

STATELINE MIDWEST



MIDWEST

THE COUNCIL OF STATE GOVERNMENTS | MIDWESTERN OFFICE
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5 FOR 2025: A LOOK AT KEY FISCAL AND POLICY TRENDS FOR STATES IN YEAR AHEAD

1 SIGNS POINT TO TIGHTENING BUDGET CONDITIONS

A \$432 million shortfall for Nebraska legislators to fill in the state's current biennium budget.

Projections of a \$3.2 billion deficit in Illinois for the fiscal year that begins in July.

Sales tax collections falling below projections in South Dakota, and a proposed governor's budget for fiscal year 2026 that would reduce overall state spending from the current year.

A forecasted budget shortfall in Minnesota of \$5.1 billion for the 2028-'09 biennium.

These and other news reports from late 2024 point to signs of a new fiscal era for states after what the National Association of State Budget Officers describes as "multiple extraordinary years of widespread, substantial surpluses and record-setting revenue growth."

In its December "The Fiscal Survey of States," NASBO notes that, based on enacted budgets for FY 2025, general fund spending by states is expected to decline by 0.3 percent. This would be the first year-over-year drop since 2010.

However, the decline would follow a fiscal year in which general fund spending had jumped by 11.8 percent, with one-time state spending of surplus funds accounting for much of the increase.

States, too, appear well positioned to handle tightening budget conditions.

For FY 2025, the median rainy day fund balance for states is projected to be 14.4 percent of general fund expenditures, according to NASBO. That would be a record high, and more than double the median balance from less than a decade ago. Rainy day fund balances were expected to be even higher than this 50-state median in Kansas, Nebraska and North Dakota.

Over the longer term, though, there will be questions about how well state budgets hold up. Federal funding for states is returning to normal levels (after pandemic-related spikes), and many legislatures have increased spending and/or passed tax cuts in recent years.

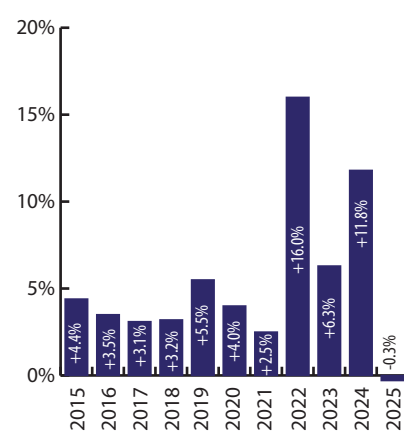
In the Midwest, over the past two fiscal years, income tax rates have been reduced and/or tax brackets consolidated in Indiana, Iowa, Kansas, Michigan, Nebraska, North Dakota, Ohio and Wisconsin. In many states, these tax cuts are permanent.

Iowa, for instance, has a new flat income tax rate of 3.8 percent that took effect in January; as recently as 2018, the rate for the top income bracket had been close to 9 percent.

In large part because of this tax cut, official revenue estimates for Iowa show the state collecting \$1 billion less in taxes in FY 2026 than it did in FY 2024. Gov. Kim Reynolds and legislative leaders have said the changes make their state

more economically competitive while ensuring that lowans keep more of their earnings.

ANNUAL CHANGES IN STATE GENERAL FUND SPENDING, FY 2015 TO FY 2025*



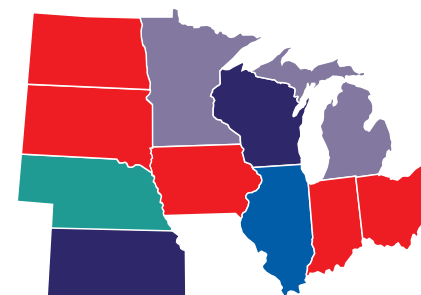
* The change for FY 2024 is based on actual spending in FY 2023 and preliminary actuals for FY 2024. The change for FY 2025 is based on FY 2024 preliminary actuals and enacted budgets for FY 2025.

Source: National Association of State Budget Officers, "The Fiscal Survey of States"

2 PROPERTY TAX RELIEF IS HIGH ON LEGISLATIVE AGENDAS

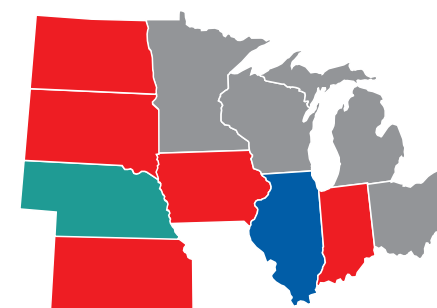
Over the past year, demands for property tax relief led to two special legislative sessions in the Midwest, as well as a citizen-initiated ballot proposal

PARTISAN CONTROL OF STATE GOVERNMENTS IN MIDWEST IN 2025



- Democrats have majorities in both legislative chambers and the governor's office
- Republicans have majorities in both legislative chambers and the governor's office
- Republicans have majorities in both legislative chambers; governor is Democrat
- Split control of legislature; governor is Democrat
- Nonpartisan unicameral legislature; governor is Republican

LEGISLATIVE SUPERMAJORITIES IN MIDWEST IN 2025



- Democrats have supermajority in both legislative chambers
- Republicans have supermajority in both legislative chambers
- Nonpartisan legislature

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- A record number of women will hold state legislative seats in the year ahead; Midwest's biggest increase is in South Dakota
- A long-proposed project to keep invasive carp out of the Great Lakes is moving ahead, thanks in part to a unique partnership between Illinois and Michigan



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- Indiana revamps its high school graduation requirements to provide students more flexibility, personalized learning and work-based opportunities
- In five Midwestern states, more than half of the voters in the fall 2024 election cast ballots prior to Election Day, mirroring a national trend on early voting

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5 FOR 2025: BUDGETS, PROPERTY TAXES, STUDENT LITERACY, ONLINE SAFETY FOR KIDS, AND AI

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to abolish the tax completely in North Dakota. More legislative discussions and actions are expected across the region in 2025.

Overview of new property tax laws in Nebraska and Kansas

The result of the 2024 special session in Nebraska was to establish a new property tax growth cap on local governments. Under LB 34, the property tax levy in a city, county and village must now largely remain the same from one year to the next.

Nebraska legislators did allow for local levy increases tied to new construction or other improvements in a taxing district, as well as inflationary changes (as tracked by a price index that monitors state and local government expenses). And there are two other exceptions to Nebraska's new cap on property tax revenue growth: allowing for the funding of public safety services or emergencies, and for a direct vote by local residents to increase the taxing authority.

A second provision in LB 34 seeks to ensure that all property-tax payers in Nebraska get relief via an existing income tax credit program. The credit is based on the amount paid in property taxes for local schools and community colleges. It will now automatically appear and be accounted for on individuals' property tax statements.

As part of the 2024 special session in Kansas, lawmakers increased the homestead exemption on the statewide property tax (SB 1). It was raised to \$75,000. Just a few years ago, the amount had been \$20,000. Some lawmakers want the exemption raised again, to \$100,000.

North Dakotans rejected the fall 2024 ballot proposal calling for an end to all state and local property taxes.

However, the issue of property tax relief remains a high priority in North Dakota, as well as most other states in the Midwest.

Options for providing property tax relief

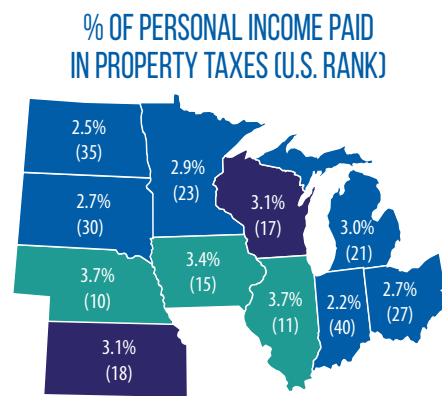
Nebraska and Kansas employed two of the policy levers available to states: increasing homestead exemptions or imposing new property tax growth caps on local governments.

Here are other frequently used options:

- Increase revenue from other sources to reduce property tax burdens. Years ago, for instance, Indiana and Michigan raised their sales tax rates for this purpose, and such a proposal is under consideration in South Dakota.

Nebraska legislators have explored various options for not only raising the sales tax rate, but also expanding the base (through the elimination of various exemptions) in exchange for cuts in the property tax. In November 2024, Illinois legislators asked voters, in a nonbinding referendum, if state income taxes should be raised on millionaires, with the extra dollars used to fund property tax relief. A majority of Illinois voters approved of the idea.

- Establish an assessment limit so that a property's assessed value, for taxation purposes, only increases by a certain amount from one year to the next. In Michigan, for example, the limit is 5 percent or the rate of inflation,



- Higher than U.S. average (3.1%)
- Same as U.S. average (3.1%)
- Lower than U.S. average (3.1%)

Source: Lincoln Institute of Land Policy, "State-by-State Property Tax at a Glance, 2024" (using U.S. Census Bureau data for year 2021)

whichever is less, until ownership of the property changes hands.

- Target relief for certain homeowners. Many states have "circuit breaker" programs to ensure property tax bills don't overload low-income households or elderly or disabled homeowners. Another option is for states to allow qualifying seniors to defer payment of some or all of their property taxes. Under these programs, the payments aren't due until a change in property ownership. South Dakota and Illinois are among the states that have these deferral programs.

- Establish new "truth in taxation" laws that require local governments to alert all residents and hold public hearings prior to a decision to increase property tax collections. Iowa (HF 718 of 2023), Nebraska (LB 644 of 2021) and Kansas (SB 13 of 2021) already have these laws in place.

3 PLANS TO JUMP-START IMPROVEMENTS IN STUDENT LITERACY

Varying versions of a "science of reading" law have been enacted in nine Midwestern states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, Ohio and Wisconsin, according to American Public Media.

Broadly, these measures aim to improve literacy and student reading scores by bringing evidence-based instructional strategies to the classroom.

Implementation of these new laws, along with ongoing evaluations of their impacts, will be a priority for state policymakers in 2025 and beyond.

In Indiana (SB 1 of 2024), all second-graders must be assessed on their reading skills, and the state will begin funding locally designed summer school programs for any students deemed "at risk" of not being reading proficient. Interventions also are provided during the school year.

Students in Indiana who don't read proficiently by the end of the third grade (including summer school after the regular third-grade year) will be retained, though the law does provide exceptions for certain students.

Additional monitoring and reading supports for older students also are being made available (SB 6 of 2024).

In Iowa (HF 2618 of 2004), schools must provide a personalized reading plan for any elementary-age student not reading at grade level. The parents of these students also must be sent a written notice making them aware of the option for their child to repeat a grade. The decision on grade retention is left to the parents.

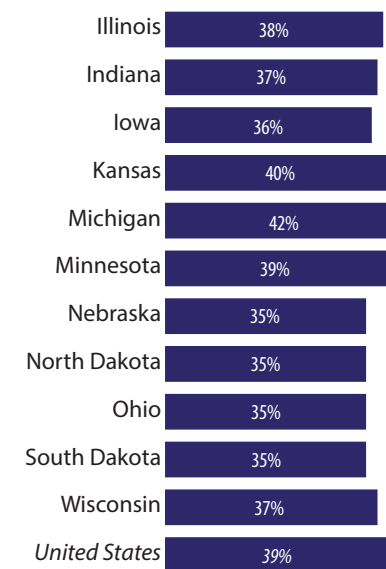
A second part of Iowa's law requires aspiring teachers, prior to receiving their license, to pass a literacy assessment that demonstrates their knowledge of the science of reading.

Last year, Minnesota legislators approved one-time spending of \$37.5 million to advance the state's new plan to improve student literacy. Most of that money is being used to train teachers on evidence-based reading instruction.

Ohio is investing \$169 million in literacy coaches, new instructional materials, professional development and teacher training as part of its new "science of reading" requirements for elementary schools (HB 33 of 2023). Universities also must have coursework for aspiring teachers that aligns with effective literacy instruction.

And as the result of a new law in Kansas (SB 438 of 2024), the state's public universities are establishing six Centers for Excellence in Literacy across the state. The centers will help train future educators; provide ongoing professional development and literacy coaching; and assist with reading evaluations, assessments and interventions.

% OF FOURTH-GRADERS READING AT 'BELOW BASIC' LEVEL — AS MEASURED ON THE NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS (2022)



4 ONLINE, UNSAFE? STATES SEEK NEW SAFEGUARDS FOR KIDS

Protect children online. Empower parents.

Those principles are behind new laws enacted in states across the country, though enforcement sometimes has been blocked by legal action.

Still, bills to protect children from the potential harms of social media or other online use will be under consideration again.

Last year's work of an interim legislative committee in South Dakota points to some of the policy decisions



that lie ahead. Lawmakers on the committee considered a measure that would require the owners of app stores and mobile devices to verify the age of users as well as get parental consent. As of late 2024, no U.S. state had taken this approach.

Instead, state laws have placed the onus of verification and parental consent on the operators of individual apps and social media platforms.

South Dakota's interim legislative committee ultimately did not back the plan requiring verification by the owners of app stores and mobile devices. It instead supported legislation modeled after a Texas law that requires adult-oriented sites to verify that a user is 18 or older.

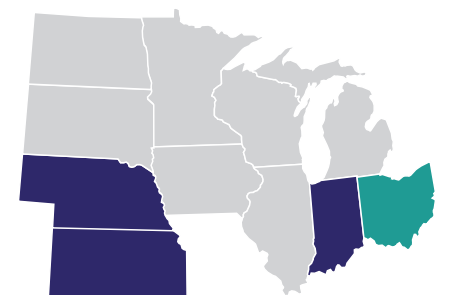
Under South Dakota's proposed measure, age verification would have to be confirmed via the potential user's driver's license or other government ID, a bank account or credit card information, or another method that "accurately and reliably" prevents minors from accessing harmful content.

In 2024, legislators in Indiana (SB 17), Kansas (SB 394) and Nebraska (LB 1092) passed measures requiring the operators of adult-oriented websites to verify the age of users.

In Ohio, enforcement of the state's Social Media Parental Notification Act was stopped by a federal court in early 2024.

That law (HB 33 of 2023) requires companies to obtain verifiable parental consent before permitting children under the age of 16 to use their platforms. If ultimately enforceable, the Ohio measure would apply to any "operator of an online web site, service, or product that targets children, or is reasonably anticipated to be accessed by children."

STATE LAWS RELATED TO ONLINE AGE VERIFICATION AND PARENTAL CONSENT (AS OF NOVEMBER 2024)



Bills passed in 2024 requiring operators of adult-oriented websites to verify age of users

Bill passed in 2023 requiring website operators and social media platforms to verify parental consent in order for content to be accessed by children under age 16; enforcement blocked by federal court

Sources: The Age Verification Providers Association

5
FUTURE IS NOW FOR STATES ON ARTIFICIAL INTELLIGENCE POLICY

State legislatures have just begun to tackle the myriad issues related to artificial intelligence.

In 2024, special legislative committees and/or governor-led groups were formed or met in Illinois, Indiana, Nebraska, North Dakota, South Dakota and Wisconsin to study the implications of AI and potential policy responses, according to multistate.ai.

One of the more immediate policy moves by legislatures in 2025 could be to make their review and oversight of AI more permanent.

In Wisconsin, for instance, Sen. Julian Bradley suggests creating a permanent standing or study committee.

"[It] would offer a long-term, flexible approach to managing AI's challenges while avoiding knee-jerk reactions," says Bradley, who served as the chair of one of Wisconsin's study committees. (See his full column on the committee's findings below.)

Indiana's recent AI Task Force made a similar recommendation to create permanent legislative committees.

Among the 50 states, Colorado often is cited as having the most comprehensive law related to AI and consumer protections. SB 24-205 was

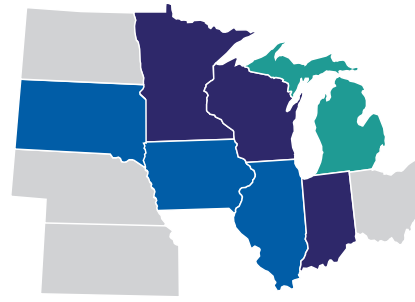
signed into law in 2024 and is set to take effect in 2026. Among many other provisions (including those designed to prevent discrimination in employment, education and banking), the Colorado law requires companies to tell consumers when they are interacting with an AI system.

AI-related laws also are now in place across the Midwest.

New language in Illinois' Human Rights Act (HB 3773 of 2024) prevents employers from using AI technology to hire or promote workers if it has the effect of discriminating based on factors such as race and gender, as well as ZIP code if used as a proxy for protected classes. Another new law in Illinois clarifies that the state's child pornography statutes apply to images and videos created by the technology (HB 4623).

Concerns about AI also have led several of the region's legislatures to regulate or ban certain types of "deepfakes": videos, photos or recordings that have been manipulated through artificial intelligence to seem real, but do not depict actual events or actions by a person.

According to the consumer watchdog group Public Citizen, as of December 2024, Illinois, Indiana, Iowa, Minnesota and South Dakota had laws to crack down on nonconsensual deepfakes that falsely show a person engaging in

REGULATION OF AI-GENERATED 'DEEPAKES' (AS OF DECEMBER 2024)


- Law passed regulating AI deepfakes in elections
- Law passed regulating AI-generated intimate deepfakes that falsely depict a real person engaged in a sexual act
- Law(s) passed regulating both AI deepfakes in elections and AI-generated intimate deepfakes

Source: Public Citizen

a sexual act. Illinois also is one of the first states in the country with a law that explicitly prohibits the use of AI to replicate the voice, image and likeness of a singer, actor or other artist without consent (HB 4875).

Indiana, Michigan, Minnesota and Wisconsin are among the U.S. states now regulating deepfakes in elections and related communications.

Michigan's law, for instance, explicitly bars political campaigns' use of "materially deceptive media" generated by AI. This includes false depictions of candidates (things they didn't say, actions they didn't take) that intentionally harm their reputations or electoral chances.

Michigan's prohibition on deepfakes does not apply, however, if a "clearly visible" disclaimer alerts viewers that the image, audio or video "has been manipulated by technical means and depicts speech or conduct that did not occur."

States, too, are beginning to explore ways to tap into the potential good of AI, including improvements in student instruction.

A new \$500,000 grant program in Nebraska (LB 1284 of 2024) aims to advance research into and local schools' access to AI-based writing and reading assistance for students with dyslexia.

In Ohio, AI-focused skills have become the most requested credential from employers seeking state dollars through TechCred. Under the program, employers get reimbursed for the costs associated with a worker earning an industry-recognized, technology-focused credential.

In the September 2024 round of TechCred funding, 62 Ohio schools secured state dollars to help teachers gain new AI skills.

WISCONSIN SEN. JULIAN BRADLEY ON FINDING THE RIGHT APPROACH TO AI — IN 2025 AND BEYOND

From health care and education to business and law enforcement, artificial intelligence has the capacity to impact many facets of our lives.

Over the course of several months in 2024, I served as chair of a study committee in my home state of Wisconsin tasked with analyzing AI's potential and making recommendations for how it should be regulated.

This committee brought together legislators from both parties and members of the public, many of whom are professionals in the tech sector. Together, we traveled the state, heard from experts, and developed a set of recommendations that should drive the discussion on how Wisconsin will handle the opportunities and challenges that AI presents.


FOCUS ON PRIVACY AND 'HIGH-RISK AREAS'

One key recommendation is for our Legislature to focus not on the AI technology itself but on the data that powers it.

AI systems rely on vast amounts of data to function — data that often includes personal information. Mishandled data could put a person's privacy at risk. By focusing on data privacy, the Legislature can help ensure that Wisconsin residents are shielded from the potential harms of data misuse, without stifling technological innovation.

Moreover, our Legislature must learn from the experiences of other states when it comes to AI regulation. Some states have rushed to enact comprehensive AI legislation; now, many of those same states are rushing to implement changes to those bills, sometimes even before the initial legislation has taken effect. We can avoid this trap by putting the focus on high-risk areas where AI can be easily exploited or abused. Rather than blanket regulation, lawmakers should take a targeted approach that protects vulnerable individuals while allowing innovation to flourish.

It's also vital to make sure that existing laws apply to AI models in the same way that they apply to individuals or businesses. Many AI technologies already fall under the

The executive branch should be tasked with promulgating administrative rules to provide clear, consistent guiding principles for AI's use in state government. This would allow the Legislature to oversee how AI is being deployed.

scope of existing laws concerning consumer protection, discrimination and liability. Rather than creating duplicative statutes that single out AI, the Legislature should confirm that AI is governed by these established frameworks. This approach would prevent confusion while making it clear that AI, like any other technology, is subject to accountability.

'WIN THE FUTURE' WITH HELP FROM AI

Education and workforce development should also be a priority. Wisconsin has already shown a commitment to workforce training through initiatives like the Fast Forward program, which provides funding for skills development.

As AI reshapes industries, the state should expand the scope of existing programs to include AI upskilling and education. Being proactive in this regard will help ensure that our state wins the future.

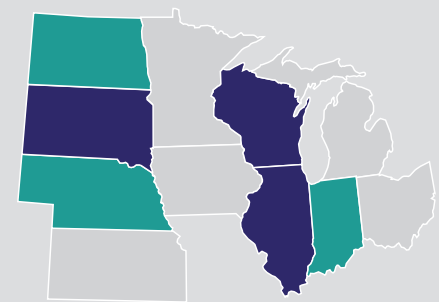
Public safety is another area where AI can offer significant benefits. The Legislature should examine how AI can be leveraged to enhance public safety while ensuring proper oversight to avoid misuse or overreach.

COMMIT TO ONGOING STUDY, OVERSIGHT

Finally, the state must ensure that AI governance is transparent and accountable.

The executive branch should be tasked with promulgating administrative rules to provide clear, consistent guiding principles for AI's use in state government. This would allow the Legislature to oversee how AI is being deployed within state agencies and ensure that it serves the public interest.

Similarly, the Legislature should consider creating a permanent study committee or a new legislative standing committee dedicated to monitoring emerging technologies, including AI. Such a committee would offer a long-term,

LEGISLATIVE-LED STUDY COMMITTEES AND TASK FORCES ON ARTIFICIAL INTELLIGENCE IN 2024


- Legislative committee, task force or work group created to study AI
- Standing committee of legislature directed to study AI

Source: multistate.ai

flexible approach to managing AI's challenges while avoiding knee-jerk reactions. By focusing on our study group's recommendations, the Legislature can position Wisconsin to be an AI leader and help shape a future where AI serves the public good while safeguarding individual rights.

Sen. Julian Bradley served as chair of the Wisconsin Legislative Study Committee on Artificial Intelligence. He provided this column to CSG Midwest, which welcomes submissions from state policymakers. The opinions expressed in guest columns do not reflect those of The Council of State Governments or the Midwestern Legislative Conference. For information on writing a guest column, contact Tim Anderson at 630.925.1922 or tanderson@csq.org.