

April 1, 2016

The Honorable Robert Bentley
Governor of Alabama
600 Dexter Avenue
Montgomery, AL 36130-2101

The Honorable Mary Fallin
Governor of Oklahoma
2300 North Lincoln Blvd, Room 212
Oklahoma City, OK 73105

The Honorable Asa Hutchinson
Governor of Arkansas
State Capitol, Room 250
Little Rock, AR 72201

The Honorable Alejandro García Padilla
Governor of Puerto Rico
Calle Fortaleza 65
San Juan, PR 00902

The Honorable Rick Scott
Governor of Florida
400 South Monroe Street
Tallahassee, FL 32399

The Honorable Nikki Haley
Governor of South Carolina
1205 Pendleton Street
Columbia, SC 29201

The Honorable John Bel Edwards
Governor of Louisiana
900 North Third Street, 4th Floor
Baton Rouge, LA 70804

The Honorable Greg Abbott
Governor of Texas
State Insurance Building
1100 San Jacinto
Austin, TX 78701

The Honorable Larry Hogan
Governor of Maryland
100 State Circle
Annapolis, MD 21401

The Honorable Terry McAuliffe
Governor of Virginia
Patrick Henry Building
1111 East Broad Street, 3rd Floor
Richmond, VA 23219

The Honorable Phil Bryant
Governor of Mississippi
550 High Street, 19th Floor
Jackson, MS 39201

Dear Governors Bentley, Hutchinson, Scott, Edwards, Hogan, Bryant, Fallin, García Padilla, Haley, Abbott, and McAuliffe:

Although you are currently inactive members of the Southern Governors' Association, SGA's organizing documentation expressly identifies the sitting Governor of each of your states/commonwealths as a member.

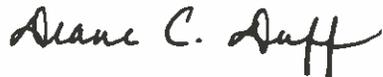
Therefore, by copy of the attached letter, **I am inviting each of you to express your preferences regarding the future of SGA by completing the enclosed ballot and preference poll and returning it to me by *Friday, April 15, 2016.***

Although you will not be eligible to vote on the final action because of your inactive status, I will work to ensure your preferences are taken into consideration.

If you wish to discuss any of the particulars herein, I will be happy to make myself available to you, or your representative, at your earliest convenience.

Thank you for your prompt guidance in this important matter.

Sincerely,



Diane C. Duff

Cc: Georgia Governor Nathan Deal
Kentucky Governor Matt Bevin
Missouri Governor Jay Nixon
North Carolina Governor Pat McCrory
Tennessee Governor Bill Haslam
U.S. Virgin Islands Governor Kenneth Mapp
West Virginia Governor Earl Ray Tomblin

SGA Member Governor Ballot and Preference Poll
 Regarding the Future of
 Southern Governors' Association / Foundation for the American South

*Fax completed ballot to 202-624-7797 or email a scanned copy to dianeduff@sso.org.
 By April 15, 2016*

Resolution: The Executive Director of SGA is authorized and instructed to assess Members' preferences for the future of the Southern Governors' Association and the Foundation for the American South and, if the Members favor Options other than I and A below to develop a specific plan for adoption by the Members.

Resolution Approved: Yes No

Please *select one preferred option* for SGA **AND** *one preferred option* for the Foundation by checking the "I prefer this option" column. As noted in the letter, Option 1 (SGA) and Option A (Foundation) are paired.

Then, for each of the remaining options, please check the corresponding box to indicate whether it is an acceptable or a bad choice (i.e., something that you would prefer to see not happen).

OPTIONS	I prefer this option	Option is acceptable	Option is a bad choice
SGA Option 1: Maintain/refocus SGA operations under new staff leader			
SGA Option 2: Reorganize and/or connect SGA infrastructure and remaining assets with another appropriate organization and keep SGA dormant			
SGA Option 3: Dissolve SGA and seek to connect SGA infrastructure and remaining assets with another appropriate organization			
Foundation Option A: Continue Foundation as it currently operates			
Foundation Option B: Dissolve and terminate the Foundation			
Foundation Option C: Seek to continue the Foundation independent of SGA			

Comments (optional):

 Name of Governor

 Date



April 1, 2016

The Honorable Nathan Deal
Governor of Georgia
203 State Capitol
Atlanta, Georgia, 30334

The Honorable Bill Haslam
Governor of Tennessee
Tennessee State Capitol, First Floor
Nashville, TN 37243

The Honorable Matt Bevin
Governor of Kentucky
700 Capitol Avenue, Suite 100
Frankfort, KY 40601

The Honorable Kenneth Mapp
Governor of the U.S. Virgin Islands
21-22 Kongress Gade, Charlotte Amalie
St. Thomas, VI 00802

The Honorable Jay Nixon
Governor of Missouri
201 West Capitol Avenue, Rm 216
Jefferson City, MO 65101

The Honorable Earl Ray Tomblin
Governor of West Virginia
1900 Kanawha Boulevard East
Charleston, WV 25305

The Honorable Pat McCrory
Governor of North Carolina
116 West Jones Street
Raleigh, NC 27603

Dear Governors Deal, Bevin, Nixon, McCrory, Haslam, Mapp and Tomblin:

I am writing to you as the members in good standing of the Southern Governors' Association to address some pressing issues about the future of SGA. I have examined the viability of SGA in light of recent developments relating to its current membership, engagement by member Governors and fundraising challenges. For the reasons described below, it would appear that SGA is not sustainable in its current form.

With the assistance of legal advisors, I have prepared some options for your review and consideration relating to the future of SGA and its affiliated foundation, the Foundation for the American South (the "Foundation"). Such options will require action of the Executive Committee and, possibly, the membership of SGA. In that regard, I am seeking your formal instructions as to how best to proceed. **Please provide me with your preferences by completing the enclosed ballot and preference poll and return it to me by Friday, April 15, 2016.**

The addressees of this letter are members of SGA in good standing ("Member Governors"), which status is based on SGA's receipt of FY 2016 dues. By copy of this letter, I am also inviting Southern Governors who are not Member Governors to express their preferences, even though they will not be able to vote on the final action unless they become members in good standing by paying their FY 2016 dues.

Upon receipt of responses from most of the Governors in good standing, I will coordinate with SGA's counsel (Squire Patton Boggs) and other organizations, as appropriate, to craft formal resolutions to enact the will of the majority of Member Governors. The resolutions will be submitted to you for an official vote or votes as soon as possible in May 2016. This time frame will provide adequate time for SGA to take any final actions in preparation for the new Fiscal Year beginning on July 1, 2016.

If you wish to discuss any of the particulars herein, I will be happy to make myself available to you, or your representative, at your earliest convenience.

Background and Status of SGA and the Foundation for the American South

SGA's structure: The IRS has determined that SGA is an "instrumentality of the states," and under its articles of incorporation and bylaws, exists to provide a medium for the exchange of views and experiences on subjects of general importance to the people of the Southern region; foster interstate cooperation and regional development; strive for greater efficiency in state administration; share information with the federal government on issues of importance to the Southern region; and facilitate and improve state-federal relationships.

SGA's organizing documentation identifies only one class of eligible members, which are the sitting Governors of: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia, the Commonwealth of Puerto Rico and the Territory of the U.S. Virgin Islands. When an individual ceases to be a Governor of one of these jurisdictions, he or she also ceases to be a member of the Association, and his or her successor as Governor becomes a Member in the Association. A Governor has voting rights as a Member if the Governor is in good standing. The SGA's board of directors is the Executive Committee, which consists of Member Governors who elect to serve on the Executive Committee.

According to SGA's bylaws, the organization must have a Member Governor serve as chairman. Most importantly, the Executive Committee is responsible for providing guidance to, and oversight of, the Executive Director in carrying out the mission of the organization. From a purely legal perspective, SGA's Articles of Incorporation and District of Columbia law require at all times that there be at least three directors serving as the Executive Committee.

Foundation Structure: SGA also operates the Foundation for the American South (Foundation) for the purpose of accepting federal grants. The Foundation is governed by a Board of Directors consisting of three specified officers of the SGA, and such other individuals as the Executive Committee may appoint. The Foundation currently has only two directors (both SGA staff) because one of the designated staff

offices in SGA has not been filled. The Foundation's bylaws and District of Columbia law require the board to have three directors to act.

Financial Overview: SGA operational funding can be derived from dues payments from its Members' jurisdictions and from other means. In recent years, two-thirds or more of SGA's funding has come from our Affiliates/Event Sponsorship program, as well as grants and contracts. The Affiliates membership offers a tiered dues structure under which participants receive an annual subscription to SGA's policy dialogue and registration to SGA's Annual Meeting, featuring the organization's policy activities and direct engagement with Member Governors and their key staff.

Over the years, SGA has been able to maintain financial stability in the face of dwindling state participation, and subsequently, dues because of the Affiliates/Event Sponsorship program. However, the Affiliates program relies heavily on the participation of a fair representation of the region's Governors and their senior staff at meetings, events and policy forums. With the now steep decline in gubernatorial participation over the last three years, the Affiliate program and its corresponding financial support have begun to diminish proportionately.

The Question of Sustainability: For the past several years, increasing numbers of eligible Southern Governors have both stopped paying SGA dues and attending SGA events. State budget crises corresponding with the "Great Recession" marked the beginning of this trend.

In an effort to provide more value to Governors and address these financial pressures, SGA conceived and pursued development of a new mechanism for implementing a more comprehensive policy work program, sliced spending, led the construction of a new online portal to allow more robust exchange of policy information amongst Governors' staff, adjusted the time required of Governors for participation in an annual meeting and cut Member Governors' dues by nearly 50%. With only three full time staff, we have pursued an aggressive work plan that aligns with the policy priorities of a majority of the region's Governors.

In spite of these efforts, Southern Governors have not reengaged with SGA, nor has the alarming trend of waning participation been mitigated. The results speak for themselves:

- Gubernatorial membership has reached an all-time-low of 39%.
- Gubernatorial attendance at the 2015 annual meeting also reached an all-time-low, with only one governor attending.
- SGA does not have commitments for Members to take a leadership role. Missouri Governor Jay Nixon continues to hold the official role of chairman. Only four Member Governors in good standing are eligible under the bylaws to serve as chairman at this time; one of them has specifically declined to serve.

- Individual conversations with Southern Governors and/or their key staff -- both Member Governors and inactive Governors -- have resulted in variations on the theme that Governors do not see value in being a member of SGA and that their respective partisan political organizations and other national groups provide sufficient policy forums.
- While Member Governors serve as the official Board, SGA has no practical functioning Board. Governors have been unwilling or unable to attend either the Annual Meeting or the Winter Business Meeting where SGA's business is conducted. Outreach in the form of letters, phone calls and other communications regularly go unanswered or do not reach the Governors to be answered.

These realities notwithstanding, SGA remains a well-respected organization. It has sufficient funding to meet current obligations at least through 2016, predominately because of the success and continued interest of its Affiliates and grantors. It is unclear whether SGA Affiliates will continue to participate and provide financial support in light of the diminution in gubernatorial involvement. Correspondingly, SGA efforts to solicit additional support for programs are seriously undermined if the underlying rationale for such programs -- that is, gubernatorial engagement -- no longer exists.

Gubernatorial Decision Required: This situation requires Member Governors to make a formal decision regarding the future of SGA. Subsequent formal action by the Executive Committee and possibly the membership will be required to implement a decision. In an effort to relieve the Member Governors of participating in a meeting that may be difficult to schedule, I am presenting a resolution and seeking your input on a series of options, with a hope that a consensus will emerge.

Options for SGA

- **Option 1: Maintain/refocus SGA operations under new staff leadership**
Under new staff leadership, current Southern Governors could refocus the organization's work program to better reflect their needs and interests. SGA has a long history of providing Southern Governors with a forum for addressing challenging issues of special importance throughout the region. From the creation of the Emergency Management Assistance Compact (originally the Southern Regional Emergency Management Compact), to the Southern Regional Infant Mortality Study, to the inclusion of many core regional principles in the reauthorization of the State Children's Health Insurance Program, to many other initiatives and programs, SGA has been the place where the region's governors have come together to address critical regional and federal policy and programmatic issues.

This scenario would require Southern Governors to collaboratively redefine the vision for SGA, presumably agreeing to recruit appropriate staff leadership,

participate in programs and provide sufficient financial resources to sustain the path forward. It would probably require the leadership and time and effort of the Governors' offices of several states.

➤ **Option 2: Reorganize and/or connect SGA infrastructure and remaining assets with another appropriate organization and keep SGA dormant**

Under this option, SGA would maintain its legal existence, but would become a dormant organization. It would do only what is necessary under District of Columbia law to remain in existence. At least three Governors would have to remain as directors; it would need a nominal president or chief operating officer, a nominal treasurer or CFO and a secretary. It would file biennial reports with the District of Columbia. Membership dues would be set at a nominal (e.g., \$1 per year) or waived for all Southern Governors that elect to be Members. After winding down, SGA would not undertake any activities (until a decision is made to revive it), allowing Member Governors to divest themselves of fiduciary and managerial responsibility for SGA. A caretaker organization would be identified to manage the small amount of work required to keep SGA in a dormant state.

For the past two years, SGA has invested substantial time and financial resources in the development of a members-only web portal for regional policy deliberation and exchange. SGA would transfer the work to date to another organization that is willing to finish the development work and make the portal available to Southern Governors. If SGA has cash remaining, it could transfer the cash to fund the final stages of development. I will attempt to identify a state-based organization that is willing to continue the project. It may be possible to transfer the project to the Foundation if it continues as a standalone organization (see below).

SGA would look to terminate its lease and ongoing liabilities and transfer its remaining assets to entities that would use them for the benefit of the Southern states. The Foundation would be a potential transferee if it continues as a standalone organization.

Under this scenario, the SGA instrumentality would remain available to current and future Southern Governors to reinstate should future circumstances warrant.

➤ **Option 3: Dissolve SGA and seek to connect SGA infrastructure and remaining assets with another appropriate organization**

This option is appropriate if the majority of Southern Governors see no value in maintaining a nonpartisan regional forum for the American South of any sort (other than the Foundation if it continues as provided below). The Southern Growth Policies Board, created as an outgrowth of SGA in 1971, was dissolved in

2013, with SGA assuming a portion of its activities. The Southern States Energy Board and the Southern Regional Education Board still exist, but are singularly focused on their respective policy areas.

Before dissolving, SGA would seek to put its remaining assets to work in manner similar to Option 2.

The complete dissolution of SGA might be the most expedient option for Governors, but would be the most limiting from the perspective of preserving any legacy for the past 82 years of important regional policy deliberations.

Under this scenario, immediate coordination with SGA's attorneys would be required to establish the appropriate custodial relationships required to fully wind down SGA.

Options for Foundation

➤ **Option A: Continue Foundation as it currently operates**

This is a viable option only if Option 1 for SGA is selected and it may be a necessary option if Option 1 for SGA is selected because the Foundation has received the governmental grants and other grants and contributions needed to keep the two entities operating.

➤ **Option B: Dissolve and terminate the Foundation**

The Executive Committee would need to appoint a third director to the Foundation board of directors to permit the Foundation's board of directors to dissolve the Foundation. Following dissolution, the Foundation would be wound down under the direction of counsel. The Board would need to transfer the remaining assets of the Foundation to a section 501(c)(3) organization or to a governmental entity to use for public purposes.

➤ **Option C: Seek to continue the Foundation independent of SGA**

Under Option C, we would seek to find a group of dedicated individuals who are willing to serve as directors and carry the Foundation forward or a state-based organization that would become its caretaker and appoint its directors. If this option were chosen, I would welcome your assistance in trying to find a new home for the Foundation or a group of individuals to run it as an independent organization. If we cannot find a home or group of new directors, the Foundation would be dissolved.

To accomplish Option 3, the Executive Committee would have to appoint a third director for the Foundation. The directors would then amend the bylaws to disconnect the Foundation from SGA and either tie it to another organization or allow it to operate with directors electing their successors.

If the Foundation can be transitioned, some of the SGA assets may be transferred to the Foundation as described above. The Foundation could continue to operate within its bounds (and SGA's) current mission, but without the existing gubernatorial burden of direct participation. If the Foundation received the regional policy exchange portal, Governors' policy staff and appointees would have the option of continuing to access the regional policy exchange through this medium.

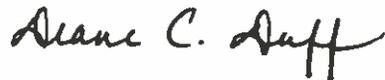
Given the short period of time remaining before the end of the current fiscal year, it is imperative that each of you as a current Member Governor authorize me to move forward to address the issues described above and notify me of your preferences by completing the attached poll no later than **Friday, April 15, 2016**.

In so doing, you will provide the guidance that I need to develop a full plan and come back to you for formal approval prior to the completion of the fiscal year.

Due to the circumstances described herein, I am planning to leave the employment of SGA at the conclusion of Fiscal Year 2016 (June 30, 2016), but will do all I can to set into motion the will of the majority of Member Governors prior to my departure.

Thank you for your prompt guidance in this important matter.

Sincerely,



Diane C. Duff

cc: Alabama Governor Robert Bentley
Arkansas Governor Asa Hutchinson
Florida Governor Rick Scott
Louisiana Governor John Bel Edwards
Maryland Governor Larry Hogan
Mississippi Governor Phil Bryant
Oklahoma Governor Mary Fallin
Puerto Rico Governor Alejandro García Padilla
South Carolina Governor Nikki Haley
Texas Governor Greg Abbott
Virginia Governor Terry McAuliffe