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June 8, 2010

Chairman Steven C. Panagiotakos
State House, Room 212
Boston, MA 02133

Chairman Charles A. Murphy
State House, Room 243
Boston, MA 02133

Dear Chairman Panagiotakos and Chairman Murphy:

In January, when I filed House 2, I committed to revise my budget proposal for fiscal year 2011 if a six-month extension of the enhanced Federal Medical Assistance Percentages (FMAP) was not approved by Congress by June. Because that FMAP extension has not yet been finally approved, as you work to develop a final budget, I am writing to propose a change to House 2 to ensure we have a responsibly balanced budget before the start of the fiscal year.

I remain optimistic that the extension will ultimately be approved. Both the House and Senate in Congress have separately approved the extension, though they have yet to do so in the same legislative vehicle. The President has demonstrated his support for the extension by including it in his own budget proposal. Twenty-nine other states have factored the FMAP extension into their budgets, just as we have, and are working with their congressional delegations, fellow governors and the administration to secure final passage, just as I am. But the possibility remains that we will not have the funding secured in time for the start of our next fiscal year on July 1, 2010.

We projected that the FMAP extension is worth at least \$608 million in additional federal reimbursements to the Commonwealth in fiscal year 2011. I propose making proportional reductions across our entire House 2 budget proposal with the exception of Chapter 70 support for public schools and unrestricted local aid, as well as debt

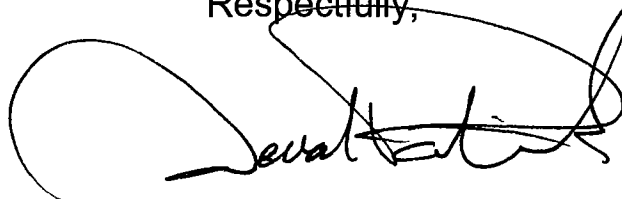
service, which we are obligated to fund. This approach will result in an approximate 3.6 percent reduction to remaining House 2 spending levels. In order to help Secretaries mitigate the impacts of this across-the-board approach as effectively as possible, I am also proposing that they be granted line-item transferability within their secretariats. I further propose that the budget provide authority to restore the original House 2 line items in the event the FMAP extension is subsequently enacted in Congress.

I am all too aware of the significant impact the recession has already had on people, their families and their businesses throughout the Commonwealth, let alone on the public services on which they rely. Next year's budget will be tight even with the FMAP extension, and this proposal will only make it more so. But I believe an across-the-board reduction is the most equitable and the most sensible under all the circumstances, and that the authority to restore funding if the extension is passed is the most efficient.

I appreciate our proactive collaboration in effectively managing the state budget through this unprecedented fiscal crisis. The rating agencies have consistently cited that proactive collaboration as a factor in reaffirming our strong credit rating. I ask for your continued collaboration in resolving this remaining issue, and sending me a timely and responsibly balanced budget for fiscal year 2011.

Better days are ahead.

Respectfully,

A handwritten signature in black ink, appearing to read "DeLeo", with a large, sweeping flourish on the left side.

cc: Speaker of the House Robert A. DeLeo
Senate President Therese Murray