February 11, 2011

The Honorable Lamar Smith, Chairman
Committee on the Judiciary
U.S. House of Representatives

The Honorable John Conyers, Jr., Ranking Member
Committee on the Judiciary
U.S. House of Representatives

Dear Chairman Smith and Ranking Member Conyers:

Proposals to create a mechanism for state bankruptcy are both unnecessary and unwise. State leaders across the country recognize that there will be no bailouts and are making the tough decisions necessary to confront both their short-term budget deficits and their long-term pension obligations. A bankruptcy provision would only complicate these difficult challenges.

Recent actions demonstrate that states are up to the challenge of meeting their obligations as sovereign governments. In California and Illinois, two states facing substantial budget deficits and pension shortfalls, Governor Brown has proposed a 10% salary reduction for state employees while Governor Quinn worked with the legislature to push through a 67% tax increase. Elsewhere states are braving court challenges to forestall cost of living increases for current retirees and scaling back benefits for new hires. Ideas for cutting costs only recently embraced by the federal government, such as freezing government pay, have been common place in state capitals for the better part of three years.

In addition, states are fundamentally transforming the way they deliver services. In Indiana, Governor Daniels has put forward an innovative plan, based on successful experiences in Texas and Kansas, to reduce corrections spending by $1.2 billion by reducing recidivism through drug treatment based on a successful strategy used in Texas. In North Dakota, state leaders recently passed a law allowing advanced practice nurses to act as primary health care providers in the state Medicaid system to both lower costs and provide better access to care.

While states will need to replenish pension funds which were depleted both by the Great Recession and by past program management decisions, pension contributions remain a small element of state budgets accounting for just over three percent of state spending. Federal legislation opening the door for state bankruptcy would only compound the fiscal challenges faced by states by chilling the bond market and driving up costs for all states regardless of their pension obligations.

The true threat to state fiscal health lies in the spiraling health care cost that are driving budget deficits at the state and federal level. We look forward to working with leaders on both sides of the aisle to address this vital challenge.

Sincerely,

David Adkins
Executive Director & CEO
The Council of State Governments