

Now What?



**The Post-Election Landscape of
Public Policy in North Carolina**

**Report by Capstrat's
Government Relations Group**

November 10, 2008

Change

The voters wanted change. Change they got. No matter whether your candidates or party won or lost, change is here. Eight years of the federal Bush Administration and eight years of the Easley Administration in North Carolina are coming to an end. We will experience new policies and directions. There will be new people in the same old places. So, what can you expect in North Carolina next year?

Clearly, the economy has changed. This, rather than any promise on the campaign trail, will dictate the direction of our state policies. Rather than enacting sweeping changes, our government will be digging for change under the proverbial cushions of the living room sofa. It will be hard to focus on progress when the nagging responsibility of filling budget holes takes grip in the new year.

“Buddy, can you spare a dime?”

A dramatically slowing economy can wreak havoc on a state government. For one thing, unlike the federal government, North Carolina’s budget must be balanced each year. Revenues are slowing. Sales tax growth for July-September 2008 fell 1.6 percent, which is well below the long-term average growth of 5.5 percent.* The manufacturing industry is losing jobs and stalwarts like the financial services industry are in disarray. That creates difficult decisions that must be discussed, debated and decided between the Governor and the Legislature. Should spending be cut, and where? Should taxes increase, and on whom? How do we meet the needs for increased public assistance? How do we address challenges associated with the dramatic growth in the state’s population? Can we afford bold new initiatives to move North Carolina forward?

The answers to these questions lie with a new administration and a new legislature.

Included in this review is information on the new administration, legislature and potential issues for the upcoming session of the NC General Assembly.

We hope this provides you with additional insight as you work towards the mission of your organization, business or association.

**Source: NC General Assembly, Fiscal Research Division Staff*

The New Administration

On Jan. 10, 2009, Governor-elect Beverly Eaves Perdue will take office as North Carolina's first female governor. As she makes her way to the Executive Mansion, Perdue carries with her 22 years of political experience, having served two terms in the NC House, five terms in the NC Senate and two terms as the state's first female lieutenant governor.

As Perdue campaigned over the past year and a half, she outlined her ideas on education, health care, transportation and the economy. Her comments give insights into what we might expect her priorities will be as she takes office.

Like her predecessors, Perdue has indicated she will give focused attention to education. Her early childhood education priorities include better organization and expansion of the Smart Start and More at Four initiatives. To improve public schools, she will push for diagnostic assessments that help detect a child's needs at a younger age. She will advocate for continued support of Communities in Schools, Learn & Earn, the New Schools Project and the 21st Century Skills Center. And Perdue has repeatedly called for free tuition to our state's community colleges. Perhaps the most ambitious proposal is her *College Promise* initiative. This initiative is focused on reducing dropout rates and committing that students who stay in school, stay out of trouble and attain the necessary grades to graduate will not face family income barriers to earning a college degree or gaining advanced skills needed for success.

The first of two main pillars of Perdue's health care plan is mental health reform. She plans to establish a safety net for those in need and overhaul the current system, replacing it with an outcome-based focus. The second pillar is to extend health care coverage. She has committed to work towards the expansion of NC Kids Care to cover all children in families with income at or less than 300 percent of the poverty level, and to make private insurance more affordable for middle-class working families.

Perdue has proposed a framework to drastically change our transportation system. She will begin with total reform of the North Carolina Department of Transportation, overhauling the current decision-making process. In addition, she has advocated for ending the transfer of money from the Highway Trust Fund, holding contractors accountable for their work and lowering the rapidly increasing construction costs.

In response to the current economic situation, Perdue has laid out specific action items to boost North Carolina's economy. She will actively work to bring new businesses to the state, including those from the advanced manufacturing industry, biotechnology, agribiotechnology, nanotechnology and informatics. She has also committed to diversifying our state's economic base by focusing attention on attracting defense and aerospace jobs. Perdue plans to champion promotion of job growth in alternative and clean energy fields and make NC a leader in "green collar" jobs.

Perdue has committed to reduce the tax burden on small business. She supports exempting some small business profits from state taxes and capital gains tax breaks for qualifying entrepreneurs.

While Perdue has said that over the long-term she will work with other governors to reduce the practice of giving incentives, in the short-term she is working to further develop the One NC Small Business Fund and will support giving targeted, performance-based incentives.

Just days after the election, Perdue is tasked with shaking off the mantle of the previous administration. She will be appointing new Secretaries for her Cabinet, which includes the Departments of: Administration, Commerce, Corrections, Crime Control and Public Safety, Cultural Resources, Environmental and Natural Resources, Health and Human Services, Juvenile Justice and Delinquency Prevention, Revenue, and Transportation. Announcements of who will be filling these posts are expected by the end of the year.

Council of State

In her position as Governor, Perdue will chair the Council of State which includes five new officeholders and four incumbents. Democrats continue to control, holding seven seats.

Labor Commissioner Cherie Berry and Agriculture Commissioner Steve Troxler were the only two Republicans re-elected to the Cabinet. Attorney General Roy Cooper, Secretary of State Elaine Marshall and Superintendent of Public Instruction June Atkinson are the three Democratic incumbents who were re-elected. Newly elected Cabinet members include, Walter Dalton as Lt. Gov., Wayne Goodwin, as Commissioner of Insurance, Janet Cowell as Treasurer and Beth Wood as Auditor.

Impact of the General Assembly Elections

Though most consider the 2008 elections a time of change, that theme did not come to pass in either the North Carolina House or the Senate. Democrats continue to hold leadership of both with significant majorities. Speaker of the House Joe Hackney (D-Orange) and Senate President Pro Tem, Marc Basnight (D-Dare) are expected to retain leadership of their respective chambers. Hackney has served one term as Speaker and Basnight has served a record eight terms as President Pro Tem.

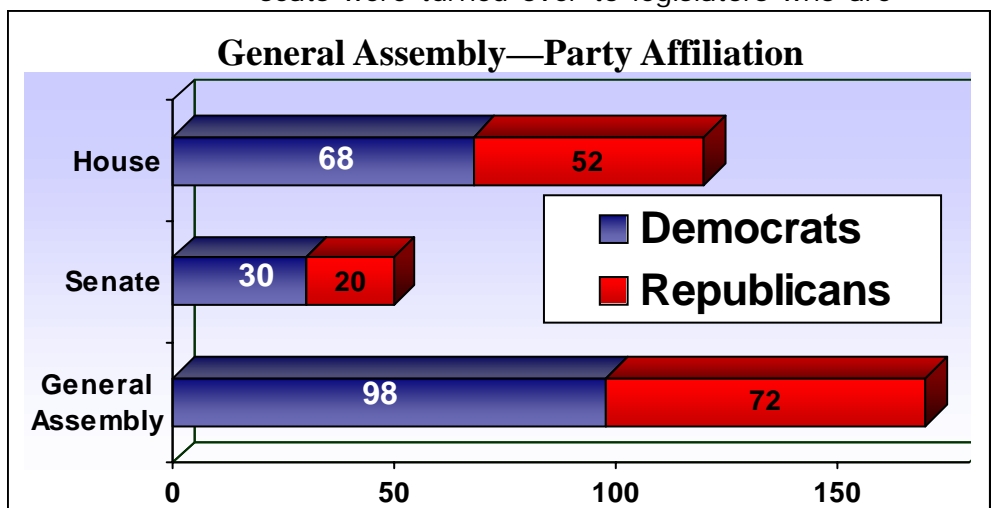
The House preserved a 68-52 Democratic majority. Of the 107 incumbents that sought re-election, 105 did so successfully. Democrats Jim Harrell (D-Allegheny) and Walter Church (D-Burke) were unseated by Sarah Stevens and Hugh Blackwell, respectively.

There were 13 open seats, 11 of which are retained by the party that previously occupied it. The two seats that swung did so to Democrats. The seats vacated by Representatives Charles Thomas (R-Buncombe) and Bill Daughtridge (R-Nash) will now be filled by Democrats Jane Whilden and Randy Stewart, respectively. In total there will be 15 new members of the state House, 11 of whom will join the Republican caucus. Leadership of key House committees most likely remains intact.

The state Senate ratio is a 30-20 Democrat majority after the Senate Republicans gained one seat vacated by Lt. Gov.-elect Walter Dalton; this seat was claimed by former

Representative Debbie Clary (R-Cleveland). Departures of Senators Kay Hagan to the US Senate and Janet Cowell to become state Treasurer, along with Dalton's rise to Lt. Gov. and the retirement of longtime Finance Committee Chair John Kerr, leaves key Senate committee leadership posts to reassignment.

A review of the occupations of new members of the General Assembly shows that business representation declined slightly from 51 members in 2007-08 to 45 in 2009-10. These seats were turned over to legislators who are



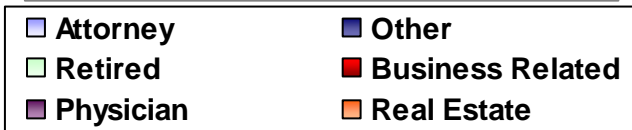
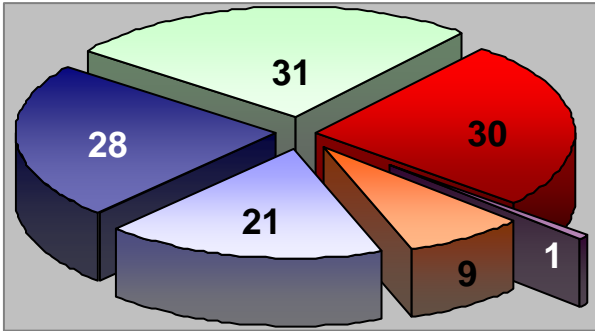
attorneys (+1), realtors (+2) or in other occupations (+7). Retirees still make up the largest portion of the Senate and House membership with 47.

Despite the turnover of numerous seats this year, the gender ratio remains the same, and the House and Senate both increased their number of minority legislators by one.

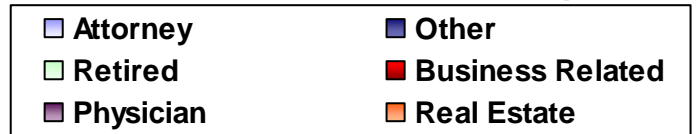
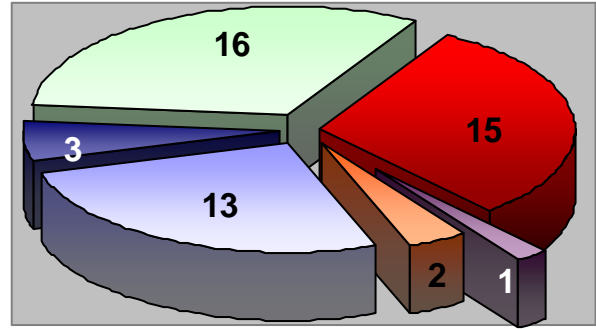
Charts on the next page give a more complete breakdown of demographics for the General Assembly.

General Assembly— By the Numbers

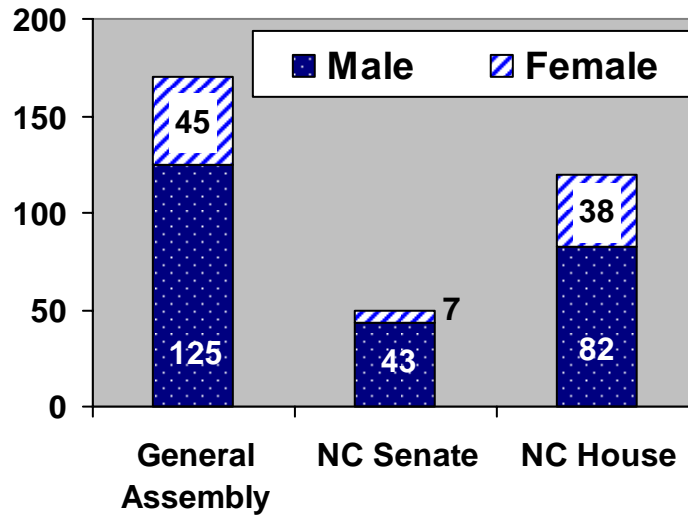
NC House: Occupations



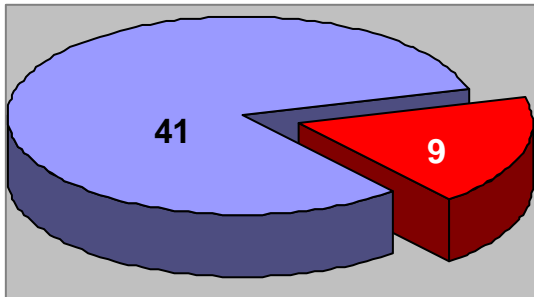
NC Senate: Occupations



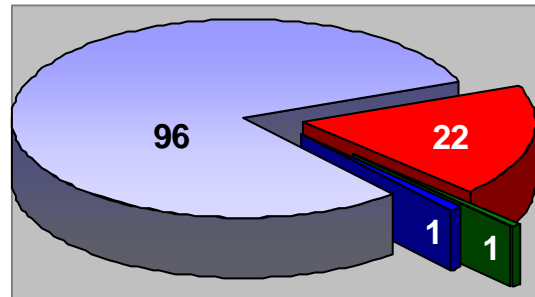
NC Senate: Gender



NC Senate: Race



NC House: Race



Potential Issues for 2009 legislative session

Budget

The state budget shortfall will be the key driver for issues during the 2009 legislative session. A recent report from the General Assembly's Fiscal Research staff indicates collections are already running 5 percent below expectations and the current 2008-09 budget could be facing a \$1 billion deficit. Governor Easley has taken steps to manage this shortfall by asking state agencies to cut their current budgets by 5 percent. Although this swift action will take some of the pressure off of the Governor-elect, there will still be significant budget challenges for both Perdue and the legislature.

While estimates vary, revenue collections for 2009-10 could be an additional \$1 billion behind collections for 2008-09. In addition to the revenue shortfall, Medicaid costs are projected to be on the rise as are costs related to the state health plan and increased student enrollment at the state's public schools, community colleges and universities.

Elected leaders will be forced to closely scrutinize current programs with an eye focused on efficiency and necessary cuts, while also considering where they might make strategic investments to help the sagging economy. We can expect every issue to be on the table for review. Although the new Governor has outlined a list of programs she plans to champion, funding available to implement any new initiatives or expand any existing programs will be limited.

The bottom line -- the budget will be the driving issue of what happens or doesn't happen during the 2009 session of the General Assembly.

Economic Development:

The economy has been a top issue in most every public opinion survey. This isn't going to change any time soon. Economic development and job creation both have a direct impact on our state's economy. In recent years, with bi-partisan support, the NC General Assembly has approved incentives to recruit business and industry to North Carolina -- as long as the incentives resulted

in measurable job growth. Job creation and the expansion of our state and local tax base will continue to be a priority.

North Carolina's economic development programs and job recruitment tools play an important role. Programs like the Job Development Investment Act (JDIG), One North Carolina Fund and the J-3 Credits (formerly William S. Lee Act) all impact North Carolina's ability to recruit and retain jobs for North Carolinians. In tough economic times we can expect these programs to be carefully scrutinized.

In 2007 the Joint Select Committee on Economic Development Incentives was appointed to review economic development programs and the use of incentives in North Carolina. The Committee has engaged the UNC Center for Competitive Economies to provide an analysis of the companies receiving incentives along with the impact and performance of those incentivized companies. The study is scheduled for release in late 2008, prior to the return of the 2009 Legislative Session. The study findings and recommendations from the Committee could have an impact on continued support for North Carolina's economic development policies and could impact legislation proposed in 2009.

Education

Student outcomes will remain a key area of focus for K-12 education. Attention will be given to reducing the student dropout rate, improving test results and accountability. The State Board of Education's budget proposal includes a request for new funding for the creation of new assessment development and standards in response to the Blue Ribbon Commission recommendations. Budget increases will also be needed for higher student enrollment and the rising cost of public school transportation. Also on the list will be teacher recruitment and retention, building school leadership and principal recruitment and retention.

The state's community college system continues to be the driver for industry education, as well as providing a low-cost

option towards a four-year degree. With the state's continued growth and the rising unemployment rate, additional pressure is being placed on local community colleges. To meet these growing needs, the State Board of Community Colleges is proposing additional funding at \$1,000 per student over the next four years. This new investment will provide money for improved technology and equipment, increases in faculty and staff salaries, enhancement of high-cost technical programs, customized training to help NC businesses and additional capacity to train our state's health care workforce.

The top priority for the state's university system this year will be campus safety initiatives. Other legislative agenda items will include enrollment funding and need-based aid. In addition each campus has identified their needs and submitted requests to the Board of Governors. These requests are being guided by recommendations from the UNC Tomorrow report. (UNC Tomorrow is an initiative completed in 2007 to determine how the university system could best respond to the 21st century challenges). The Board is expected to finalize their legislative requests for 2009 when they meet Nov. 13-14.

Environment

The 2007 drought called attention to the state's fragile water supply. As a result the General Assembly authorized a comprehensive study of North Carolina's water resources. In areas of the state where water supplies are limited or declining and in areas where the population is growing, how the state is going to address these needs is of great concern. The ongoing Water Allocation Study is not scheduled to deliver its interim report to the General Assembly until October 2010. Because of growing interest in the issue, the legislative committees on the environment could begin to consider some of these critical issues before the final report is submitted.

At a time when the state is experiencing rapid population growth and forest and farmland are rapidly disappearing, the

legislature must continue to look at identifying additional funding to protect and preserve our valuable natural resources. One issue that has continued to be high on the legislative agenda is land conservation. In 1999 the state approved the Million Acre Initiative with a goal of preserving one million acres of land by the year 2009. Currently only 589,685 acres have been conserved, far short of the original goal. Although in recent years the legislature has provided additional funding for the state's conservation trust funds (Clean Water Management, Natural Heritage, Parks and Recreation and Agricultural Development, and Farmland Preservation), there are still challenges facing the state.

Climate Change, off-shore drilling, renewable energy and ending our dependence on foreign oil continue to be hot topics. While these tend to be focused more at the federal than the state level, we can expect members of the General Assembly to have an interest in these important issues and look for ways the state might address some of these concerns.

Health Care

Challenges with the state's mental health system have been a key focus by candidates and members of the legislature. The mental health reform proposals approved in 2001 that shifted services from state hospitals to community-based providers have been roundly criticized. While some regional programs have reduced costs and provided better services, this has not been true across the state.

Health and Human Services Secretary Dempsey Benton has moved forward under direction of Governor Easley and the legislature to address some of these problems. The Legislative Oversight Commission on Mental Health Reform has been reviewing reports on these issues and areas that need legislative action. We expect to see its recommendations in January prior to the beginning of the session. And Governor-elect Perdue has outlined some of the changes she will propose. Mental health reform is expected to be a focus of the new administration and the legislature as leaders try to determine what is and isn't working.

Other issues on the health care agenda will include the growing costs of the state health plan and Medicaid. The state health plan is currently running short by \$200 to \$300 million and the number of enrollees in the state Medicaid system is expected to be on the rise.

Infrastructure

NC's population is continuing to grow and that growth is putting stress on schools, roads, universities, community colleges, water and sewer, and land conservation. Statewide bond issues have been mentioned in the past to address these growing needs and could be back on the table for discussion this year. However, these discussions will be tempered by the unpredictability of the financial markets. There will be mixed opinions about whether or not it is possible, or practical, for the state to consider any additional debt. (Some legislators have already suggested the state should consider delaying the sale of previously authorized but un-issued bonds). On one hand, it's a challenging time to consider additional debt. On the other hand, a new infusion of bond funding could help generate economic growth and jobs. Stay tuned - this could be a topic that gets the attention of the new Governor, the new State Treasurer and members of the General Assembly.

Transportation

Transportation is expected to remain a priority issue for the General Assembly. With a projected shortfall of more than \$60 billion over the next 25 years, transportation funding is in need of short-term attention as well as long-term solutions. The 21st Century Transportation Committee made headway in the 2008 session when recommendations for phasing out the transfer from the Highway Trust Fund to the General Fund and funding for the NC Turnpike Authority were both approved.

2009 should be more of the same from the 21st Century Transportation Committee and the General Assembly. While gloomy economics may dampen interests in large-scale spending programs, more realistic programs to consider might be local option, intermodal funding legislation for fast-growing urban areas and possible incremental changes to various transportation fees such as DMV license fees and highway use fees.

Potentially the most important transportation-related activities are related to the NC DOT transformation/reform efforts, recommendations from the 21st Century Transportation Committee on DOT function and appointment of a new DOT secretary under Governor-elect Perdue. After several years of declining public perception, PR missteps and a number of construction projects gone awry, the new administration must work to rebuild public trust.

Summary

Despite budget constraints, there is much work to be done if North Carolina leaders want to improve our health and quality of life, educate our citizens of all ages, protect our valuable natural resources and foster a business climate that attracts industry and creates jobs.

With new leaders in place and a struggling economic outlook, compromise and collaboration might just be the most important words for the upcoming legislative session. There will be a shrinking financial pie and increased scrutiny on how taxpayers' dollars are spent. With the rising unemployment rate, people are concerned about their future and expect their government leaders to give direction and provide leadership during these uncertain times.

Although this document outlines a number of initiatives that could be considered during this legislative session – many calling for new revenue – no mention has been made of increasing taxes or raising fees. That's because thus far, elected leaders are not talking about these avenues as a possible solution to the challenges ahead.

We won't speculate on how the Governor and the legislature will reach consensus on these issues, but we do know that input from businesses, interest groups and citizens across the state will be at an all-time high as everyone tries to protect their interests.

This is an important time. Our population is increasing and new demands for services and resources are being placed on every agency in state government. So our state can't stand still. Opportunities and challenges await our new leaders.

Government Relations Group

Below you will find contact information for the members of our Government Relations team who are available to answer additional questions or provide insight beyond the contents of this report.

With more than 30 years experience in Raleigh and Washington, DC, our government affairs professionals know how to maneuver through the practices and personalities in government. If any of us can assist you in your efforts in the upcoming session, please let us know.



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