (three two-year terms) is the shortest limit in the region.

The first election to be affected by Michigan’s term limits occurred in 1998, when 64 of the state’s 110 representatives (58 percent of the total) were prohibited from seeking reelection. Since then, turnover in both of the state’s legislative chambers has remained high, and the legislative landscape in Lansing has changed.

According to House Speaker Jase Bolger, term limits are now just a fact of life in Michigan, and he doesn’t buy into the idea that they should be blamed for what some see as occasional dysfunction in state government.

“It’s our job to get the job done with the framework we have in place,” Bolger says. Bolger admits that term limits have changed the operational dynamics in Michigan, but he points with pride to numerous legislative successes achieved with term limits in place, adding, “It’s possible to get the job done in any era.”

Impact of limits difficult to quantify

Term limits have increasingly come under fire in recent years from critics citing numerous concerns, such as an erosion in the balance of power between the branches of government, legislative inefficiencies due to the loss of institutional memory, the inexperience of members and the constant turnover of leaders. But they remain extremely popular among voters.

A 2010 Michigan study found that 78 percent of registered voters favor legislator term limits. And efforts to alter or repeal enacted term limits — in Michigan and other states — have repeatedly stalled in recent years. Statutory term limits have been legislatively repealed in two states (Idaho and Utah), but to date, no constitutional term limits have been overturned by voters.

A recent report on the effects of term limits in Michigan (prepared by the Michigan Society of Association Executives) concluded that while there is little evidence to indicate that term limits have improved the legislative process, their impact is difficult to quantify.

Bolger does point to one impact: the pressure on term-limited lawmakers to make their marks quickly.

“There’s a sense of urgency that comes with term limits,” he says. But when legislators are dealing with urgent issues, he says, that can be beneficial in many ways.

Source: Michigan Department of Management and Budget

Article written by Mike McCabe, director of the CGS Midwest Office. He can be reached at mcmccabe@cgswest.org. Only in the Midwest highlights unique features of state governments in the Midwest. Past articles are available at www.cgswest.org.

The Question of the Month section highlights an inquiry received by this office through its Information Help Line, a research service intended to help lawmakers, legislative staff and state officials from across the region. To request assistance through CGS Midwest’s Information Help Line, call 630.925.1922 or send us an email at csrg@cgsw.org.
missioner. “It’s just a question of where those cuts are going to be made and come from.”

Here is a look at the state of fiscal conditions in the five Midwestern states where new budgets were recently passed by the legislatures: Iowa, Kansas, South Dakota, Michigan and Illinois.

Iowa enjoys healthy surplus as debate continues over property taxes

If there is another economic downturn, or if federal funding declines, Iowa Democratic Sen. Joe Bolkcom says his state is well-positioned to handle it: Iowa’s budget surplus, cash reserves and rainy-day funds now total almost $1 billion.

“We’re quite healthy, and it was a bipartisan effort and a number of really good decisions that allowed us to get there,” he says.

Bolkcom notes, for example, that in the middle of the last fiscal crisis, the state went ahead with a mix of spending reductions (an across-the-board cut for state agencies of 10 percent, for example) and government-efficiency initiatives (consolidating departments, streamlining information-technology services, and encouraging early retirements among employees).

But that fiscal fix also included cuts in high-priority areas such as higher education. Even after increases this year in appropriations to Iowa’s university system and community colleges, the levels remain below what they were in 2008, Bolkcom says.

One of the questions for lawmakers is how quickly to try to restore some of those cuts, in higher education as well as other areas of state government.

On the flip side, there is also a continuing push to enact new tax cuts.

In Iowa, the debate has centered on proposals to reduce the property tax burden of business owners. Legislative leaders on both sides of the aisle have expressed support for the idea, but differences over the scope of the tax cuts and how they would be paid for have thus far detailed legislative passage.

“It got to the point to me where it [the tax cut] was too much money for me to support it, to the point where we would be jeopardizing the other obligations of state and local governments,” Iowa Democratic Sen. Rob Hogg says.

Other lawmakers wanted property tax cuts larger than the measure being considered in the Senate.

Republican Gov. Terry Branstad, who pushed for an eight-year plan to reduce property taxes by $1.2 billion, says the property tax reform was the biggest piece of unfinished business from the 2012 session. It will again be a high-priority issue for him in 2013.

Major cuts to income tax mark legislative year in Kansas

In contrast, the Kansas Legislature moved ahead this year with a plan to slash taxes.

After months of negotiations on various legislative proposals, Republican Gov. Sam Brownback signed HB 2117, a measure that overhauls the state’s income tax structure.

“It was the largest tax cut of all the packages that were out there,” notes Republican Rep. Richard Carlson.

For starters, Kansas will now have only a two-rate structure: 3.0 percent for joint filers with incomes below $30,000 a year, and 4.9 percent for incomes above that amount. This replaces a system that had three tiers and higher rates (3.5 percent, 6.25 percent and 6.45 percent).

Lawmakers also increased the standard deduction amount for single-head-of-household filers from $4,500 to $9,000, and for married taxpayers filing jointly from $6,000 to $9,000. Lastly, HB 2117 will exempt certain non-wage earners.

Spending pressures, federal cutbacks and sluggish economy add up to fiscal uncertainty for states

When states were just beginning to rebound from the state fiscal crisis brought on by the U.S. recession, Scott Pattison was among the experts in state finances that warned policymakers to prepare for a “new normal.” Yes, revenues would rebound, but no, don’t expect the kind of growth that had shaped state budgets in the years prior to the downturn.

Pattison, executive director of the National Association of State Budget Officers, says we are now in that “new normal” era. For example, NASBO data show that between 1990 and 2007, the average yearly increase in state spending was 5.7 percent; between 2011 and 2012, it was 3.5 percent.

During a recent interview with CSG Midwest, he talked about what this will mean for states, as well as some of the specific challenges that lie ahead.

Q: How would you characterize the fiscal condition of states at the moment? A: All of the trend lines are going in the right direction. But the economy is still pretty tepid, and some of the more recent indicators have been very concerning. Unemployment numbers, GDP growth and state revenue growth aren’t what you would hope.

Q: Is it fair to say that we’re in this “new normal” state in terms of state revenue growth? A: Yes, I think we are. The recession part is over, so we’re returning to growth rather than decline. But on the other hand, we’re growing slower than [past averages]. And so in a lot of states, we’re still not even back to pre-recession levels. . . . The result, I think, is going to be a focus on the big areas of K-12 education, Medicaid and health care. From there, some tough decisions are going to have to be made about other parts of the budget. How do the states handle their university systems and the challenges there? Or the growing health care costs of aging inmate populations? Or the health costs of retirees? There are a lot of issues to deal with.

Q: What are some of the expectations that you think states should have with regard to future funding from the federal government? A: Over time, I think they should expect a decline in the amount of funds. That won’t be true in every area — Medicaid, for example — but that is what I would generally expect. States are going to have to prepare for that, and I’ve been intrigued by the number of states already making those plans.

Another issue at the federal level is the uncertainty, and the fits and starts that we’re seeing. Even if there’s a cut, if you know it’s coming, you can plan for the next few years. But we’ve had a real difficult time getting that certainty. Transportation is one of the many examples of that, where you’re seeing the passage of short-term extensions [of funding bills]. The problem with that is even if that means a little more money over time, it’s difficult to plan and you need to have contingencies in place.

Q: What kind of impact would “sequestration” — the $1.2 trillion in automatic spending cuts in the U.S. Budget Control Act that would begin to take effect in 2013 without federal action — have on state budgets? A: We benefit in an odd way from the sequestration because things like Medicaid are exempt. That doesn’t mean people at the state level are running around and saying, “Sequestration is great.” But there is an acknowledgement that there is a benefit to us [because of the exemptions] as opposed to some other decisions that might be made.

Q: How would you generally assess how states handled the fiscal crisis they had to confront over the past few years? A: First and foremost, states deserve credit for rolling up their sleeves and doing what they had to do. There wasn’t a lot of magic to what was done. You use the tools that you have available. You tap into the rainy-day funds, and you use reserves to the extent you can. And then you cut. States tended to cut less in the priority areas of K-12 education and Medicaid. And right now, a lot of any of the new money coming to states is going to those two areas.

Q: Trends in U.S. state budgets, FY 2007 – 2012*

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Change in general-fund spending over previous year</th>
<th>Year-end balance as % of general-fund spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>+2.9%</td>
<td>6.2%</td>
</tr>
<tr>
<td>2011</td>
<td>+4.0%</td>
<td>6.4%</td>
</tr>
<tr>
<td>2010</td>
<td>-5.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>2009</td>
<td>-3.8%</td>
<td>4.6%</td>
</tr>
<tr>
<td>2008</td>
<td>+4.9%</td>
<td>8.6%</td>
</tr>
<tr>
<td>2007</td>
<td>+10.1%</td>
<td>10.1%</td>
</tr>
</tbody>
</table>

*Figures for 2012 are preliminary.
income for most of the state’s 221,000 businesses.

Dubbled a “small-business accelerator” by supporters, this exemption is viewed as the key part of the package in terms of growing Kansas’ economy.

“When you’re coming out of a recession, small businesses are generally going to be your engines of growth,” Cenker says.

But what will the changes do to the state’s budget in the coming years? The nonpartisan legislative staff projects that in FY 2014, HB 2117 will result in a net decline in tax receipts of $803 million. (The state’s total general fund budget for FY 2012 is just over $6 billion.) Those numbers increase in future years.

If economic growth can’t make up that difference, lawmakers will have to revisit the tax cuts or consider additional spending reductions in order to balance their budgets.

“Right now, those are just projections, and a lot can change,” Carlson says. “Just as an example, two or three years ago, we were showing a $1 billion or $1.3 billion negative ending balance for the year right now.

“We showed there are things you can do in between. We reduced expenditures last year by $500 million, and revenues did increase somewhat. We ended up with a $200 million ending balance last year, and this year it’s hundreds of millions of dollars.”

In South Dakota, new revenue is going to a few targeted areas

South Dakota was the first Midwestern state to adopt a new annual budget this year, and Dilges says it was a much easier process after the heavy lifting done in 2011.

No area of state government was spared cuts last year, when most state agencies faced double-digit reductions and appropriations for high-priority areas such as education and Medicaid declined as well (though not as precipitously, due in part to some one-time payments tapped by the Legislature).

Lawmakers returned this year with some additional revenue to work with, and it used that money to raise state employee pay (it had been frozen for three years) and bolster spending on education and Medicaid.

“What we’re seeing is a reallocation of the state budget,” Dilges says. “State departments are still not seeing any growth in revenue. As a state, we’re taking any [revenue] growth and giving it all to K-12 education, medical providers and higher education. My sense is we’re going to do it again next year.”

The cuts of 2011 created a new, lower base of spending in South Dakota’s state government, and it is likely going to stick.

“The mantra here is, Sustain the cuts, live within the new base, and then make targeted investments in a few areas,” Dilges says.

“Sometimes it takes a motivator that is beyond most general comprehension to make us all think outside the box. The impending 11 percent structural deficit that we faced [last year] with a new governor was the catalyst. It was the perfect storm, and the result was a leaner government. We don’t want to give that up.”

Michigan adopts modest spending increase after big year of cuts

Like South Dakota, Michigan was coming off a year when historic budget cuts were made, including a 13.7 percent reduction in spending on higher education and a 5.1 percent drop in K-12 school aid. On top of that, legislators revamped the state’s business tax (which resulted in a tax cut); chose to tax pension income for the first time; reduced the earned income tax credit (EITC); and eliminated most other tax credits, deductions and exemptions.

“There were a lot of tough choices, but we did get the budget back into structural balance,” Weiss says. “Now we’re starting to add back.”

But not nearly enough, according to Democratic leaders who believe the steep cuts made in 2011 to areas such as education and health care need to be restored more quickly. They noted, for example, that per-pupil spending in FY 2012 was increased by $120 — but that comes after a year in which funding coming out of Springfield this year.

As of late May, a final agreement on pension reform had eluded lawmakers. However, historic changes to the state’s Medicaid program were adopted before the legislature adjourned.

“It was one of the toughest challenges that I’ve ever endeavored as a legislator,” Rep. Feigenholtz says. A prime example of that challenge was the decision to eliminate coverage for individuals in the state’s Family Care program, which had extended health care coverage to many low- and middle-income individuals.

Feigenholtz was a sponsor of the original Family Care legislation. This year, as a member of a four-member, bipartisan group of Illinois legislators charged with leading efforts to cut Medicaid spending, she agreed to restrict eligibility to individuals at or below 133 percent of the federal poverty line.

It was one of many hard choices that had to be made. At the beginning of the process, the four-member group of legislators was given a spreadsheet with a list of all of the optional Medicaid services (not mandated by federal law) that the legislature could cut. The list totaled $3 billion.

But as Feigenholtz notes, those optional services were included in the state’s Medicaid program in the first place because they were believed to reduce costs over the long run — by giving individuals access to preventative services that reduce the need for more costly procedures or the prevalence of chronic conditions.

In the end, Feigenholtz says, legislators eliminated only a few optional services, choosing instead to limit the use of them (restricting the number of visits to a health provider or limiting the number of prescriptions that would be covered, for example) and to require more prior state approval. Illinois also expects savings from the elimination of a prescription-drug assistance program, tighter eligibility requirements and enhanced eligibility verification.

“The mantra here is, Sustain the cuts, live within the new [spending] base, and then make targeted investments in a few key areas [education and medical care].”

Jason Dilges, South Dakota commissioner of Bureau of Finance and Management

Midwestern Legislative Conference 67th Annual Meeting

July 15–18, 2012 | Cleveland, Ohio

SPEAKERS

Donna Brazile  Rich Galen  P.J. O’Rourke

WWW.CSGMIDWEST.ORG

The MLC Annual Meeting is a conference for legislators from the Midwest to share ideas about innovative state policy, discuss common challenges and identify solutions. This year’s meeting will also feature some of the country’s best-known political experts — Donna Brazile, Rich Galen and Evan Thomas — and legendary satirist P.J. O’Rourke.

This year’s social events will include a reception at the Rock and Roll Hall of Fame and a family-friendly evening at The Greater Cleveland Aquarium. Young people will have the chance to visit Cedar Point Amusement Park, the Roller Coaster Capital of the World. Come early for a special event at the Blossom Music Center, home of the Cleveland Symphony Orchestra, or stay late for a chance to visit the Pro Football Hall of Fame.
Sen. Brandt Hershman

Senate majority leader is one of Indiana’s top experts on fiscal policy and economic development

by Kate Tormey (@tormeyatcf)

F or Indiana Sen. Brandt Hershman, there are barely enough hours in a day. Hershman is the chair of one of the state Senate’s most powerful committees, Tax and Fiscal Policy, while serving on the Appropriations and State Budget committees as well. And he’s also settling into a new role: majority floor leader, a post he accepted in late April.

After all of that, most people would be exhausted — but Hershman also finds the time to help manage a family farm and attend classes at night in pursuit of a law degree.

The night classes were particularly grueling during the recent legislative session, which became dominated early on by controversy over a “right to work” bill that was vehemently opposed by unions and Democratic lawmakers. Protesters flocked to the state Capitol, and House Democrats walked out to demonstrate their opposition to the legislation, which became law in February.

“I was fighting legislative battles during the day and attending night school in the evening,” he says.

Longtime staffer becomes lawmaker Hershman, a Republican, has had a long career in politics and public service, but it took many years before he decided to run for office himself.

As a young man, Hershman applied for an internship at the White House and was rejected — but wasn’t able to accept the post after suffering a serious motorcycle accident. As it turned out, however, the White House kept Hershman’s resume — even through a change in administration.

“I packed up all of my worldly possessions into my aging car to go to Washington,” he says. In 1991, after two years serving as a personal writer for President George H. W. Bush, Hershman returned to his home state, where he began an 18-year career working for an Indiana congressman.

In 2000, Hershman decided to try to continue his service in elected office. Now serving his third term in the Senate, he still believes that state government is the best place to achieve real change quickly — even when the debate gets heated.

“At the end of the day, despite the walkout, about 60 percent of the bills we passed were passed unanimously,” he says. “We found common ground on many of the issues that we face.”

Last month, CSG Midwest interviewed Hershman about leadership, politics in his state and his policy goals. Here are some excerpts from the interview.

Q: You were the author of 2006 legislation to deregulate the telecommunications industry in Indiana, making your state the second to do so. What led to this major policy initiative?

A: At the time, rural Indiana faced challenges in accessing the latest technology. Many of our rural communities did not have broadband access, and it was becoming as vital a component of economic development as highway access, power, rail and all of those traditional issues. …

Q: You have been co-chair of the legislature’s study committee on economic development. What is the commission and what have you been working on?

A: We try to take a hard look at how to make Indiana more competitive as a whole. The issues we identified were tax policy, quality of life and workforce-quality issues. Indiana’s education reforms have made a significant investment in improving workforce quality. In terms of quality-of-life issues, we are trying to promote infrastructure development — everything from Gov. [Mitch] Daniels’ investment in more park land in the state to things like improving our roads, bridges and infrastructure. We have made a dramatic improvement in our tax competitiveness. I am proud of what Indiana has accomplished: We have been able to pull people together under very difficult economic and political circumstances to make a real difference for the future of our state.

Q: You have been co-chair of the legislature’s study committee on economic development. What is the commission and what have you been working on?

A: My goal for Indiana is to become the destination of choice for any job that is created in the United States. And we have made enormous progress. In the last two years, we have moved up our rankings in terms of attractiveness to business from number 15 to number 5 … I worked with Rep. Scott Reske as co-chair of the study committee on economic development and we were able, even in the partisan conditions in which we operate, to come out with a bipartisan recommendation to lower Indiana’s corporate tax rate. That speaks to our ability to find areas where we can find agreement rather than disagreement.

The corporate tax rate is being lowered from 8.5 percent to 6.5 percent, and it’s being phased down by 0.5 percent per year. In terms of the inheritance tax, we immediately raised the exemption from $100,000 to $250,000, and we are reducing the remaining tax rate over the next nine years until it is eliminated.

Q: You were the author of 2006 legislation to deregulate the telecommunications industry in Indiana, making your state the second to do so. What led to this major policy initiative?

A: At the time, rural Indiana faced challenges in accessing the latest technology. Many of our rural communities did not have broadband access, and it was becoming as vital a component of economic development as highway access, power, rail and all of those traditional issues. …

Q: You have been the author of 2006 legislation to deregulate the telecommunications industry in Indiana, making your state the second to do so. What led to this major policy initiative?

A: At the time, rural Indiana faced challenges in accessing the latest technology. Many of our rural communities did not have broadband access, and it was becoming as vital a component of economic development as highway access, power, rail and all of those traditional issues. …

Q: You have been co-chair of the study committee on economic development. What is the commission and what have you been working on?

A: My goal for Indiana is to become the destination of choice for any job that is created in the United States. And we have made enormous progress. In the last two years, we have moved up our rankings in terms of attractiveness to business from number 15 to number 5 … I worked with Rep. Scott Reske as co-chair of the study committee on economic development and we were able, even in the partisan conditions in which we operate, to come out with a bipartisan recommendation to lower Indiana’s corporate tax rate. That speaks to our ability to find areas where we can find agreement rather than disagreement.

The corporate tax rate is being lowered from 8.5 percent to 6.5 percent, and it’s being phased down by 0.5 percent per year. In terms of the inheritance tax, we immediately raised the exemption from $100,000 to $250,000, and we are reducing the remaining tax rate over the next nine years until it is eliminated.

Q: You have been co-chair of the study committee on economic development. What is the commission and what have you been working on?

A: My goal for Indiana is to become the destination of choice for any job that is created in the United States. And we have made enormous progress. In the last two years, we have moved up our rankings in terms of attractiveness to business from number 15 to number 5 … I worked with Rep. Scott Reske as co-chair of the study committee on economic development and we were able, even in the partisan conditions in which we operate, to come out with a bipartisan recommendation to lower Indiana’s corporate tax rate. That speaks to our ability to find areas where we can find agreement rather than disagreement.

The corporate tax rate is being lowered from 8.5 percent to 6.5 percent, and it’s being phased down by 0.5 percent per year. In terms of the inheritance tax, we immediately raised the exemption from $100,000 to $250,000, and we are reducing the remaining tax rate over the next nine years until it is eliminated.

Q: You have been co-chair of the study committee on economic development. What is the commission and what have you been working on?

A: My goal for Indiana is to become the destination of choice for any job that is created in the United States. And we have made enormous progress. In the last two years, we have moved up our rankings in terms of attractiveness to business from number 15 to number 5 … I worked with Rep. Scott Reske as co-chair of the study committee on economic development and we were able, even in the partisan conditions in which we operate, to come out with a bipartisan recommendation to lower Indiana’s corporate tax rate. That speaks to our ability to find areas where we can find agreement rather than disagreement.

The corporate tax rate is being lowered from 8.5 percent to 6.5 percent, and it’s being phased down by 0.5 percent per year. In terms of the inheritance tax, we immediately raised the exemption from $100,000 to $250,000, and we are reducing the remaining tax rate over the next nine years until it is eliminated.

Q: You have been the author of 2006 legislation to deregulate the telecommunications industry in Indiana, making your state the second to do so. What led to this major policy initiative?

A: At the time, rural Indiana faced challenges in accessing the latest technology. Many of our rural communities did not have broadband access, and it was becoming as vital a component of economic development as highway access, power, rail and all of those traditional issues. …

Q: You have been the author of 2006 legislation to deregulate the telecommunications industry in Indiana, making your state the second to do so. What led to this major policy initiative?

A: At the time, rural Indiana faced challenges in accessing the latest technology. Many of our rural communities did not have broadband access, and it was becoming as vital a component of economic development as highway access, power, rail and all of those traditional issues. …

Q: You have been the author of 2006 legislation to deregulate the telecommunications industry in Indiana, making your state the second to do so. What led to this major policy initiative?

A: At the time, rural Indiana faced challenges in accessing the latest technology. Many of our rural communities did not have broadband access, and it was becoming as vital a component of economic development as highway access, power, rail and all of those traditional issues. …
Light rail: Love it or leave it?

Minnesota legislator takes contrarian view on whether system provides most bang for taxpayer bucks

by Minnesota Rep. Mike Beard (rep.mike.beard@boush.mn)

For legislators and constitutional officers

It is common practice in the media — and for many in government circles — to tout the job-generating, energy-saving, congestion-cleansing merits of rail-based transit systems.

In the Twin Cities area, these systems come in the form of light rail lines, those beacons of a new age, heralded as “a fast, safe, new transportation choice” that will make “our region more economically competitive”.

I understand that a dissident view to this claim is widely unpopular, but what we are experiencing in the Twin Cities — after attempts to treat the area like a sprawling Midwestern metropolis — is turning out to be quite contrary to expectations (or even reality).

Confidently contrarian

In Minnesota, it falls my lot to be the responsible contrarian. As chair of the state House Transportation Policy and Finance Committee, I have to act as the gatekeeper who makes everyone stop and say, “Wait a minute, why are fixed guideway rail systems, which move relatively few people compared to high-occupancy vehicle lanes and well-engineered freeways, the answer to our transportation needs? Indeed, if trains are the objective would be to move massive numbers of light rail deployment. One would assume that these lines have disrupted traffic patterns, destroyed local businesses, and served only to aggravate gridlock and congestion.

That being said, I question the actual intent of light rail deployment. One would assume that the objective would be to move massive numbers of people from point A to location B, completely ignoring the reality that most folks don’t want to go from A to B. The beauty of self-directed personal mobility is that people travel where and when they need or want to, not where and when the government wants to build a rail line. (One of the advantages of bus transit — besides cost — is that bus service can easily be adapted to follow what people actually want and need).

Light rail is not primarily about congestion relief then, but about urban redevelopment that fits a high-density urban planning model. Over the years, I’ve taken many calls and visits from folks who support light rail because they have an interest in buying and developing urban land, and having a train station on or near their site creates automatic wealth for them. This isn’t necessarily a dark motive, but it does give us a clue as to how to pay for these schemes going forward, in my mind.

So we get to the crux of the question: Do we spend transportation dollars for the benefit of urban developers, or for the benefit of everyone — maximum mobility and efficiency with the dollars we are taking from the taxpayers?

Here in Minnesota, we grew up around streets, cars and pickup trucks. These are the elements that made our cities great, not passenger railroads. In Minnesota alone, light rail construction costs are astronomical. The new Central Corridor, connecting Minneapolis and St. Paul, is projected at nearly $1 billion — and that doesn’t account for the additional $300 million in depot renovations at each end. Nor does it account for the extensive community upheaval, or the countless small businesses that have had to close their doors, flushing years of hard work down the drain.

Politicians seem to display some degree of pride that they are responsible for securing federal funds for these projects. But they shouldn’t be so arrogant. They’re forgetting that we, as a state, have to match our “freebie” Washington money with state and local funds, amounting to billions of dollars. A more serious consideration is that 40 cents of every federal dollar is “funny money” — printed or pulled out of the air. We should all find it difficult to be proud of that fact.

Looking to the future, these construction costs do not even begin to account for the ongoing subsidies that will be required to keep the light rails running. Every rail line we have will be in a deficit situation in the foreseeable future, a deficit that far exceeds that of the bus lines.

Take, for instance, our Northstar Line, a 40-mile track that requires over $17 million a year to operate and nearly $1 million to maintain. (These figures are on the low end, because it was built on existing tracks. The 12-mile Hiawatha Line, which was built from scratch, costs over $30 million per year to operate and maintain.) Farebox revenue covers only 17 percent of the Northstar operating cost, with the rest coming from local and state subsidies.

When the operating costs are accounted for (see table), each adult trip, averaging $3.94, rises to a per-passenger subsidy of $20.43!

Comparing contexts

European and East Coast cities — with high population densities — grew up around trains when railroads were in, effect, the high-speed Internet of the day. Rail transit works in those locations; there is no doubt about that. But here in Minnesota, we grew up around streets, cars and pickup trucks. These are the elements that made our cities great, not passenger railroads.

Light rail lines require brand new infrastructure and investment. On the other hand, buses run on existing infrastructure that we have already paid for with taxpayer dollars. We have made a massive investment in roads and bridges, and now we are displacing funds for the maintenance and construction of these critical infrastructure elements just so we can develop expensive and duplicative rail systems.

We must look beyond the popular desire for urban redevelopment and social engineering — which, by the way, is destroying hundreds of Main Street businesses in its wake. We must determine the true goal of transportation: what will give the people we serve maximum mobility and efficiency for the money they provide us.

Although it may not be popular, I’m happy to be the contrarian in this discussion.

Rep. Mike Beard, a Republican from Shakopee, was first elected to the Minnesota House in 2002.

Submissions welcome

This page is designed to be a forum for legislators and constitutional officers. 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 612.925.1922 or tavander@csct.org.

Financial facts on Minnesota’s Northstar commuter-rail line

<table>
<thead>
<tr>
<th>Financial fact</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length of line</td>
<td>40 miles</td>
</tr>
<tr>
<td># of riders in 2013</td>
<td>700,000</td>
</tr>
<tr>
<td>Average adult fare</td>
<td>$3.94</td>
</tr>
<tr>
<td>Taxpayer subsidy per ride</td>
<td>$20.43</td>
</tr>
<tr>
<td>Construction costs</td>
<td>$147.6 million</td>
</tr>
<tr>
<td>Operating costs (2013)</td>
<td>$17.1 million</td>
</tr>
<tr>
<td>Capital maintenance costs (2011)</td>
<td>$900,000</td>
</tr>
<tr>
<td>Farebox funding (projected for 2012)</td>
<td>$3 million (17% of operating costs)</td>
</tr>
</tbody>
</table>

Note: Calculations based on Minnesota Department of Transportation and the Metropolitan Council’s “Guideway Status Report” (January 2012; available at www.dot.state.mn.us/openreports/2012/GuidewayReportFinal.pdf).

Looking to the future, these construction costs do not even begin to account for the ongoing subsidies that will be required to keep the light rails running. Every rail line we have will be in a deficit situation in the foreseeable future, a deficit that far exceeds that of the bus lines.

Take, for instance, our Northstar Line, a 40-mile track that requires over $17 million a year to operate and nearly $1 million to maintain. (These figures are on the low end, because it was built on existing tracks. The 12-mile Hiawatha Line, which was built from scratch, costs over $30 million per year to operate and maintain.) Farebox revenue covers only 17 percent of the Northstar operating cost, with the rest coming from local and state subsidies.

When the operating costs are accounted for (see table), each adult trip, averaging $3.94, rises to a per-passenger subsidy of $20.43!

Comparing contexts

European and East Coast cities — with high population densities — grew up around trains when railroads were in, effect, the high-speed Internet of the day. Rail transit works in those locations; there is no doubt about that. But here in Minnesota, we grew up around streets, cars and pickup trucks. These are the elements that made our cities great, not passenger railroads.

Light rail lines require brand new infrastructure and investment. On the other hand, buses run on existing infrastructure that we have already paid for with taxpayer dollars. We have made a massive investment in roads and bridges, and now we are displacing funds for the maintenance and construction of these critical infrastructure elements just so we can develop expensive and duplicative rail systems.

We must look beyond the popular desire for urban redevelopment and social engineering — which, by the way, is destroying hundreds of Main Street businesses in its wake. We must determine the true goal of transportation: what will give the people we serve maximum mobility and efficiency for the money they provide us.

Although it may not be popular, I’m happy to be the contrarian in this discussion.

Rep. Mike Beard, a Republican from Shakopee, was first elected to the Minnesota House in 2002.
State and Local Legal Center advocates for states in U.S. Supreme Court

The U.S. Supreme Court has considered a number of cases of interest to state policymakers during this term. To keep tabs on these key decisions and how they impact state governments, CSL offers a free webinar on July 19 for “Big Seven” members to review and discuss cases from the recent Supreme Court term.

One of the speakers will be Paul Clement, who argued the Affordable Care Act cases, the Arizona immigration case, the Texas redistricting cases, and four other cases before the Supreme Court this term. Another speaker is Patricia Millett, who argued three cases before the Supreme Court this term involving state or local government. She has argued 31 cases before the Supreme Court — more than any other woman.

You can register for the webinar on the State and Local Legal Center’s website: www.statelocal.cc.org.

Cases of interest to states

The Supreme Court’s October 2011 term has been an exciting one for state government. Prominent cases from this term that affect states include those involving the Affordable Care Act, Arizona’s immigration law, redistricting in Texas and California Medicaid disputes.

The State and Local Legal Center filed amicus briefs in the California Medicaid case and in three others of interest to state and local governments. Below is a description of the issue or holding for the cases in which the center filed a brief.

Douglas v. Independent Living Center of Southern California

In Douglas v. Independent Living Center of Southern California, plaintiffs argued that California’s Medicaid reimbursement rates are too low to encourage an adequate number of providers to participate. In a 5-4 decision, the U.S. Court left it to the lower court to decide whether a claim can be brought against a state under the U.S. Constitution’s Supremacy Clause to enforce Medicaid regulations.

Falarsky v. Delia

In Falarsky v. Delia, the Court held, in a unanimous decision, that contract attorneys and other individuals working for the government on a part-time basis are eligible for qualified immunity from lawsuits (in the same way as their full-time counterparts).

Reichle v. Howards

The key issue in Reichle v. Howards was whether a person arrested based on probable cause can bring a lawsuit claiming he or she was arrested in re-
Registration continues for the Midwestern Legislative Conference Annual Meeting, a nonpartisan forum for the region’s policymakers to learn from experts and share innovative ideas.

This year’s conference will be held July 15-18 in Cleveland. Registration and an agenda are available online at www.csgmidwest.org.

Every key policy area of state government will be covered at the meeting — health care, state finances, energy, education, criminal justice, transportation, agriculture, the environment and more.

Attendees, too, will have the opportunity to hear from some of the nation’s top speakers on politics, state public policy and the economy.

The most recent addition to the MLC meeting agenda is closing speaker Evan Thomas, the renowned journalist and author who has written acclaimed books on U.S. politics and history. Thomas is currently working on a book about Dwight Eisenhower. His closing remarks will look at the qualities and importance of effective public leadership. Other meeting highlights include:

- A joint appearance by Donna Brazile and Rich Galen, who will discuss the 2012 elections.

Brazile is a Democratic political strategist, syndicated columnist and CNN contributor. She served as Al Gore’s presidential campaign manager in 2000. Galen, a Republican strategist who once worked as press secretary for Newt Gingrich and Dan Quayle, writes the online political column Mailings.

- A luncheon speech by legendary political satirist P.J. O’Rourke.

An Ohio native, O’Rourke is the author of numerous best-selling books and has been called the “funniest writer in America” by Time magazine and The Wall Street Journal.

- A keynote speech by Charles Wheelan on strategies to reinvigorate the Midwest’s economy.

Wheelan is a former Midwest correspondent for The Economist, a former gubernatorial speech writer and author of the book “Naked Economics.” His speech will kick off a series of sessions based on the meeting’s theme, Economic Reinvention.

In addition to these substantive sessions, the four-day meeting offers daytime activities for attendees’ spouses, adult guests and children. The evening program will include an event at the Rock and Roll Hall of Fame and a special Family Night that showcases the city of Cleveland and its new aquarium.

MLC committee hosting series of calls on federal agriculture policy, farm bill

State legislators in rural communities won’t just be spending the summer knocking on doors and attending county fairs; they will also be watching closely as the U.S. Congress considers major changes in the way farm programs are delivered.

To help them prepare for the big changes that could lie ahead, the Midwestern Legislative Conference Agriculture & Natural Resources Committee is co-hosting a series of conference calls this summer.

The Food, Conservation and Energy Act of 2008 (the farm bill) authorizes most farm and food programs, and it also provides funding for nutrition, policies, and it also provides funding for nutrition, transportation, agriculture, the environment and more.

The council’s city of Cleveland and its new aquarium.

Premier event for Midwest lawmakers begins July 15; Evan Thomas added as speaker

Donna Brazile

Rich Galen

Evan Thomas

Co-chairs of the MLC Agriculture & Natural Resources Committee

Sen. Carolyn McGinn

Sen. Tim Flakoll

Credit Administration. CSG policy analysts Carolyn Orr and Jonathan Watts Hull will also be on hand to moderate discussions among participants.

These teleconferences are open to legislators and their staffs. To participate, call 888.387.8686 and enter the following conference ID: 8218906#. For more information, contact Carolyn Orr at corr@sgmidwestleaders.org or 765.893.8209.

Kansas Sen. Carolyn McGinn and North Dakota Sen. Tim Flakoll serve as co-chairs of the MLC Agriculture and Natural Resources Committee.
In Minnesota and Kansas, redistricting maps drawn by courts

The once-a-decade task of redrawing state political maps tends to bring with it some unexpected twists and turns, and the latest round of redistricting has been no exception.

In Kansas, lawmakers were unable to agree on a plan for new congressional and state legislative districts. As a result, The Wichita Eagle reports, the work was turned over to a three-person panel of federal judges. Minnesota is the other Midwestern state where the redrawing of political maps was put in the hands of the judiciary. In that state, the GOP-led Legislature’s plan was vetoed by Democratic Gov. Mark Dayton. This stalemate resulted in a five-member panel of state judges drawing the new maps, which pair a “staggering” 46 incumbent state legislators, the website Ballotpedia reports. Illinois, Michigan, Ohio and Wisconsin are among the states where legislature-approved maps have faced court challenges. As of May, none had been overturned, though a federal court ruling in April ordered Wisconsin to redraw two Assembly districts. In Ohio, meanwhile, an effort is under way to change the redistricting process via a ballot initiative. According to the Dayton Daily News, initiative supporters want a “politician-free” commission to draw the maps, which pair a “staggering” 46 incumbent state legislators, the website Ballotpedia reports.

New reading initiatives aim to identify, help struggling students

Iowa, Ohio and Wisconsin are among the states this year where lawmakers have focused education-reform efforts on improving early-learning literacy. In Iowa, a bill signed into law in May (SF 2284) will require school districts to assess the kindergarten readiness of every 4-year-old. Children in kindergarten through third grade will then be tested at the beginning of each school year, those falling behind must be offered intensive remedial reading instruction. The parents of a student who remains deficient after the third grade will then have a choice: Have the child repeat the grade, or enroll him or her in an intensive summer reading program. According to The Cleveland Plain Dealer, $13 million has been set aside in Ohio’s mid-term budget to launch a Third Grade Reading Guarantee program. The initiative includes more testing and instructional interventions; in addition, certain struggling students will be held back from advancing to the fourth grade.

Wisconsin’s SB 461, which became law in April, allocates funding for a universal kindergarten screener, requires teachers to pass a more rigorous licensure test, and institutes a new system for tracking the performance of instructors from different teacher-preparatory programs.

2 states consider cash balance plans as part of pension changes

Since 2003, newly hired workers for the state of Nebraska have been enrolled in a “hybrid” retirement plan — part defined contribution, part defined benefit. Under legislation passed this year in Kansas (HB 2333), a cash balance plan will be used for new hires beginning in 2015. Upon their retirement, employees enrolled in the plan will be eligible to receive a lump-sum payment or annuity, with the amount in the final account balance based on employee contributions as well as the payment amount pledged by the employer. The employer also guarantees a certain return on investments; in Kansas, lawmakers settled on guaranteeing an annual return of 5.25 percent, the Lawrence Journal-World reports. In Nebraska, the guarantee is set at either 5 percent or a rate based on the yield of U.S. treasury notes, whichever is greater.

A cash balance plan is also part of pension legislation (SB 1673) in Illinois. According to The Springfield State Journal Register, the guaranteed rate of return was expected to range from 4 percent to 10 percent, depending on the value of U.S. treasuries. The bill had not passed as of May.

Iowa moving ahead with major reform of mental health system

“If you do not have a system, you cannot have system reform.” Those were the words used by authors of a 2011 report describing the structural problems with how care was being delivered in Iowa to individuals in need of disability or mental health services. Iowa has had 99 different systems in place — with each of its counties given the responsibility of administering and funding services. The same 2011 report, done by the Iowa Department of Human Services, says this structure has resulted in uneven care across the state, an absence of coordination and accountability, and a lack of alternatives to costly institutional care. Lawmakers expect all of that to change with the passage of SF 2315, a bipartisan bill that redesigns Iowa’s mental health system. According to The Des Moines Register, the measure creates regional partnerships (replacing the county-by-county approach) and establishes core services that must be delivered everywhere in the state, including housing and job assistance and crisis intervention. Funding for these services will continue to come from local property taxes. Under the bill, though, the amount collected for mental health services will be more consistent from county to county — with the state providing money in areas of the state where the amount is not sufficient.