

**NLWJC - Kagan**

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**NGA Issues**

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MEMORANDUM

TO: Jack Lew  
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FROM: Fred DuVal

SUBJECT: Budget/Governors

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The attached document represents a "position paper" of the governors relative to the federal budget. Governor Tom Carper (D-DE) delivered it to us at the "Big 7" meeting this week and spoke to its contents.

I view it as an early warning on future discussions. Thanks.

## FULFILLING CURRENT COMMITMENTS

Because of the very tight domestic discretionary budget caps adopted in the Balanced Budget Act of 1997, there is a great amount of pressure on the Administration to cut domestic discretionary spending or to raise revenues in order to stay within the spending caps.

As much as \$28 billion will have to be offset in the FY 2000 budget under the domestic discretionary cap alone in order to comply with the cap set in 1997. This cap puts many of our successful state and local partnership programs at risk.

As the Administration puts the budget together, the most important thing that they can do is to protect current commitments and existing programs with proven track records. Particularly before creating any new spending programs or tax cuts that would count against the domestic discretionary caps.

## SPECIFIC PROGRAMS

Entitlement Programs - Capping entitlement programs merely shifts costs to state and local government and removes the federal safety net for vulnerable populations.

- The Administration should maintain current spending on entitlement programs.

TEA 21 (ISTEA Reauthorization) - We worked successful with the Administration to get a real guarantee for federal transportation funding. That guarantee needs to be upheld.

- The Administration should fully fund TEA 21

TANF/ Title XX (SSBG) - We worked successfully with the Administration to create a welfare system that limited the federal governments liability but gave states flexibility to be innovative.

That was a five year commitment - from FY 1997-FY 2002 - for the TANF block grant, SSBG and related poverty programs, (e.g., child care, transportation, food stamp:). The President's FY '99 budget proposed a cut of \$390 million for SSBG, which was enacted in the omnibus appropriations bill.

Many states use SSBG funding for a wide array of programs, including child care, adult care, direct services to clients such as home delivered meals, housekeeping services, respite care services, youth rehabilitation services, protective treatment, and other important services.

- The Administration should maintain at least FY '99 levels for these programs consistent with the welfare reform agreement.
- If the Administration intends to propose a new Child Care program, they should work with the states to make sure they are maximizing funding through existing federal programs for child care services such as SSBG. There are currently multiple funding sources already in place and states can use current streams of funding much more efficiently to provide services to people who need them rather than using scarce

resources to create whole new bureaucracies.

Medicaid Administrative Costs- In the FY 99 budget the Administration proposed cutting Medicaid administration costs by \$1.7 billion.

Ultimately these cuts were not enacted, and the Administration was helpful in making sure that they were taken off the table.

Cuts in Medicaid Administration will make it more difficult for states to fund critical services such as outreach for the children's health program, fraud and abuse prevention, and enforcement of nursing home provisions.

- First, the Administration should resist any cuts in Medicaid administrative costs as part of the FY 2000 budget. Second, the Administration should work with the States to identify cost savings that are justified and do not create an unfunded mandate.

IDEA - Federal commitment to fund 40% of this program. Currently the Feds fund 12%, States must pick up the remainder.

Within NGA we have fought off efforts to give governors the flexibility to cover less disable children in prisons proportional to the amount the federal government is funding the program. It would be wrong to not provide eligible children with these services. However, it is also wrong to mandate the coverage and for the federal government to not meet their side of the partnership.

- Although it may be difficult to fund the program at the full 40% level, the Administration should support a marginal increase in funding for this program in the FY 2000 budget. It will go a long way in demonstrating that the Administration is committed to the federal/state partnership in IDEA.

Head Start - In the past the administration has increased funding for Head Start. We appreciate and support this.

- The Administration should continue this trend in the FY 2000 budget.

Tobacco Recoupment - NGA made a major push to include a provision in the omnibus budget bill to limit the federal government's claim to any funds that accrue to the state because of the settlement of tobacco claims. Under that provision, states would have paid the \$1.7 billion offset out of settlement funds. With the potential settlement of state suits imminent, the need to resolve this issue as soon as possible is imperative.

- Administration Officials should work with the states to ensure that the funding is retained in the state.

Medicare/Medicaid - The Administration is going to be looking hard at possible Medicare reforms. In doing so they must also examine the collateral impact on Medicaid. States will not support Medicare reforms that will result in a cost shift to Medicaid.

## BUILDING A STRONGER CONSULTATION PROCESS ON RULES AND REGULATIONS

In addition to the budget issues there is a real desire on the part of state and local government to build a stronger partnership on the development of rules and regulations.

It is critically important that state and local government are consulted in a timely consistent manner as the Administration develops important rules and regulations.

All of these regulations ultimately come to OMB from the agencies. It would be particularly helpful to us if, at that stage, OMB asks the agency to detail the level of consultation and the position of state and local government and that IGA continues to check with the state and local organizations to ensure that they have been properly consulted.

Two important regs are under development now - TANF and Workforce Investment Act (WIA). States have been included in the consultation process on each of these.

- The Administration should work closely with the state and local government groups on the development of the TANF and WIA regulations.
- The Administration should promulgate regulations that give state and local government the maximum amount of flexibility to implement the laws.