

INSIDE *A*LEC

A PUBLICATION OF THE AMERICAN LEGISLATIVE EXCHANGE COUNCIL



 SPECIAL ISSUE
**TAX & FISCAL
POLICY**

**GUIDELINES
FOR SMART
BUDGET
REFORM**

BY GOV. MITCH DANIELS

ALEC BOARD**2011 National Chairman**Representative Noble Ellington
Louisiana House of Representatives**Private Enterprise Board Chairman**

W. Preston Baldwin, Centerpoint 360

ALEC STAFF**Executive Director**

Ron Scheberle

**Senior Director,
Policy and Strategic Initiatives**

Michael Bowman

**Senior Director,
Finance and Administration**

Lisa Bowen

**Senior Director,
Membership and Development**

Chaz Cirame

**Senior Director,
Public Affairs**

Raegan Weber

INSIDE ALEC STAFF**Editor in Chief**

Raegan Weber

ALEC EXHIBITS AND ADVERTISING

Chaz Cirame

Exhibiting or advertising at an ALEC event is a great way to promote your company to members of both the private and public sectors. If you are interested in exhibiting or advertising at an ALEC meeting, please contact Chaz Cirame at exhibits@alec.org or (202) 466-3800.

© American Legislative Exchange Council

1101 Vermont Ave., NW, 11th Floor
Washington, D.C. 20005

Phone: (202) 466-3800

Fax: (202) 466-3801

www.alec.org

DESIGN

Steven Andrews

www.stevenandrewsdesign.com

CONTENTS

INSIDE ALEC | APRIL 2011

STATE SPOTLIGHT**4 State Budget Reform Toolkit Bills in Oregon**

BY REP. GENE WHISNANT | ALEC State Budget Reform Toolkit Bills introduced in Oregon: Bills have a chance in the new Oregon Legislature.

FEDERAL SPOTLIGHT**6 The Power in State Budget Reform**

BY REP. TOM GRAVES | Restoring the Balance – Congressman Graves makes the case for States to stop relying on Federal Bailouts.

7 Congress Needs to Provide States Medicaid Flexibility

BY REP. CATHY MCMORRIS RODGERS AND JASON MERCIER | Congresswoman Cathy McMorris Rodgers and Jason Mercier explore Medicaid restrictions in the new healthcare law.

SPECIAL REPORTS**9 Wisconsin Exposes Deeper State Budget Crisis**

BY JONATHAN WILLIAMS | Despite the economic difficulties facing the states, there is a pathway to budget reform and financial sustainability.

10 Reject State Bailouts to Foster Job Growth and Strong Economies

BY BOB WILLIAMS | States should think twice before accepting federal unemployment insurance funds.

11 Guidelines for Smart Budget Reform

BY GOV. MITCH DANIELS | Indiana Governor Mitch Daniels discusses four guidelines for reforming state budgets.

12 Combating the EPA Regulatory Train Wreck

BY CLINT WOODS | Due to the failure of cap-and-trade legislation, EPA is going around the legislative process to impose new regulations that will hurt the American Economy. Learn what states can do to push back.

14 Work Together to Restore the Balance of Power

BY MARIANNE MORAN | The Repeal Amendment restores the balance of power between the states as the founding fathers intended.

16 Budget Reform Briefings in the States

BY KATI SICONOLFI | Throughout the country, state legislators are using ALEC resources as their blueprint for sensible budgets.

17 Streamlining Government in Kansas

BY REP. MIKE BURGESS | Representative Mike Burgess discusses implementing ALEC's State Budget Reform Toolkit government reforms in Kansas.

18 The Resurrection of the Federal Death Tax Hurts States

BY KATI SICONOLFI | Recent federal estate tax legislation slows state economic recovery.

Congress Needs to Provide States Medicaid Flexibility

BY Congresswoman Cathy McMorris Rodgers and Jason Mercier

When President Obama signed the unpopular *Patient Protection and Affordable Care Act* last year, he made many promises, including that the law would increase healthcare access and lower costs. As states begin the process of devising their annual budgets, it's more clear than ever that those promises aren't being kept - especially in our home state of Washington.

Washington state officials last year debated opting-out of the federal Medicaid program so they could preserve flexibility



in providing healthcare services to needy families. Currently Washington faces a projected \$5 billion state budget shortfall. The alternative to opting-out of Medicaid is the potential elimination of all state-only healthcare programs such as the Basic Health Plan, prescription drug coverage, and the Disability Lifeline program.

The new federal healthcare law imposes a Medicaid Maintenance of Eligibility restriction on the states that prohibits local elected officials from making reductions. This restriction, combined with looming state budget deficits, means legislators and governors are faced with the painful decision of funding state-only healthcare programs or providing matching funds for federal Medicaid dollars - they can't do both.

Already health officials in Nevada and Wyoming have drafted white papers discussing the possibility of opting-out of Medicaid to preserve more budget flexibility. Similar conversations are occurring across the country in blue states like Washington and red states like Texas. This problem transcends which party controls a state's budget and demands bi-partisan Congressional support for Medicaid reform.

Though a state actually opting-out of Medicaid remains unlikely, the fact that it is openly being discussed signifies the need for states to have more flexibility in the Medicaid program. Otherwise state health-

care spending will be limited to administering the federal Medicaid program at the expense of state-directed priorities.

While the new Republican majority in the House will not provide states another federal bailout, working with the Senate, Congress can reform the Medicaid program to provide states the discretion to make local healthcare decisions. We are working on a proposal to do just this.

Unless states are provided more flexibility over Medicaid spending they will be forced to either opt-out of the program or eliminate state-only healthcare priorities. A better strategy would be for Congress to transform the current categorically restricted Medicaid program, which is dictated by D.C. priorities, into an indexed block grant program that would allow each state to design a comprehensive state-based healthcare system that meets the unique needs and priorities of their citizens while protecting the most vulnerable.

Many states are already asking the federal government for this type of Medicaid flexibility, including legislators in Washington state. In January, State Senators Linda Evans Parlette, Joe Zarelli, Randi Becker

and Minority Leader Mike Hewitt introduced SB 5596 to require the Department of Social and Health Services to request an indexed Medicaid block grant waiver to "allow the state to operate as a laboratory of innovation for bending the cost curve, preserving the safety net, and improving the management of care for low-income populations."

To help determine what indexed growth factor should be used for a Medicaid block grant program, governors and state Medicaid directors across the country should work with Congress to design a fiscal growth factor that would meet state needs. This type of reform would also help Congress with its deficit reduction efforts since Medicaid costs would be more predictable.

Congress should reform Medicaid to avoid radical disruptions to state healthcare networks. Failure to do so will result in states merely becoming passive administrators of the federal Medicaid program while state-only healthcare programs are eliminated to balance budgets. Reforming Medicaid into an indexed block grant that provides state spending flexibility will instead facilitate 50 laboratories of democracy working to identify innovative healthcare reforms to provide a meaningful safety net for the most vulnerable in our society. 🇺🇸



Congresswoman Cathy McMorris Rodgers represents Washington's Fifth Congressional District and serves as Vice Chair of the House Republican Conference.



Jason Mercier is Director of the Center for Government Reform at the Washington Policy Center based in Seattle. He is a mem-

ber of ALEC's Tax & Fiscal Policy Task Force.