

Weathering the Storm

Despite an improving economy, legislative leaders say there are still hard times ahead for states.

BY EDWARD SMITH

The recession is winding down. The stock market is having a robust run. Most economists see light at the end of the tunnel.

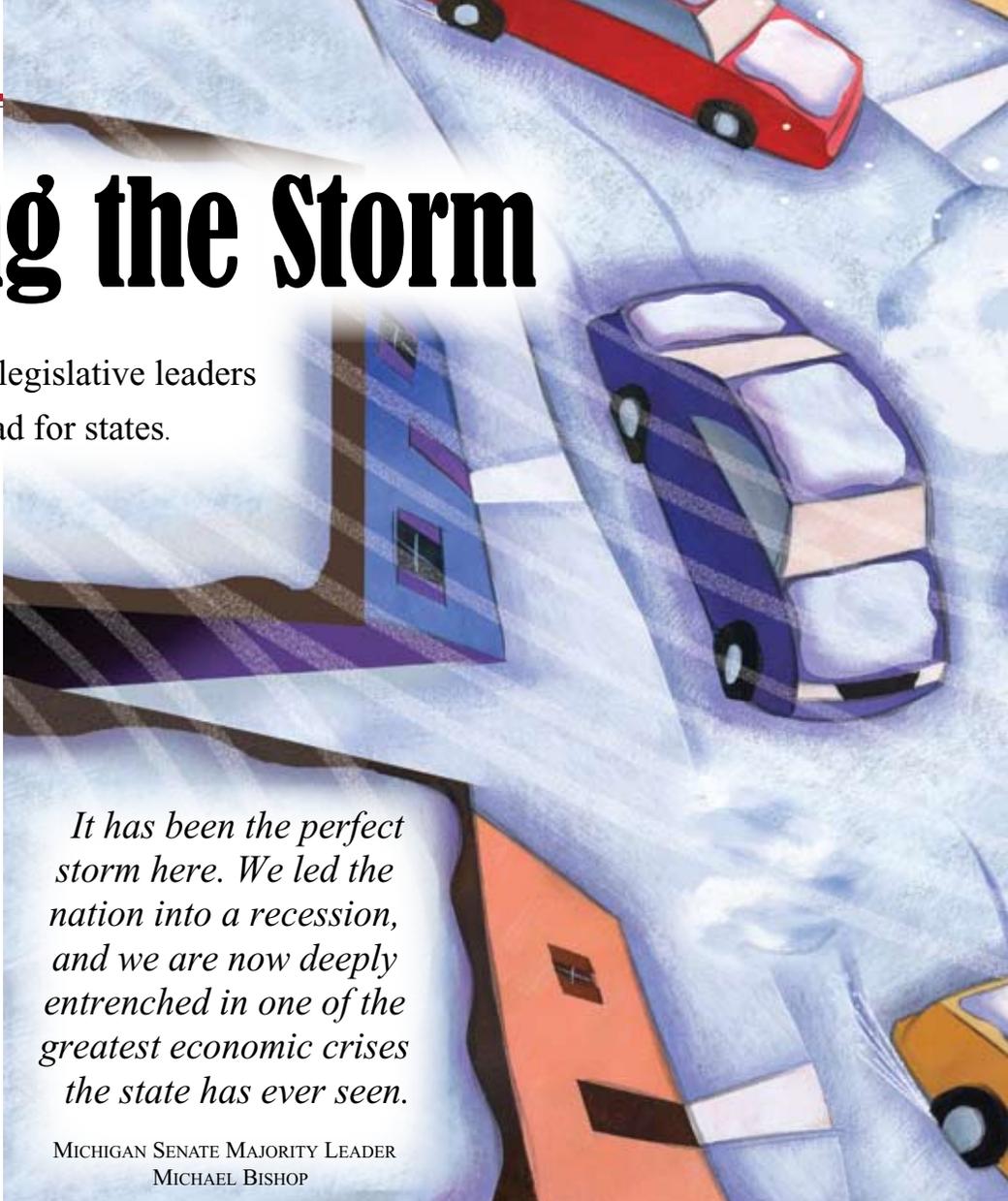
Listen to state legislative leaders, however, and you will hear very little hopeful talk. States face at least a couple of years of tough fiscal sledding, agonizing budget cuts, and real fears about being able to protect the most vulnerable citizens and the most vital programs.

State Legislatures recently talked with six top leaders in their chambers—three Republicans and three Democrats—from across the country about what they will face in the new year. Some are going into new legislative sessions, others will not have a new session until 2011. All expressed a combination of hope with a sober assessment of the work ahead.

“State government lags the rest of the economy by a good six to 18 months, so we’re going to still be laying off. We’re going to be cutting back,” says Massachusetts Senate President Therese Murray. “I’m being optimistic that we’ve hit bottom and we are going to start really concentrating on job growth and job creation and trying to get out of this very deep hole we are in.”

In Florida, Speaker of the House Larry Cretul sounded a similar note. “We’ve adopted an approach here that we hope for the best but try to prepare for the worst,” he says. “We built our budgets in what we would call the economic reality.”

State Legislatures asked leaders to reflect on the changes of the past year that included a new president and Congress, a deep recession and a massive stimulus package. They also discussed when they thought their states would return to a stable fiscal footing, what they are trying to preserve amid deep



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MICHIGAN SENATE MAJORITY LEADER
MICHAEL BISHOP

budget cuts and who is hurting the most in their states. They were asked to comment on whether the recession has caused them to rethink the role of state government.

The economic pain is not spread equally. Some states have had to close budget gaps in excess of 20 percent of their general fund. Others, such as Montana, have had an easier go if it.

“We’ve been lucky to shield ourselves from the economic downturn,” says Montana House Speaker Bob Bergren. “When the country booms, we don’t really boom with them. But when they bust, we don’t bust with them either.”

While Montana has seen an uptick in unemployment, the state has a budget surplus and was able to use the federal stimulus money for utility and road projects.

But Big Sky Country is by far the exception.

PLENTY OF PAIN

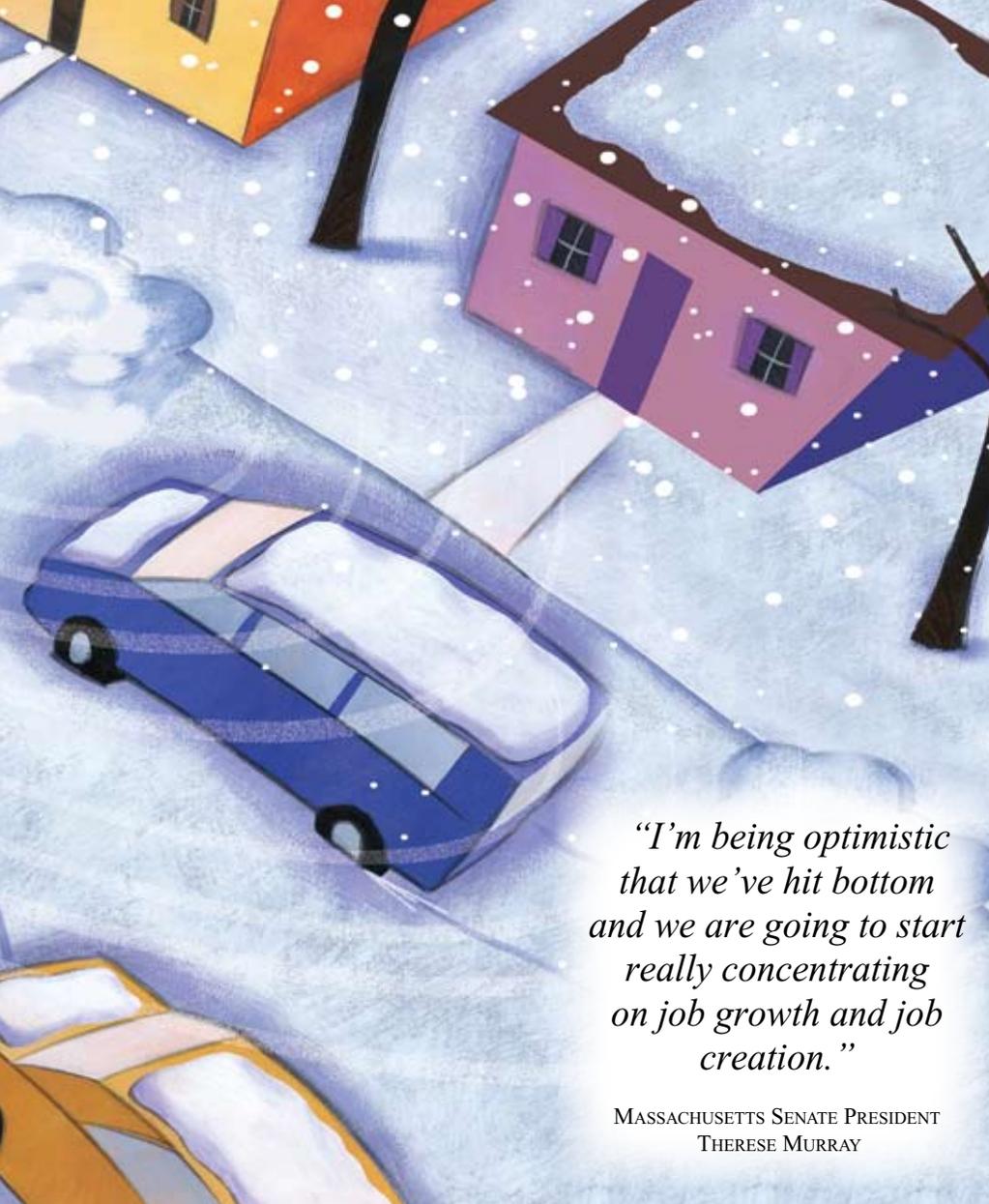
Across the nation, leaders say their constituents are hurting. In Nevada, which has seen some of the highest rates of foreclosure, unemployment is crippling the economy, especially in construction.

“The unemployment rate in construction is over 50 percent and may soon exceed that in southern Nevada,” says Senate Majority Leader Steve Horsford. “That’s because we have the CityCenter. When that is completed, more than 10,000 construction workers will be looking for work.”

The \$8.7 billion Las Vegas CityCenter project, the most expensive commercial project ever in the United States, was wrapped up in December.

But while Horsford thinks federal stimulus money has given his hard-hit state an “opportunity to work our way out of this problem,” the Senate majority leader in Michigan, a

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THERESE MURRAY

state that has been in recession for a decade, sees things quite differently.

“The state has lost nearly a million jobs over the past eight years, and a full third of those happened in the last two years. It has been the perfect storm here,” says Senator Michael Bishop. “We led the nation into a recession, and we are now deeply entrenched in one of the greatest economic crises the state has ever seen.

“Our state was the recipient of some of the stimulus dollars, and I would argue that it did more damage than good,” he says, noting that federal requirements for taking the money meant “we had about 47 percent of the state budget we couldn’t touch.”

What everyone seems to agree on is the pain of the recession is spread wide and deep, particularly affecting the poor, those without health insurance and the unemployed. “You can’t go anywhere in this state with-

out running into somebody who is impacted in a very significant way by this economy, whether it is a foreclosure or job loss,” says Bishop.

So when can states expect to join the economic upturn that seems to be slowly coming to other sectors of the economy?

While almost all the leaders wished they had a fiscal crystal ball, they said there was a rough consensus from their state fiscal analysts that it will be 2011 or 2012 before there is a significant recovery of revenues from income taxes, sales taxes and other sources.

Utah Senate President Michael Waddoups was a bit more optimistic, saying he already sees signs of recovery in his state. “We’re experiencing more people buying houses. Building permits have rebounded a little bit. We have retail businesses that—I wouldn’t say are growing—don’t seem to be decreasing at this point. It appears we are close to

FLORIDA

Population: 15.9 million

Unemployment rate: 11.2 percent

Budget gap closed FY 2009: \$4.33 billion

Budget gap closed FY 2010: \$6.66 billion

Projected budget gap 2011: \$5 billion

MASSACHUSETTS

Population: 6.3 million

Unemployment rate: 8.9 percent

Budget gap closed FY 2009: \$2.95 billion

Budget gap closed FY 2010: \$3.002 billion

Projected budget gap 2011: N/A

MICHIGAN

Population: 9.9 million

Unemployment rate: 15.1 percent

Budget gap closed FY 2009: \$313 million

Budget gap closed FY 2010: \$1.2 billion

Projected budget gap 2011: N/A

MONTANA

Population: 902,000

Unemployment rate: 6.4 percent

Budget gap closed FY 2009: N/A

Budget gap closed FY 2010: \$67.1 million

Projected budget gap 2011: \$53.4 million

NEVADA

Population: 2 million

Unemployment rate: 13 percent

Budget gap closed FY 2009: \$1.094 billion

Budget gap closed FY 2010: \$1.235 billion

Projected budget gap 2011: \$1.335 billion

UTAH

Population: 2.74 million

Unemployment rate: 6.5 percent

Budget gap closed FY 2009: \$875 million

Budget gap closed FY 2010: \$685 million

Projected budget gap 2011: N/A

Sources: 2000 U.S. Census, NCSL, Bureau of Labor Statistics. Unemployment rate as of October 2009.



the bottom of the downturn, and in some areas we've actually seen an uptake."

FIRST, EDUCATION

Even in a recession, it's important to preserve essential services and encourage economic activity, the leaders agreed. And when it comes to what to preserve, there was substantial agreement across the aisle—education.

"Education. That will always be and continue to be our priority," says Cretul.

Horsford was on the same page. "First and foremost we need to protect education. We cannot let our children down."

Murray agreed education was crucial, but also pointed to a couple of other areas. "It's going to be a challenge trying to hold onto funding for K-12 and trying to hold onto funding for our health care reform bill," she says, "and keeping the elderly and those who are physically or mentally disabled in services."

In Montana, insurance coverage for children and adults is high on the list for Bergren. "We've definitely had a gap in Montana. We have around 17 percent of folks uninsured. So that needs to be closed."

"We are very distraught at how partisan [the Congress] is. ... Good ideas are not the domain of one party."

UTAH SENATE PRESIDENT MICHAEL WADDOUPS

FRESH LOOK

A crisis also gives leaders a chance to look at what they do with fresh eyes. Most said they took a new look at the state's core responsibilities.

"We've got to rethink, and there is probably no better time," says Cretul. "We are attempting to do some structural changes here, process changes. We also need to think about where we can find efficiencies."

Horsford's observation was echoed by most of the leaders: "Reform and reorganizing are necessary. We're not going to be able to cut our way out or raise enough revenue."

Making changes, however, will require cooperation within the state and a working relationship with the federal government. And

it is there the leaders' perspectives diverged.

Most thought there was far less partisanship among state legislators than at the national level. "We are very distraught at how partisan [the Congress] is," says Waddoups. "It appears to us that they are failing to get the work of the country done. Partisanship is ruining the ultimate goal of doing the people's business. Good ideas are not the domain of one party."

Murray says while there is certainly partisanship in Massachusetts, "We have been extremely civil in our arguments. There are outside influences and they are very partisan, but it doesn't seem to have affected our legislative body, at least in the Senate."

But Bishop said he thought the hard times had exacerbated partisanship in his state. "It's absolutely a factor, and it is just a reality of our day. We've got revenues down and that's nationwide. Whenever that happens, there is the epic philosophical debate over how to resolve that. Some believe you spend your way out of it. Others believe now is the time to tighten the belt."

On the role of the federal government, there was little agreement. While most thought the stimulus money had been a huge, temporary help to the states, the overall perspective was not so harmonious.

"I believe the federal government has overstepped the Founding Father's intentions in every area they deal in with the exception of national defense," says Waddoups. "They are taking away from the state's jurisdiction in education and so many programs and doing it with money they shouldn't even be collecting in the first place."

Bishop thinks the "public policy of our national government has gone completely mad. The way they are proceeding has given people a real sense of fear. They claim to be helping the states, but they are making matters worse."

Despite those areas of disagreement, the leaders' sentiment seemed close to that expressed by Murray when she said the federal government needs to let states do what they do best.

"Give us a lot of rope and let us be innovative, and we'll show you the savings. Maybe we won't need to keep coming back and asking for more."

 **CHECK OUT** NCSL's latest State Budget Update at www.ncsl.org/magazine.

“The Entire State Is Hurting Right Now”

THE LEADERS



House Speaker Bob Bergren, Democrat, Montana: Bergren was elected to the House in 2004 and was elected speaker in 2009. (The Montana House is split 50-50 and the governor’s party gets to select the speaker.)



Senator Michael Bishop, majority leader, Republican, Michigan: Bishop is in his final Senate term. He was elected Senate majority leader in 2006. He was first elected to the House in 1998.



House Speaker Larry Cretul, Republican, Florida: Cretul was elected speaker in 2009. He was first elected to the House in 2002.



Senator Steven Horsford, majority floor leader, Democrat, Nevada: Horsford was elected to the Senate in 2004. He was elected majority floor leader in 2008.



Senate President Therese Murray, Democrat, Massachusetts: Murray was elected to the Senate in 1992. She was elected Senate president in 2007.



Senate President Michael Waddoups, Republican, Utah: Waddoups was elected Senate president in 2009. He entered the House in 1987 and moved to the Senate in 1996.

The six state leaders shared their thoughts on eight questions with State Legislatures. Here are some additional responses.

STATE LEGISLATURES: Over the past year, we’ve elected a new president, seated a new Congress, and seen passage of a massive stimulus bill to try to get us out of the worst recession since the 1930s. How have these developments affected your state?

FLORIDA HOUSE SPEAKER LARRY CRETUL: When we began the budget process, we were reluctant to calculate in those stimulus dollars. We knew the stimulus was going to go away.

MASSACHUSETTS SENATE PRESIDENT THERESE MURRAY: The fact that Congress gave us stimulus money helped us through a really rocky ’09. The money was a Godsend, but we’ve pretty much used it all.

UTAH SENATE PRESIDENT MICHAEL WADDOUPS: The stimulus obviously helped immensely as we were trying to put together a balanced budget last year.

SL: When do you think your state will return to stable fiscal footing?

MONTANA HOUSE SPEAKER BOB BERGREN: I think we are poised to take advantage of a lot of opportunities with our natural resources. We’ve upped renewable portfolios to almost

15 percent.

MICHIGAN SENATE MAJORITY LEADER MICHAEL BISHOP: There is no way to tell. We would like to think that we are reaching that point, but our tax revenue is continuing to decline below our already low projections. All the elements are in place to suggest that this crisis will continue to worsen.

CRETUL: Our folks are looking out to 2011, 2012, maybe 2013. I wish I had the ability to actually make those projections with some sort of confidence.

NEVADA SENATE MAJORITY LEADER STEVEN HORSFORD: I don’t think anyone can predict for sure. Because we’re so reliant on tourism, we’re going to recover a year to 18 months after the national economy.

SL: As you look to close your budget gaps for the rest of this year and for the next fiscal year, what is most important to preserve?

BISHOP: I believe the core responsibility of government is to protect people, so we focus on law enforcement and local government. If there is any silver lining it is that we’ll come out of this having substantially reduced the size of government and having had strong discussions about core principles and the core purposes of government.

CRETUL: Education. That will always be and continues to be our priority even if it weren’t required by the constitution.

MURRAY: We feel strongly that we need to keep the safety net in place. At the same time, our cities and towns are reeling, and I think 2011 is going to be much worse for them.

SL: Who’s hurting the most in your state?

BISHOP: The entire state is hurting right now. Our state is challenged to the very core. We’ve got to come up with some solutions very quickly, but in the meantime we’ve got to figure out how to deal with some really needy people.

CRETUL: We just had a mortgage brokerage company lock its doors, forcing 1,000 people out of work. Those are the people who were spending and helping generate sales tax revenue, which is our main stream of income.

MURRAY: It’s the middle class. It’s those in the working class who used to have two jobs and now have lost both. Same thing with the middle class. Husbands and wives who work in the same industry are being laid off together. So it’s really families.

SL: After such a deep recession and drop in state revenues, is it time for state government to rethink what it does and how it does it?

BERGREN: I don’t think state government should be a business, but should be there to help folks in need and make an environment that helps business.

BISHOP: Some things we've had to give up in the state just didn't represent essential services of the state or the core fundamental purpose of government. I don't know how we can get by this budget crisis without making tough decisions like that.

CRETUL: I'm not sure when it's harder, when you have no money or when you have a lot of money. We've got to rethink. We are trying to make structural changes, process changes. We've made a lot of reductions. We need to think where we can find efficiencies.

MURRAY: We have myriad state agencies that handle transportation, and we've merged them all. We've also looked at our pension systems and plugged some of the loopholes to make it more fair. We've done a lot to consolidate our state government and we've a ways to go.

WADDOUPS: I'm concerned some people have not made the hard decisions to do away with some of the marginal programs. I feel we'd do better to say let's do program A and do it well rather than doing program A and B haphazardly.

SL: How do you foster robust economic activity in this period?

BERGREN: Since we're a natural resources and agricultural state, as long as those prices are good, we're good. We're kind of the Saudi Arabia of wind in Montana, so I think there are a lot of opportunities we can take advantage of.

BISHOP: We try to create a competitive business environment. That's really what it comes down to. We need jobs. Energy costs, health care—those are areas we need to focus on. The Michigan Legislature has to be transfixed on the process of driving down those costs.

HORSFORD: I think focusing on emerging sectors where there are opportunities. We have an abundance of solar, geothermal and wind resources that are some of the best in the nation. There really is an opportunity for states like Nevada to be net exporters of energy to other states that need the resources we have to offer. We're using stimulus money to train workers in this new

green economy.

MURRAY: We use our bonding authority. We use the dollars to put the trades to work. When the trades work, they spend money.

WADDOUPS: Tax policy is a factor that comes into play. We are trying to not hurt businesses by looking for an increase in fees or tax revenues from them. It is also important to us that government doesn't try to make every project a government project. We believe here in Utah that private enterprise does almost everything better than government.

SL: Has partisanship increased in your legislature? If so, how has it affected across-the-aisle relationships and the legislature's relationship with the governor?

CRETUL: I think partisanship in some respects is good. Once we begin to be so much alike, some of our political philosophies begin to get too diluted.

HORSFORD: Democrats and Republicans in the Legislature worked relentlessly and very well together in this last legislative session because we all recognized the necessity of working together. This was done in a bipartisan effort around a Republican governor who proposed a lot more draconian cuts.

SL: Looking at the relationship between states and the federal government, do you think there are specific public policy areas where Washington has gone too far?

BERGREN: The latest round of education funding with all the strings attached was not advantageous to rural areas. NCLB really doesn't fit. I hope they start to listen to some of the input.

CRETUL: They are getting out there now with trillions of dollars. Some day that bill is going to come due.

HORSFORD: I think the new administration is very sensitive to the role of states. The stimulus package is far-reaching, and there are ground rules. Overall, I think the rules have been reasonable.

MURRAY: I think No Child Left Behind would have been great if they had funded it for us, but they didn't. REAL ID, that is just so cumbersome with no funding. Personal rights groups are very concerned about what it would be like to have a federal ID for everybody.