National Governors Association

Christine O. Gregoire
Governor of Washington
Chair

Dave Heineman
Governor of Nebraska
Vice Chair

Dan Crippen
Executive Director

July 9, 2011

The President
The White House
Washington, D.C. 20500

The Vice President
The White House
Washington, D.C. 20500

The Honorable Harry Reid
Majority Leader
U.S. Senate
Washington, D.C. 2051

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable John Boehner
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. President, Mr. Vice President, Majority Leader Reid, Senator McConnell, Speaker Boehner, and Representative Pelosi:

We know the budget negotiations surrounding the necessity to increase the debt limit involve very difficult choices. All governors face similar decisions, especially in the face of requirements that we balance our budgets. We applaud your efforts and hope for timely success.

In January, we wrote to congressional leaders and asked them to work cooperatively with us to reduce deficits, restore fiscal discipline and promote economic growth and long-term prosperity. We noted that, as governors, we faced collective multi-billion dollar budget shortfalls and recognized that the Congress faced substantial budget issues. We respectfully requested adherence to four principles in work upon state-federal deficit reduction. A copy of our prior correspondence is attached for your further review.

While we recognize the need to address the federal fiscal imbalance, we do not believe spending reductions should be made disproportionately to state funds or result in merely shifting costs to the states. Any reductions in Medicaid payments to states must include provisions that would enable states to better manage their Medicaid programs.

According to news reports, there are several proposals regarding Medicaid financing that would result in significant and disproportionate cuts to states. Our highest concerns arise with an undefined proposal to blend various federal matching rates into a single unified rate for each state with the real objective of reducing federal Medicaid spending, and with any proposal that would place further restrictions on the amount of state funds that can be matched to federal funds.

It has been reported that the target for 10-year total Medicaid reduction is in the neighborhood of $100 billion, or roughly $10 billion a year. That amount is equal to 5% of what states spent on Medicaid in FY 2012. Given recent reductions in Medicaid enacted by many states, and the severe limitations on further reductions posed by federal maintenance-of-effort requirements and the proposed access regulations, the anticipated federal "deficit reduction" may cause state Medicaid spending to rise even faster without increased flexibility for governors to administer the program to best meet the needs of their individual states.

These proposed federal spending reductions for Medicaid will result in a direct cost shift to states, which will result in reduced Medicaid expenditures, in increased state taxes or reductions in K-12 education, transportation, and public safety funding. If Medicaid spending is reduced, the most likely (if not only permissible) source of savings would be additional reductions in payments to doctors and hospitals, potentially running afoul of the proposed requirements regarding access.

Make no mistake: these reductions are significant and cannot be absorbed into state budgets or simply passed on to providers of health services for our Medicaid populations. As governors, we have been partners with the federal government to make due with less during these challenging economic times. These reductions, however, as states are being required to absorb ever-more Medicaid beneficiaries, are unfair and unwise.

We urge you and congressional leaders not to continue to mandate Medicaid program requirements upon states without providing states with the adequate federal funding or federal law flexibility to properly manage this federal-state program.

We want to emphasize that governors are not asking for new spending. We have just completed work to finalize our states' budgets and we made tough decisions to reduce important programs. We respect the difficult work you face; however, we ask that you adhere to our suggested federal deficit reduction principles. We respectfully request that you consult with governors so that we can provide insight on how desired savings can be accomplished without threatening fragile state budgets. Essentially, we want our states to be treated in a fair and equitable manner. We stand ready and willing to work with you and Congressional leaders to identify the solutions necessary to secure our nation's future. It is our sincere hope you will call on us.

Sincerely,

Chris Gregoire

Governor Christine O. Gregoire
Chair

Dave Heineman

Governor Dave Heineman
Vice Chair

Enclosure (January 24, 2011 correspondence)

January 24, 2011

The Honorable Harry Reid
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable John Boehner
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Majority Leader Reid, Senator McConnell, Speaker Boehner, and Representative Pelosi:

As a new Congress convenes and a new year begins, the nation's governors call on the federal government to work cooperatively with us to reduce deficits, restore fiscal discipline and promote economic growth and long-term prosperity.

This month 29 new governors—the largest class in history—assumed office with most facing collective budget deficits of $175 billion through 2013. This amount is on top of $230 billion in budget gaps states filled between fiscal years 2009 and 2011. As you know, unlike the federal government, states have to balance their budgets. This means that the $175 billion shortfall will have to be filled through spending cuts or increased fees and taxes.

Over the last two years the federal government put more than $151 billion into state coffers to help offset catastrophic declines in revenues. States also did their part cutting spending by more than 10.7 percent ($75 billion), tapping rainy day funds, shrinking the size of government and streamlining state services. More cuts will be necessary, but with all easy cuts exhausted, the next round will require more layoffs, fewer state services and potential cuts to core programs like K-12 education and public safety.

Despite states' difficult fiscal situation, governors are not calling for new one-time help from the federal treasury. In fact, we encourage the federal government to follow the lead of states and make the tough decisions necessary to get its fiscal house in order; federal fiscal stability is critical to the long-term strength of states and the country.

As federal lawmakers work to reduce deficits, reform programs and restore long-term stability, governors call on the Administration and Congress to adhere to the following principles for state-federal deficit reduction:

- **Federal reforms should be designed to produce savings for both the federal government and states.** The shared responsibility for implementing and running state-federal programs should also mean shared savings when reductions or reforms are made at the federal level.

- **Deficit reduction should not be accomplished by merely shifting costs to states or imposing unfunded mandates.** The structural deficit facing federal lawmakers cannot be solved by the states. Good fiscal policy must take into account the effects of federal action on state government to avoid actions that harm the ability of governors to manage state budgets.

- **States should be given increased flexibility to create efficiencies and achieve results.** Decreases in funding should be accompanied by an increase in state authority to manage programs and find savings. For example, states must be allowed to consolidate funds from similar programs to produce better results. Federal mandates, even those that are paid for, fail to encourage state innovation or cost savings that can benefit both states and the federal government.

- **Congress should not impose maintenance of effort (MOE) provisions on states as a condition of funding.** MOE's curtail state authority to control their own budgets and fiscal systems and over time discourage investment in state-federal programs (see attached).

Governors have a duty to be good fiscal stewards of taxpayer dollars. The recession forced many states to take difficult short-term actions to balance budgets and to find innovative ways to make government a more efficient and productive instrument that can do more with less. The federal government must now do the same.

Sincerely,

Chris Gregoire

Governor Christine O. Gregoire
Chair

Dave Heineman

Governor Dave Heineman
Vice Chair

Enclosure

STATE PROGRAMS WITH MOE REQUIREMENTS

Grant Name:	State Match	MOE	Description of Requirements
Environment			
Clean Air Act - Section 105	X	X	40% match requirement
Non-Point Source Grants - Section 319 Grants	X	X	40% of total cost
Hazardous Waste Management State Program Support	X	X	25% of approved cost
Pipeline Safety	X	X	MOE was waived for 2009 and 2010. States currently providing 35% of funding.
Transportation			
FTA - Section 5307 Urban Areas Formula Grants	X	X	50% of operating expenses; 20% of capital costs; 10% if related to Clean Air Act or Americans with Disabilities Act; 10% for bicycle-related projects
FTA - Section 5311 Non-Urban Areas Formula Grants	X	X	20% of capital costs; 10% if related to Clean Air Act or Americans with Disabilities Act; 50% of administrative costs; 10% for bicycle-related projects
Airport Improvement Program		X	
Community and Regional Development			
Appalachian Development Highway System	X	X	20% of total cost
Education			
Adult Education Basic Grant	X	X	25% of total funds spent; MOE not less than 90% of prior year level
Education Jobs		X	For FY11 states must maintain spending in K-12 and higher education at: (1) FY09 levels; (2) the same percentage share as total revenues available in FY10; or (3) for states with receipts below FY06 levels in FY09, the FY06 spending level or percentage share.
Title I - Grants to Local Education Agencies		X	
Special Education Grants to States		X	MOE based on expenditures from previous year.
Vocational Education - Basic State Grant	X	X	50% of admin. cost
Indian Education - Grants to Local Education Agencies		X	
Rehab. Services - Basic State Grant	X	X	21.3% of total cost; MOE based on previous two year spending
Special Education - Preschool Grants		X	
Special Education - Infants and Families		X	
Safe and Drug Free Schools & Communities State Grants		X	
Tech-Prep Education		X	
21st Century Community Learning Centers		X	
Higher Education			
Leveraging Educational Assistance Partnership	X	X	Match based on MOE level but not less than one-to-one basis. MOE based on expenditures from previous three years.
College Access Grant Program	X	X	One-third of program activities and services; in-kind allowed; Must maintain funding at previous five year average.
Employment and Training			
Senior Community Service Employment Program	X	X	10% of total cost; in-kind allowed
WIA Adult Activities		X	
WIA Youth		X	
WIA Dislocated Workers		X	
Social Services			
Prevention of Elder Abuse, Neglect and Exploitation		X	
Long-Term Care Ombudsman		X	
Support Services	X	X	15% of grant amount; 25% of administrative cost; in-kind allowed
Health			
Affordable Care Act		X	States may not change their Medicaid or CHIP eligibility policies or procedures that are more restrictive than they were on July 1, 2008. The MOE for adults is in effect until January 1, 2014, and for children until October 1, 2019.

Public Health Emergency Preparedness	X	X	5% of federal funds in 2009, 10% in 2010; in-kind allowed; must maintain spending at the average of the amount provided annually during the previous two years
Consolidated Health Centers		X	
Ryan White Formula Grants	X	X	States with more than 1% of total HIV/AIDS cases reported during the previous two years must provide matching funds, amount varies based on the number of years a state meets the threshold; separate 20% of total cost matching requirement for ADAP supplemental; must maintain spending at previous year level.
Community Mental Health Services Block Grant		X	Must maintain spending at the average of the amount provided annually during the previous two years.
Substance Abuse Prevention and Treatment Block Grant		X	Must maintain spending at the average of the amount provided annually during the previous two years.
Maternal and Child Health Block Grant	X	X	45% of total cost; maintain spending at 1989 level
Income Security			
Temporary Assistance for Needy Families (TANF)		X	
Child Care Mandatory Matching Funds	X	X	Varies based on FMAP; MOE equal to the state's share of expenditures for FY 1994 or 1995, whichever is greater
Child Nutrition - State Administrative Expenses		X	
Public and Indian Housing		X	
Homeland Security			
Boating Safety Assistance	X	X	Generally 50% of total cost
Emergency Management Performance Grants	X	X	50% of total cost; in-kind allowed
Assistance to Firefighters Grant	X	X	varies based on award