

October 6, 2008

Cash Crunch



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The next issue of Capitol Journal will be available on October 13th.

Top Story

With Wall Street on the ropes, what started out looking like a bad fiscal year for the states may turn into one of the worst economic years on record.

SNCJ Spotlight

States gird against Wall Street collapse

A few weeks ago, it looked like 2008 was going to be a tough budget year for states. The housing slump and sky-high energy prices had lawmakers across the country scurrying to patch \$40 billion worth of holes in their state budgets, triple the aggregate deficit of the year before. Now, with the collapse of Wall Street firms that survived two world wars, the Great Depression and the Sept. 11 terrorist attacks, it looks as though this could be one of the worst economic years on record. And state officials are once again scrambling to prop up their already teetering budgets.



“You can just imagine budget directors slapping their hands to their foreheads and asking ‘what will happen next?’” said Nick Johnson, state fiscal project director for the Center for Budget Policy in Washington, D.C. The organization estimates that at least 15 states are facing shortfalls in their fiscal 2009 budgets enacted just months ago.

The meltdown of the financial sector could put NEW YORK, which by some estimates derives as much as 20 percent of its revenues from Wall Street, \$1 billion

further in a budget hole that is already \$6.4 billion deep. And despite CALIFORNIA’s distance from the epicenter of last month’s meltdown, the situation isn’t any better there, where a spending plan approved last month after

“You can just imagine budget directors slapping their hands to their foreheads and asking ‘what will happen next?’”

a record 85-day budget standoff may already be \$1 billion in the red. The situation is in fact so desperate, said Gov. Arnold Schwarzenegger (R) last week, that the state may ask the federal government for an emergency \$7 billion loan because it will soon run out of cash to fund day-to-day operations.

Other states are feeling it as well. Citing the “recent economic events,” OREGON Gov. Ted Kulongoski (D) rescinded a scheduled 3.2 percent pay raise for agency directors in his state, while MISSOURI has dropped its ambitious plan to design and build 800 bridges under a single contract. In FLORIDA, lawmakers shifted \$672 million in reserve funds to pay down the state’s projected \$1.5 billion deficit for this year, and PENNSYLVANIA

“States are in a world of hurt.”

Gov. Ed Rendell (D) directed

his cabinet secretaries to trim their budget by 4.25 percent. UTAH lawmakers approved 3 percent cuts to most state agency budgets in a special session on Sept. 24. And other states, including MASSACHUSETTS and NEW YORK, are considering special sessions of their own.

States fear that consumers, who’ve already been tightening their belts due to high gas and food prices and who are now watching their 401(k)s wither away, will cut back even more on eating out in restaurants and making major purchases, further reducing the sales tax collections that make up about a third of state revenues. States also worry that business failures and cutbacks will mean more people will be forced off employer-paid health insurance and onto state-funded Medicaid.

“States are in a world of hurt,” said Steve Kreisberg, director of collective bargaining for the American Federation of State, County and Municipal Employees.

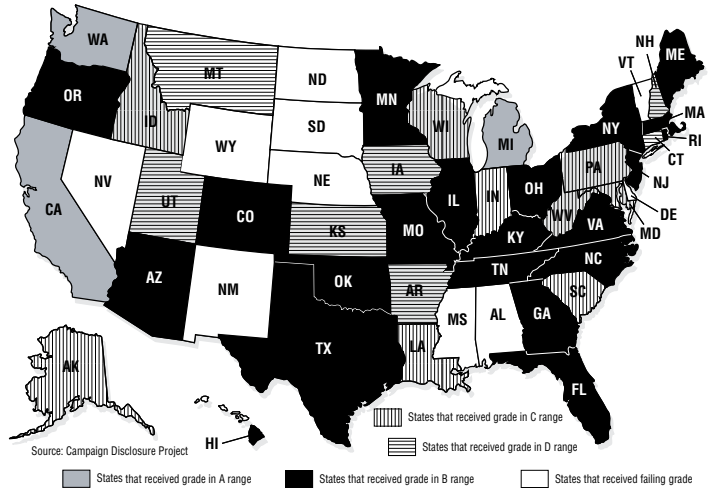
The dire circumstances have states looking to the federal government for help. NEW YORK Gov. David Paterson (D), for instance, has proposed making New York City the center of operation for any new federal program created to deal with the financial crisis.

“Headquartering the program here will create some new jobs for the financial sector and in some small way help mitigate the effects of this crisis,” Paterson stated in letters he sent to federal officials.

NEW JERSEY, where many Wall Street commuters reside, has also been hit hard by the meltdown. But Gov. Jon Corzine (D), a former CEO of Goldman Sachs, has rejected lawmakers' calls for a special session, contending the state has been "very fiscally responsible" this year, among other things cutting hundreds of millions of dollars in spending, paying down \$600 million of debt, reducing the state workforce by 3,000 and limiting future spending. Instead, Corzine has repeated the Democratic Party's call for a second national economic stimulus package providing billions of federal funds to help states provide health care for the poor and make infrastructure improvements. The U.S. House approved a package last month that would have boosted funding for Medicaid, but similar legislation failed in the Senate, and President Bush also opposed the plan. (STATELINE.ORG, PHILADELPHIA INQUIRER, LOS ANGELES TIMES)

— Compiled by Korey Clark

Bird's eye view



States improving access to campaign finance information

States are getting better at campaign finance disclosure, according to the Campaign Disclosure Project, a collaboration of the CALIFORNIA Voter Foundation, the Center for Governmental Studies and the UCLA School of Law. Forty states earned passing grades in the project's 2008 assessment of state campaign disclosure laws and practices, released last week. Thirty-six improved their grades since the Project's first report in 2003, and 24 earned grades of A or B, up from just two states five years ago. TENNESSEE improved the most, going from an F and a national ranking of 46th in 2003 to a B and a rank of 13th this year. The improvement is due primarily to more states requiring candidates to file disclosure reports electronically, which 24 states now do for both statewide and legislative offices, up from 12 in 2003.



Budget & taxes

WALL STREET CRISIS SEIZES UP LOCAL GOVERNMENT

BOND MARKET: In September of 2007, local governments across the nation issued roughly \$23 billion in fixed-rate municipal bonds. This past September states issued only about \$15 billion in municipal bonds, all but about \$2.2 billion worth in the month's first two weeks, according to the research and strategy firm Municipal Market Advisors.

STATE CARBON SALE GENERATES \$40 MILLION: The nation's first cap-and-trade auction for greenhouse gas reduction was held last month, and by most accounts it was a success.

Officials of the Regional Greenhouse Gas Initiative, established by 10 Northeastern states to set emission limits and force fossil fuel plants to buy carbon allowances for excess emissions in the absence of a federal program, said they sold all 12.5 million allowances up for bid.

The \$40 million raised from the auction will be divided among the six states that directly participated — CONNECTICUT, MAINE, MARYLAND, MASSACHUSETTS, RHODE ISLAND, and VERMONT — to spend on renewable energy technologies and energy-efficiency programs. The four other members of the initiative — DELAWARE, NEW HAMPSHIRE, NEW JERSEY and NEW YORK — intend to join in future auctions, the next of which will be held Dec. 17.

“We’re off to a really strong start, and we couldn’t be more pleased,” said Shari T. Wilson, MARYLAND’s environment secretary. “We want to make steady progress, but we want it to be a very technically and financially sound program.”

NEW YORK Gov. David Paterson (D), likewise, was optimistic about the initiative’s future.

“This is a strong indication that when NEW YORK participates in our first auction in December, it will also be a success,” he said. “I hope our bold actions here will prove to be a turning point in the fight against global climate change.” (WASHINGTON POST)

BUDGETS IN BRIEF: After months of negotiations, MASSACHUSETTS’ Gov. Deval Patrick (D) announced last week the state has secured \$10.6 billion in federal funding over the next three years to expand its universal healthcare program. That sum is about \$2.1 billion more than the state received from the federal government for its Medicaid waiver package three years ago (BOSTON GLOBE).

• A circuit court judge in KENTUCKY declined to turn control of 141 Internet gambling sites over to the state in accordance with a lawsuit filed by Gov. Steve Beshear (D), part of an unprecedented effort by the state to crack down on illegal Internet gambling. Instead, the judge ordered attorneys on both sides of the case to file briefs on some of the issues and scheduled a hearing for Oct. 7 (COURIER-JOURNAL [LOUISVILLE]). • The ALABAMA economy is doing better than the nation’s, a regional manager of the Federal Deposit Insurance Corp. told attendees at the Coastal Economy Outlook conference in Mobile last week. According to the FDIC representative, the state added 3,300 new jobs this year while the nation lost four times as many (PRESS-REGISTER [MOBILE]).

— *Compiled by KOREY CLARK*

Politics & leadership

HIGH COURT DOCKET LACKS CONTROVERSY BUT NOT INTEREST FOR STATES: The U.S. Supreme Court started its 2008-09 term this week. And compared to the 2007-08 term, when the justices weighed such politically explosive issues as gun control, the death penalty and voter-ID, the new term looks to be a relatively mild one, though not without interest for states.

The states' top concern will be a pair of cases testing whether federal consumer-protection law preempts similar state statutes. One of the cases, *Altria Group v. Good*, involves a lawsuit filed by a group of smokers in MAINE against Philip Morris and its parent company alleging that the cigarette manufacturer's marketing of "light" cigarettes constitutes a deceptive practice under Pine Tree State consumer law. Philip Morris, however, claims federal law protects it from being "impeded by diverse, nonuniform and confusing cigarette labeling and advertising regulations."

The other major product liability case, *Wyeth v. Levine*, centers around a VERMONT woman who claims that the drug manufacturer Wyeth failed to adequately warn that its anti-nausea drug, Phenergan, could cause harm if injected improperly. The woman lost part of her arm to gangrene after taking the drug intravenously. Wyeth contends it is not liable because the FDA approved the drug's label and the instructions for administering the drug.

Along with the pre-emption cases, states will also be closely monitoring *Bartlett v. Strickland*, concerning NORTH CAROLINA's drawing of a new voting district to help African-Americans elect a candidate of their choosing, to determine whether it will impact their own redistricting procedures after the 2010 census.

In addition, many states will likely keep their eyes on a pair of land dispute cases coming before the court: *Carcieri v. Kempthorne*, concerning whether the Narragansett tribe is entitled to a 31-acre plot of land in RHODE ISLAND, and *Hawaii v. Office of Hawaiian Affairs*, involving a conflict between the Aloha State and its native population. (STATELINE.ORG)

STATE REGULATORS AND FEDERAL LAWMAKERS TRADE BARBS OVER AIG COLLAPSE: State insurance regulators were fuming at their annual meeting in Washington, D.C. last month over an op-ed piece that appeared in the Sept. 23 issue of the *Wall Street Journal*.

The piece, authored by U.S. Sens. John Sununu (R-NEW HAMPSHIRE.) and Tim Johnson (D-NORTH DAKOTA) and U.S. Reps. Melissa Bean (D-ILLINOIS) and Ed Royce (R-CALIFORNIA.), contended that the federal government's \$85 billion bailout of AIG was proof that the job of regulating the insurance industry has become too complex for states and that Congress should approve legislation the four lawmakers proposed two years ago stripping states of that regulatory authority. Barring such a change, the lawmakers warned, "it is likely that the federal



government (i.e. the American taxpayers) will be forced to pay for more bailouts in the future.”

The state regulators shot back that the insurance operations of AIG under state supervision were the healthiest part of the company and actually helped make the bailout viable.

“What got the Fed in the end to make this loan was the value of the insurance (company) assets,” said PENNSYLVANIA Insurance Commissioner Joel Ario. “The real story is, state regulation shined.”

Ario also accused the federal lawmakers of exploiting the financial crisis to generate support for their bill, which hasn’t cleared a committee in either the House or Senate.

“This is not a time for political opportunism,” Ario said. “I’m disappointed in the political chutzpah of some people.” (STATELINE.ORG)

POLITICS IN BRIEF: FLORIDA’s

controversial new “no-match” law has placed about 3,200 newly registered voters in Election Day limbo.

Unless those individuals present either a driver’s license or Social Security card to their county elections office at least 24 hours prior to Election Day, they’ll have to cast a provisional ballot and bring their identification to their local elections office within two days in order for their vote to count (MIAMI HERALD). • The **NORTH DAKOTA** Republican Party sent out about 20,000 absentee ballot applications that did not ask

voters to supply their birth date or driver’s license number as required by state law. County auditors said last week the oversight would not prevent them from accepting the forms (ASSOCIATED PRESS, BISMARCK TRIBUNE). •

ALABAMA’s Administrative

Office of Courts distributed a memo to court officials last week contending that eligible voters have been wrongly stricken from the voter rolls for the coming election because of the Riley administration’s liberal definition of what constitutes a crime of moral turpitude, barring someone from voting. Gov. Bob Riley’s (R) office considers 480 of the state’s 575 felonies to be such a crime, while the AOC Legal Division specifies only 70 felonies that a court, state law or an attorney general’s opinion have so identified (BIRMINGHAM NEWS).

In the hopper

At any given time, State Net tracks tens of thousands of bills in all 50 states, the US Congress and the District of Columbia. Here’s a snapshot of what’s in the legislative works:

Number of 2008 prefiles last week: 96

Number of 2009 prefiles last week: 87

Number of Intros last week: 506

Number of bills enacted/adopted last week: 660

Number of 2008 prefiles to date: 21,124

Number of 2009 prefiles to date: 1,432

Number of Intros to date: 90,729

Number of bills enacted/adopted overall to date: 27,418

— Compiled By JAMES ROSS
(measures current as of 10/02/2008)
Source: State Net database

“What got the Fed in the end to make this loan was the value of the insurance (company) assets. The real story is, state regulation shined.”



But Hodson notes that during the budget impasse Schwarzenegger also received significant criticism for not wielding enough of his power to prod lawmakers toward an earlier budget agreement. “If Schwarzenegger...sticks with it,” said Hodson, “The Legislature is going to have to say, ‘OK, we’ve got somebody who’s perfectly willing to veto for reasons unrelated to the legislation, and we’re going to have to recalibrate our

relationship with him.”

The turmoil partially obscured a few highly significant, first-in-the-nation bills that Schwarzenegger did sign: Senate Bill 375, which sets regional goals for reducing greenhouse gas emissions by discouraging sprawl, and SB 1420, which requires chain restaurants to

post nutritional and calorie information on the food products they sell.

Incoming Senate Pro Tem Darrell Steinberg (D), who authored SB 375, said he is optimistic that the governor and lawmakers will work better together in 2009 in spite of the rancor created this year. “State government needs a whole lot of work and a whole lot of healing,” Steinberg said. “We have to put our energy and attention on getting off to a positive and fast start next year. We have to work through difficult issues early.” (SACRAMENTO BEE, LOS ANGELES TIMES, SAN FRANCISCO CHRONICLE, CAPITOL WEEKLY [SACRAMENTO])

GOVERNORS IN BRIEF: PENNSYLVANIA Gov. Ed Rendell scaled down a proposal to expand health care coverage to the uninsured in the hopes of winning legislative approval before lawmakers take a break to focus on their re-election campaigns. Under his latest proposal, the insurance plan’s annual cost would range from \$723 million to \$857 million by the 2012-13 fiscal year, using a combination of existing state revenue and federal money to expand health insurance coverage to an additional 250,000 state residents. The original proposal called for insuring an additional 270,000 adults (MORNING CALL).

— *Compiled by RICH EHISEN*

“I think he’s going to have to decide whether he’s going to go back to making bad movies or staying in politics. He’s strongly disliked by Democrats and Republicans alike.”

Hot issues

BUSINESS: A federal judge temporarily blocks a **FLORIDA** law that requires Sunshine State travel agents who book direct trips to Cuba to post a \$250,000 bond when registering with the state. The judge said



the law likely violates a constitutional mandate allowing only the federal government to set foreign policy. No further trial date has been set (ASSOCIATED PRESS). • **CALIFORNIA** Gov. Arnold Schwarzenegger (R) vetoes AB 1830, legislation that would have, among other things, prohibited brokers from steering borrowers toward higher-risk loans than they would qualify for based on their income and credit. The bill would have also curtailed incentives tied to riskier loan products and capped prepayment penalties (SACRAMENTO BEE). • Still in **CALIFORNIA**, Schwarzenegger signs SB 375, legislation that requires Golden State environmental officials to set regional targets for reducing greenhouse gas emissions by 2010. The measure also mandates that metropolitan communities develop strategies to encourage compact development, public transit and reduction of greenhouse gas emissions (SACRAMENTO BEE). • Schwarzenegger also signs SB 1420, which requires restaurants with 20 or more locations in **CALIFORNIA** to provide customers with brochures containing nutritional information about their food products, including the number of calories and grams of saturated fat, by July 2009. By 2011, all menus and menu boards above front counters will have to include the number of calories for each item (LOS ANGELES TIMES). • And still in **CALIFORNIA**, Schwarzenegger signs AB 1879, which gives state officials until January 2011 to establish a science-based process to identify and evaluate problem chemicals in their manufacture, use and disposal. The measure also gives officials the right to ban those chemicals they deem to be harmful (SACAMENTO BEE).

<p style="text-align: center;">Upcoming elections 10/02/2008 - 10/23/2008</p> <p>10/04/2008 Louisiana Special Primary House District 18 Senate District 9 US House (All) US Senate (Mary L. Landrieu (Rescheduled from 9/6/08))</p>

CRIME & PUNISHMENT: A **NEW JERSEY** court rules that individual cities do not have the right to restrict the number of handguns that Garden State residents may legally buy. The court said the state already regulates the sale of handguns (STAR-LEDGER [NEWARK]). • **PENNSYLVANIA** Gov. Ed Rendell (D) signs HB 7, which will allow some terminally ill inmates to be relocated to a hospital, nursing home or hospice. Rendell also signs HB 4, which gives nonviolent offenders the option, at sentencing, of early release from prison if they complete educational and job-training programs and demonstrate good behavior while behind bars (PHILADELPHIA INQUIRER). • The U.S. Supreme Court refuses to reconsider its decision of last June declaring the death penalty unconstitutional punishment for raping a child. The ruling stems from the case of a **LOUISIANA** man sentenced to die for sexually assaulting his 8-year-old stepdaughter. The decision voids the Pelican State law as well as similar statutes in **GEORGIA, MONTANA, OKLAHOMA, SOUTH CAROLINA, and TEXAS** (NEW YORK TIMES). • The **OHIO** Supreme Court says that applying changes made to the



Buckeye State's sex offender registration law in 2003 to offenders convicted before that date does not violate the state or U.S. constitutions (AKRON BEACON JOURNAL). • Corrections officials in WASHINGTON announce that all of the Evergreen State's most violent sex offenders will be required to wear tracking bracelets for at least a month upon their release from prison (SEATTLE TIMES).

Upcoming stories

Here are some of the topics you will see covered in upcoming issues of the State Net Capitol Journal:

- Nuclear power
- No Child Left Behind
- 2008 ballot measures

EDUCATION: In CALIFORNIA, Gov. Arnold Schwarzenegger (R) vetoes SB 1301, which would have allowed undocumented immigrant students to apply for privately-funded institutional financial aid (SACRAMENTO BEE). • CALIFORNIA Gov. Arnold Schwarzenegger (R) vetoes AB 1863, which would have required social studies courses taught in Golden State schools to recognize the role of Italian-Americans in state and national history (SAN FRANCISCO CHRONICLE). • Also in CALIFORNIA, Schwarzenegger signs AB 2296, a bill that makes it a misdemeanor to publish information about the location of academic researchers and their families.

ENVIRONMENT: A federal judge rules that gray wolves cannot be removed from the endangered species list in WISCONSIN, MICHIGAN and MINNESOTA as long as they remain on the protected list in other regions. The decision came after a federal court in MONTANA issued an injunction in the Rocky Mountain region after states there opened a hunting season on wolves (MILWAUKEE JOURNAL-SENTINEL). • The U.S. House of Representatives approves US SJR 45, a.k.a. the Great Lakes Compact, an agreement between the eight Great Lakes states and the Canadian provinces of Quebec and Ontario to prevent large-scale diversions out of those waterways. It moves to President George W. Bush, who has said he will sign it (DETROIT FREE PRESS). • CALIFORNIA Gov. Arnold Schwarzenegger (R) vetoes AB 2032, which would have allowed the state to increase the fee it charges oil companies on oil brought into Golden State ports from 5 cents a barrel to 8 cents a barrel, with the additional revenue slated to go toward improving the state's response to oil spills (SAN JOSE MERCURY NEWS).

HEALTH & SCIENCE: An ILLINOIS court blocks the expansion of a state-run health care program for the poor ordered by Gov. Rod Blagojevich (D). The governor issued his directive after both lawmakers and the secretary of state rejected his request to open up the program to families with higher incomes. The governor's office is considering an appeal (CHICAGO SUN-TIMES). • CALIFORNIA Gov. Arnold Schwarzenegger (R) signs AB 2917, which requires the Golden State's 70,000 emergency medical technicians to undergo mandatory criminal background checks. The measure further requires that EMTs be certified in the county in which

they work and calls for the creation of a state-run central EMT registry (SACRAMENTO BEE). • Still in **CALIFORNIA**, Schwarzenegger signs SB 1058, which requires hospitals to bolster their efforts to prevent the spread of hospital-acquired infections. Hospitals will also now be compelled to publicly disclose their infection rates. Schwarzenegger also signs SB 158, which requires medical personnel to be trained in preventing the spread of those infections (LOS ANGELES TIMES). • Also in **CALIFORNIA**,

Schwarzenegger (R) vetoes AB 2968, proposal that would have required people to undergo a physical examination, give a complete medical history and get a doctor's clearance before undergoing plastic surgery (LOS ANGELES TIMES). • And once again in **CALIFORNIA**, Schwarzenegger vetoes SB 840, which would have begun the process of creating a public health insurer to replace the private insurance industry (LOS ANGELES TIMES). • Finally, Schwarzenegger signs a pair of bills, AB 211 and SB 541, which collectively create a state agency to ensure that **CALIFORNIA** hospital workers do not illicitly access patients' medical files. Violators will face fines as high as \$250,000 (LOS ANGELES TIMES).

SOCIAL POLICY: In **NEW JERSEY**, Gov. Jon Corzine (D) issues Executive Order No. 122, which directs the state Commission on American Indian Affairs to develop job-creation programs and craft legislation that would protect religious observances and the civil rights of three of the Garden State's Native American tribes. The order also lays the groundwork for legislation that would grant recognition to the tribes, but would not allow them to run casinos. An estimated 50,000-70,000 state residents are members of the Ramapough Mountain Indians, Nanticoke Lenni Lenape Indians or the Powhatan Renape Nation (STAR-LEDGER [NEWARK]).

POTPOURRI: In **CALIFORNIA**, Gov. Arnold Schwarzenegger (R) vetoes AB 2233, which would have barred Golden State drivers from motoring around with a live animal on their lap. The governor said he vetoed the bill because the issue was not a priority this year (STATE NET). • In a related move, Schwarzenegger signs SB 28, which bans **CALIFORNIA** drivers from text messaging while behind the wheel. The law goes into effect on January 1, 2009 (SACRAMENTO BEE).

— *Compiled by RICH EHISEN*

In case you missed it

The once seemingly irresistible Democratic political tide may be ebbing, and not in the presidential campaign alone. As SNCJ's Lou Cannon reports, some analysts believe that Republicans and Democrats may now even have equivalent opportunities to win contested statehouses.

In case you missed it, the article can be found on our Web site at

http://www.statenet.com/capitol_journal/09-22-2008/html

Once around the statehouse lightly

WHAT WOULD LOU DO? As noted in this space before, embattled ILLINOIS Gov. Rod Blagojevich is a truly rabid Cubs fan. The gov is in fact so enraptured of his team that one has to wonder if he may be getting just a tad carried away. As the *Chicago Sun-Times* reports, Blagojevich was the main speaker at a pre-playoff rally last week in the Windy City, an opportunity he used to compare himself to fiery Cubs manager Lou Piniella. “Sometimes when I’m arguing with the Legislature, I feel like Lou Piniella arguing with the umpires,” he said, adding “Some of the times I have to make decisions as governor, I ask myself, ‘What would Lou do?’ Then I make some decisions.” We know what you’re thinking. Given Blagojevich’s ongoing troubles with everyone from his own party to federal investigators, he might want to come up with a better system.

WHAT DID I SAY? Speaking of getting carried away, Pakistani President Asif Ali Zardari should probably ratchet his enthusiasm for ALASKA Gov. Sarah Palin down a notch. As reported by the *Christian Science Monitor*, Zardari seemed smitten with Palin during a recent meet-and-greet between the Republican vice presidential candidate and a host of foreign leaders at the United Nations, calling her “gorgeous” and hinting that he might give her a hug. Those comments drew widespread condemnation back home from both feminists and the Pakistani press, which accused him of embarrassing the country by making sexist remarks. The nation’s hard-line religious leaders were even more incensed, with one issuing a fatwa, or religious decree, against him for making “indecent gestures, filthy remarks, and repeated praise of a non-Muslim lady wearing a short skirt.” This could only mean one thing: He clearly didn’t stop and ask himself, “What would Lou do?”

KATIE COURIC BEWARE! Political candidates often whine and complain that the big bad press is being too tough on them, but as Mark Twain might say, nobody ever does anything about it. Not so in Bangkok. According to Reuters, gubernatorial candidate Chuvit Kamolvisit took offense last week to a line of questions from television journalist Visarn Dilokwanich. As soon as the show ended, the enraged Kamolvisit, a former strip club owner whom the Thai press had dubbed the “massage parlour king,” responded with a series of punches and kicks that left the reporter worse for wear. Kamolvisit apologized, but said he was provoked. “I admit I did it,” he said. “I couldn’t stand it when he humiliated me on air.” But he apparently could hold up to humiliating himself off the air.

— By RICH EHISEN



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