

## GOVERNING's Outlook in the States and Localities: Part 2

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Day Two of **GOVERNING's Outlook in the States and Localities** began with murmurs from participants echoing in ballroom at the National Press Club, as they hoped the states' outlook would be less dreary than the previous day. However, as the first panel of speakers began, the dark cloud that hung over the room on Day One, had indeed returned.

The first panel of the day discussed state issues, priorities and politics. Speakers for the panel included David Adkins, Executive Director of the Council of State Governments (**CSG**); William Pound, Executive Director of the National Conference of State Legislatures (**NCSL**); and Ray Scheppach, Executive Director of the National Governors Association (**NGA**).

Ray Scheppach was the first bearer of apparent bad news as he described what he called a "lost decade" and his prediction that it would be 2012 and 2013 before states will begin to see the same revenue numbers that were seen in 2008. While Scheppach praised the American Recovery and Reinvestment Act of 2009 (ARRA) and the flexibility it allowed for state spending, he explained how states are still acting in survival mode as they work fervently to make the most out of the little resources they have. Scheppach highlighted three big issues that will largely shape the outlook of the states for 2010: healthcare reform, some form of a jobs bill, and President Obama's recent recommended budget. William Pound began by highlighting numbers, specifically the budget shortfalls seen in 2009 and those already seen in 2010. Pound pointed out that this trend will continue as stimulus funds – which currently make up approximately 20% of a state's budget – are suspended. Pound predicts that the Federal government's action or inaction will largely shape the future outlook of the states such as healthcare reform and whether or not it will alleviate the current Medicaid burden for which states are responsible. David Adkins alleviated some of the doom and gloom atmosphere by opening with a quote from Woody Allen in which two paths – one to despair and utter hopelessness, and the other to total distinction – depict the current choices states are now faced with. However, despite Adkins' comical, yet negative opening, he offered some hopeful discussion as he pointed out the opportunity that has arisen from our current dire economic environment. State leaders will be forced into adaptive leadership. Common practices and where funds are spent will have to be readdressed in order to produce the same services at a lower cost. Adkins concluded his portion of the panel by pointing out that in US history the nation has endured thirty economic recoveries; there still is a light at the end of the tunnel.

The second panel of the day, covering 2010 revenue and spending consisted of panelists, Sujit CanagaRetna, Senior Fiscal Analyst at the Council of State Governments (**CSG**); Scott Pattison, Executive Director of the National Association of State Budget Officers (**NASBO**); and Ron Snell, Director of the State Services Division at the National Conference of State Legislatures (**NCSL**). Pattison began the panel's discussion by introducing the concept of a New Normal. In terms of state revenue and spending, a New Normal defines a projected slower increase in growth. Pattison pointed out that already 36 FY2010 state budgets have been cut with the possibility for future cuts. According to Pattison, Medicaid and education take up approximately 62% of a state's general fund budget. Ron Snell reported that 40 states predict to see lower revenues for FY2010 compared to FY2009. In a survey of state legislative state fiscal offices, the majority of responding states do not foresee a return to peak revenue collections until the years 2012 and 2013. Snell cautioned that once ARRA funds cease, states will face a cliff when it comes to funding. States will have to reevaluate their spending in order to continue to function normally. Sujit CanagaRetna discussed programs that states are likely to see a surge in expenditures, with a specific case study on Unemployment Insurance. CanagaRetna also cautioned that despite a decrease in revenue, states are likely to see surging expenditures in other major areas such as healthcare, education, and public pensions.

Following the Revenue and Spending panel, three issue panels covering Technology Trends, Health Reform, and the Census 2010 took place. In the Technology Trends issue panel, speakers included Steve Fletcher, Chief Information Officer of Utah; Bert Jarreau, Chief Information Officer of the National Association of Counties; Doug Robinson, Executive Director of the National Association of State Chief Information Officers (**NASCIO**); and Bill Schrier, Chief Technology Officer of Seattle.

Steve Fletcher kicked off discussion in the Technology Trends panel as he initiated discussion of a common term used throughout the session: consolidation. According to Fletcher, government needs to be perceived more like a business in the current economic environment. In order to enable government services, business

processes must be reevaluated and redesigned. Fletcher spoke of opportunities in enterprise technology and cloud computing that could help engage state governments. Doug Robinson echoed the sentiments of Fletcher in regards to consolidation, but also emphasized collaboration, and the possibility for regional clouds. Bert Jarreau and Bill Schrier however discussed the possible inefficiencies of consolidation efforts. Schrier spoke from personal experience when he brought up the possibility of failure, and Jarreau pointed out that while the technical aspect of consolidation may not be difficult, the collaboration of people and local entities can be difficult. Schrier and Jarreau emphasized broadband technology as the key to transformational government. According to Schrier, broadband enables citizens to aid state and local government in the provision of some services. When asked what the upcoming FCC Broadband Plan should include, answers from the four panelists included better overall service, access to rural areas, wireless as well as fiber needs to be addressed, and some sort of adoption strategy needs to be addressed. Other technological innovations were discussed, such as the idea of a virtual, mobile workforce. Though advocates of a virtual workforce, the panelists pointed out impediments state and local governments endure such as a bleak public perception.

The Keynote Speech, delivered by Mark Zandi, Chief Economist and Co-Founder of [Moody's Economy.com](#), followed the issue panels. In his speech, Zandi walked through the recession from its beginning in December 2007 to its recovery in August 2009. Zandi attributed the end of the recession to ARRA, claiming that the recession officially ended once ARRA funds began to trickle downward to the state and local level. Though the recession is officially over, Zandi does not foresee a full recovery anytime soon. While layoffs are abating, companies are still not hiring largely due to a lack of confidence in the economy and policy uncertainty. Housing foreclosures are still rising, while revenue is still decreasing. According to Zandi, policy-makers need to remain aggressive and work diligently to get something solidified in order for the precursors to self-sustaining growth to begin. Zandi provided a timeline in which he predicted self-sustaining growth will begin in Q1 of 2011, however fiscal pressure will intensify by Q4 of 2011 due to the rising debt to GDP ratio, which according to Zandi, the President's recent recommended budget only worsens.

Following the Keynote Speech, issue panels were once again offered, this time in energy, tax, and transportation. In the Energy Outlook panel, speakers consisted of Jeb Brugmann, Interim Executive Director of [ICLEI](#) – Local Governments for Sustainability; Mandy Mahoney, Director of Sustainability for the City of Atlanta; and Mark Wolfe, Executive Director of the [Energy Programs Consortium](#). Panelists discussed the growing trend of energy efficiency and key initiatives taking place at the state and local level. Unfortunately, because the trend is still new, there is a huge gap between those states and localities that have advanced in energy efficiency, and those that are still searching for a definition. Panelists agreed that ARRA has helped by providing funding for specific programs, and increasing support. Mark Wolfe discussed how selling energy efficiency still remains difficult, however upgrades to software tools that track and measure energy consumption could benefit the effort.

The final panel of the event consisted of Alan Ehrenhalt, Former Executive Editor of GOVERNING; Josh Goodman, Staff Writer for GOVERNING; and Charlie Mahtesian, National Politics Editor of [Politico](#) discussing the political races to watch this fall. As previous speakers already pointed out earlier in the day, 36 governors are up for reelection this fall, which could have a tremendous effect on state and local government for the upcoming years. Panelists agreed that Florida's race will act as a weather vane for other states, and to watch states with unelected governors – such as New York and Arizona – for their outcomes will likely be interesting.

At the conclusion of GOVERNING's Outlook in the States and Localities 2010, it became evident that the upcoming year will hold its fair share of hurdles for state and local government. However, if leaders can adapt and work toward transforming processes, state and local government may be able to bear the long road ahead with few scrapes and bruises.