



Tim Pawlenty
Governor of Minnesota
Chair

Edward G. Rendell
Governor of Pennsylvania
Vice Chair

Raymond C. Scheppach
Executive Director

January 23, 2008

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

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

The Honorable John Boehner
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

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

The nation's governors urge you to include state countercyclical funding as part of your legislation to stimulate the economy. This would include \$6 billion in Medicaid assistance by freezing scheduled federal FMAP reductions and increasing all states' FMAP as well as providing \$6 billion in a flexible block grant.

The revenue reductions and Medicaid increases that accompany all economic downturns, in combination with state balanced budget requirements, are forcing states to cut spending as the economy weakens. These actions are procyclical and will make the current downturn both longer and more severe.

States already are experiencing the effects of the slowing economy. The week of January 14, the National Governors Association surveyed all states and found that 18 states reported shortfalls totaling \$14 billion for fiscal year 2008 and 17 states projected shortfalls of \$31 billion for fiscal year 2009.

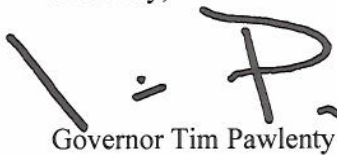
During the last two recessions, the state fiscal picture continued to deteriorate for two years after the recessions ended. For example, in 2001, the year the last recession ended, 16 states were forced to cut budgets. In each of the next two years, 37 states had to make cuts to meet shortfalls. If the current downturn follows the path of the two previous recessions, 35 to 40 states will face budget cuts in 2009.

In 2003, Congress approved \$20 billion in assistance to states, including \$10 billion in Medicaid and \$10 billion in block grants. The governors' current stimulus proposal is essentially the same, with the exception that it is a total of \$12 billion as opposed to \$20 billion. This proposal can be enacted quickly, as there is precedent and it is timely, temporary and targeted.

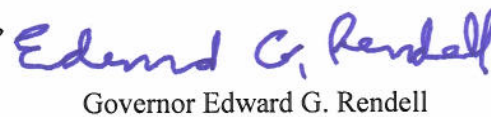
Additionally, governors appreciate federal efforts to use tax policy to get additional money into the hands of consumers and businesses to stimulate the economy. When considering tax changes to spur economic growth, governors urge Congress and the Administration to follow the maxim of "Do no harm" by avoiding changes at the federal level that would diminish state tax revenues or force state actions that would undermine the effectiveness of federal efforts.

We look forward to working with you to enact an appropriate stimulus program.

Sincerely,



Governor Tim Pawlenty



Governor Edward G. Rendell