

Rockefeller Institute

State Fiscal News

Governors Stress Similar Themes in Annual Messages

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The executive's annual message is a time-honored tradition in American government. It is given at all levels, by the president — George Washington gave the first State of the Union address in the capital, then New York City, on January 8th, 1790 — the governors, and by mayors of small cities and villages. This annual message to the legislature highlights the executive's proposals and policy recommendations. Many state constitutions require the governor to communicate a message to the legislature each year, while others require it only periodically. These messages typically are called the "State of the State" address or, in some cases, the "Condition of the State" or the "State of the Commonwealth."

The Rockefeller Institute of Government reviewed the annual messages of 13 governors, representing a cross-section of states where the governor has already released a message, to gauge their priorities for the upcoming year or years. Throughout the nation, states are increasingly assuming the lead role in finding new and creative ways to attack longstanding issues. And unlike the federal government, which must implement programs with a broad scope, states are more able to devise solutions tailored to their own circumstances and governing cultures.

This brief reviews the major common themes advanced by the governors in the states covered here. These 13 governors placed emphasis on education and health care, arguably the most pressing domestic issues facing the nation, but other common themes included economic development, fiscal issues, and government reforms. Individual governors outlined initiatives in a wide range of areas, such as public safety, energy and the environment, infrastructure renewal, and job creation tailored to their state's economic strengths.

Access to Health Care

With employer-provided health care insurance declining in many places and in the absence of any real health care policy innovations at the national level, states increasingly are taking the initiative in restructuring the health care system and expanding access to affordable care. Addressing the needs of the uninsured is a theme in several states, not just in those that are large and traditionally liberal. In Colorado, Governor Bill Ritter proposed a program of universal access by 2010. Governor Jim Doyle announced that Wisconsin will make BadgerCarePlus available to all families with children and low-income adults. Governor Eliot Spitzer (NY) proposes to cover 500,000 uninsured children, and enroll 900,000 eligible adults in Medicaid over four years. Governor Jodi Rell (CT) proposed ensuring that every resident has access to health care, including assistance with premiums for lower-income individuals. Governor Mike Rounds (SD) put forth a recommendation to pass legislation that will raise the age for dependents on health insurance plans to 30 years old, whether or not they attend school.

The details of these plans differ, as do the specifics of how each governor would pay for them. Governor Spitzer advanced a wide-ranging agenda of reforms to create a more “patient-centered system” by, among other things, targeting Medicaid funds more toward institutions that provide services to Medicaid recipients. Initiatives to lower prescription drug costs were advanced by Governor Spitzer and Governor Ritter. Governor Doyle recommended creating purchasing pools for small businesses. Governor Sonny Purdue (GA) urged the creation of a competitive and transparent health care system by posting information on the Internet about doctors and hospitals so residents can decide for themselves where to go for the best quality and most affordable health care. Governors Arnold Schwarzenegger (CA) and Edward Rendell (PA) plan to reduce the average cost of insurance by increasing the number of people insured.

Improving Education

Changes to K-12 education are a recurring theme in the annual messages. Many governors seek to address, at least partially, the issues of equity and adequacy, while strengthening accountability.

Governor Spitzer is at the forefront of these efforts. He proposes an expansion in state education aid, with greater transparency and better targeting in the aid formulas. The plan includes an aid increase projected at \$7 billion annually in the fourth year and consolidation of many categorical aid programs. A key feature of his plan is to require that districts receiving large increases develop a Contract for Excellence, indicating how they will spend the increased aid on demonstrable improvements such as reduced class size and teacher quality initiatives.

Governor Spitzer outlined an ambitious K-12 agenda in his annual message, but he was not alone in proposing changes. Governor Jon Corzine (NJ) proposed a new school funding formula to help achieve funding adequacy, while capping property tax increases. Governor Rell advanced sweeping changes to transform education, including an investment of \$3.4 billion over five years with stronger accountability measures. Governors Ritter and Schwarzenegger also called for greater transparency and accountability. Governor Ritter would strengthen and streamline the various accountability programs into one system to provide more meaningful and timely data on school performance, while Governor Schwarzenegger proposed making information available on the

Internet so parents can monitor school spending, graduation and drop-out rates, and after-school programs.

Governors also highlighted increased investments for early education. Governor Spitzer proposed making prekindergarten programs available to every four-year old child within four years. Governor Rendell wants to expand Pennsylvania's Accountability Block Grant for universal access to prekindergarten (starting with 11,000 new slots in 2008), and also proposed investing \$25 million in full-day kindergarten. Wisconsin's Governor Doyle highlighted early education reforms, such as smaller class sizes for grades K-3, and tripling the allocation to the school breakfast program. Governor Ritter proposed expanding preschool programs as a way to halve the dropout rate and achievement gap in 10 years. Governor Tim Kaine (VA) would expand his state's early reading intervention programs and preschool initiative, while Governor Rell also proposed expanding preschool programs and school-readiness programs. Governor Mike Beebe (AR) plans to allocate \$40 million for access to preschool for families with incomes up to 200 percent of the federal poverty level.

Creating Jobs in the High-Tech Economy

Expansive agendas — including investments in education, high-tech research, tax cuts, and workforce development — were advanced to usher in the new economy and attract jobs. More states are seeking to build a three-part relationship based on government investment, public higher education programs in technology, and efforts to locate research firms in strategic areas that facilitate a public-private partnership.

Wisconsin is creating such relationships through Institutes for Discovery at UW-Madison, which will create thousands of new jobs in biotechnology and stem-cell research. To encourage innovation, Arizona's Governor Janet Napolitano proposed tax cuts to businesses and high-tech firms, investments in research and development, and efforts to lure companies from abroad for high-tech job creation. Governor Rendell proposed investments to build a well-educated and highly skilled workforce to attract companies and compete in the high-tech global marketplace.

The linkage between higher education and economic and workforce development was highlighted in several messages. Governor Ritter wants Colorado's colleges to double their output of technical certificates and degrees over 10 years and urged the various public systems to cooperate, not compete, with each other. He will also create a Colorado Jobs Cabinet to ensure that economic development and educational goals and their funding streams are aligned and focused on preparing the labor force to meet economic needs. Governor Napolitano proposed the highest level of funding for financial aid in the state's history, asserting that by making higher education affordable, it would be more accessible, and Arizona could train more employees for high-tech jobs. Governor Spitzer called for a Commission on Public Higher Education to help chart the way toward academic excellence, ensuring access and contributing to New York's workforce and economic development efforts.

Direct state investments in job-producing industries were advanced in a number of states. Governor Spitzer called for a \$1.5 billion Stem Cell and Innovation Fund, including provisions for a voter-approved bond issue; Governor Corzine also supports stem cell research grants; and Governors Rounds and Beebe are promoting investments in biodiesel technology.

Fiscal Issues

The recent surge in state tax revenues has enabled some governors to advance tax changes. A major priority of Governor Corzine is property tax relief and reform. Nearly two million New Jersey homeowners would receive property tax credits ranging from \$750 to over \$1,000. Governor Spitzer proposed a multiyear \$6 billion plan to provide property tax relief targeted to middle-class homeowners.

In other states, governors proposed plans to address deficiencies in certain tax structures. For example, Governor Rendell proposed a one cent increase in Pennsylvania's sales tax to enrich a state fund dedicated to providing property tax relief. Governor Kaine endorsed a constitutional amendment to create a "lockbox" for Virginia's transportation financing system, and proposed a financing package including new general user fees to bolster transportation funding. Governor Rell advanced a multipart program that would eliminate the corporate income tax surcharge, phase out the estate tax, and eliminate the property tax on cars, with the cost of these and other initiatives funded through an increase in the personal income and cigarette taxes.

Government Reforms

A number of governors emphasized the need to reform the government structure and process. Stronger ethics standards were advocated by several state executives. Governor Corzine proposed to ban the pay-to-play approach to government influence, and Governor Spitzer outlined a broad ethics agenda to reform campaign financing, lobbying, and legislative districting. Governor Schwarzenegger criticized gerrymandering and proposed an independent commission to reduce party competition for redistricting. Governor Doyle proposed creating a Government Accountability Board to enforce laws, and investigate and prosecute violators.

Proposals for structural change were also advanced. Governors Corzine and Spitzer stressed the problem of duplication of local governments; they urged consolidating local government units and proposed special commissions to recommend specific reform and consolidation strategies. Governor Spitzer also recommended a comprehensive review of state authorities with an eye toward consolidating some and eliminating those that have outlived their purpose. Governor Deval Patrick proposed to make government in Massachusetts more streamlined and cooperative by asking municipalities to work with the state to reduce operating costs and plan across regions for more efficiency and efficacy. Governor Doyle proposed creating a single Department of Children and Families to encompass services for child care, low-income families, child support, and child welfare to cut down on overlapping services.

Finally, transparency and efficiency were highlighted. Governor Ritter proposed a Government Efficiency and Management Performance Review to take advantage of improvements in technology, purchasing, and business practices, and assured state employees they would be part of the process. Improving transparency was advocated by Governors Corzine and Spitzer, while Governor Patrick stated that systems need to be simplified to make them more modern, accessible, and accountable.

Conclusion

The annual message merely serves as the starting point for state policy development. Several governors stressed major changes in the “*status quo*.” They will describe these in their budget and legislative proposals, and legislatures certainly will put their own stamp on them and initiate proposals of their own. Even after initiatives are enacted, implementation does not always go smoothly because of issues with manpower, process, litigation, and communication. Moreover, potential cuts in federal assistance, even if not as deep as proposed by President Bush, will cause additional strains on state budgets. Governors have outlined many ambitious policy initiatives, but it is uncertain if they will be able to follow through with their intentions.

Also, see attached article by Richard Nathan, “Liberals embrace new federalism.”

From the Albany Times Union, January 28, 2007

Liberals embrace new federalism

By Richard Nathan

Eliot Spitzer's election is part of a national shift in 2007 from 28 Republican governors and 22 Democrats to a new and exactly opposite score of 28 Democrats and 22 Republicans. Appropriately for this moment, Spitzer is a self-styled new federalist.

In 2003, he said he discovered federalism when he was first elected as New York's attorney general. "On Jan. 1, 1999, when I got to this office, I suddenly became an enormous fan of the new federalism. I suddenly said, 'States' rights are a beautiful thing. States' rights are the future, and we want to do everything we can to promote them.' "

In her 2006 biography of Spitzer, Brooke A. Masters calls his discovery "an epiphany." Spitzer saw the crucial role states can play in American government as a "tremendous opportunity." Masters reports he told her that his staff started "rolling their eyes" when he talked about his discovery.

Spitzer's federalism discovery makes perfect sense in these times. There has been a fundamental misreading of federalism in American politics.

Boosting the states typically has been favored by Republicans and conservatives — often tongue-in-cheek — as a way to say, in effect, "Don't have the federal government do whatever new big thing is being demanded; have the states to it."

On the other side, Democrats and liberals generally have been skeptical about the role of the states, and have instead favored and advanced national government solutions in domestic public affairs.

My argument here is that now, with war and international affairs preoccupying Washington, Democrats and liberals should push the federalism idea. The basis for this argument is found in American history.

Up to the middle of the 20th century, racial discrimination was so embedded in the culture and operations of many (particularly Southern) state governments that it was understandably hard for liberals to champion the states. This is not to say that all is well now for civil rights. Only that the legal land-

scape for civil rights has changed so much that it is much safer and smart now for Democrats and liberals generally to advance their policies and programs at the state level.

Innovation is cyclical in American government. At times when the national government has been controlled by conservatives, it has been the states that have been the incubators of new responsibilities and programs for government. Often these state innovations morph into national policies when the national mood shifts and is more responsive to federal activism. It was the progressive innovations of leading states that formed FDR's agenda for the New Deal.

In the current period, states are expanding health insurance coverage. In the environmental field, it is the states (some of them acting cooperatively) that are in the vanguard in adopting measures to reduce air and water pollution. Likewise, it was the states that invented the "new welfare" and took it over the top under a quirky provision of the 1996 national welfare reform law that allowed them to innovate and provided windfall federal funding for them to do so. States have raised their minimum wage and increased preschool, after-school, and community college and university funding.

In the rule-making arena, the same story can be told. Rep. Barney Frank, D-Mass., was compared to states' righter and former U.S. Sen. Strom Thurmond when Frank argued that states (with Massachusetts out front) should be the arbiters of same-sex marriage. In the wake of the controversy over removing Terry Schiavo's feeding tube, end-of-life decisions can be added to this list of areas in which liberals would be well advised to look to the states.

This wake-up call for federalism is not meant to suggest that it would be wise for liberals to try to close down Washington's domestic programs. Times and conditions change. Both competition among the states, and between the states and the federal government can be sources of innovation and activism for government if that is what you favor. The truth is we could not live five minutes without the vital services state and local governments perform.

The key point is that Spitzer's self-described conversion to his brand of new federalism in 1999 represents a sound and correct strategy for liberals in these times. Like other governors, he faces huge managerial challenges to shape up state government. This is essential if states are going to do more — and do it better.

Spitzer has called for reform in government operations and the creation of performance management systems. He is committed to taking on the hard

politics required to tame the Medicaid cookie monster and to accomplish school system and local government reform.

In New York, as in other states, these issues are “must do” agenda items to make room for good government — and to make it work.

Nathan is co-director of the Rockefeller Institute in Albany.