



# State of South Carolina

## Office of the Governor

MARK SANFORD  
GOVERNOR

POST OFFICE BOX 12267  
COLUMBIA 29211

March 11, 2009

The Honorable Barack Obama  
President  
United States of America  
1600 Pennsylvania Avenue, Southwest  
Washington, D.C. 20502

Dear Mr. President,

It is with great respect and equal concern that I write today seeking more flexibility with regard to the stimulus dollars headed to South Carolina.

Specifically, I am requesting a waiver to direct the \$700 million in the stimulus' Fiscal and Education Stabilization Funds to paying down our state's very sizable debt and contingent liabilities. As we both know, the nation's governors have been granted some degree of discretion over these funds. Retiring this debt would represent in comparable terms paying down \$400 billion of the national debt and would give our state greater flexibility in dealing with the financial storm now facing our nation. We believe this financial flexibility vital to our state in weathering these challenging economic times. The other \$2.1 billion in the stimulus package for our state would be spent in accordance with the existing federal programs now in place.

As you know, I've been an outspoken opponent of the stimulus legislation. I continue to believe that the massive spending involved will not achieve the economic stimulus proponents suggest, and will instead create an unprecedented level of debt for our children and grandchildren. That said, the legislation did win approval by Congress, and our team has spent the weeks since you signed it into law carefully examining the direct implications for current and future South Carolinians – and we have come to the following conclusions.

First, given the age-old notion that when one is in a hole the first order of business is stop digging, we think it is not in our state's best interest to spend all of these monies. In our case, 75 percent would be spent and 25 percent would prudently be used to pay down debt so that our state would have more flexibility should the recession be protracted – as I firmly believe it will. To do otherwise and spend it all would not only be financially reckless in our case, but over the next two years it would create a \$1.2 billion financial hole. Unless your intention is to borrow

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more money that we don't have to send to states like ours in 24 months, I don't know how we would dig out of this hole without substantially raising taxes and in turn making our state economy less competitive in producing jobs.

Second, this annualizations problem compounds the more treacherous issue of our state's long-term liabilities. South Carolina has roughly \$20 billion in unfunded political promises and stands at the unenviable position of being number one in the entire Southeast in per capita debt – 57 percent above the Southeastern average and three times higher than neighboring Georgia.

Third, in the same way one could argue that the restructuring essential to the long-term survival and prosperity of General Motors (GM) was only postponed by federal aid, we believe these stimulus monies would postpone changes essential to South Carolina's competitiveness in the global economy. Just months after GM received billions in bailout funds it has returned to Congress asking for billions more and suggesting if these monies didn't come they would be faced with impending bankruptcy – which is the same thing they said the first time. In that exchange the taxpayers are poorer as billions have been spent with no effect – as is the company itself as it has been robbed of time it could have used in beginning the difficult, but necessary, process of restructuring. This illustrates an often debilitating aspect of federal money – it forestalls much-needed and admittedly difficult choices on restructuring and updating our government that in our case are vital to making South Carolina more competitive in producing jobs in the global economy.

Finally, we believe strongly in the Founding Fathers' notion of federalism, and specifically in the Jeffersonian precept that government closest to the people governs best. This idea of states being laboratories of democracy has a direct bearing on the stimulus in that it offers an opportunity to adapt solutions to each unique state environment. Under the budget conditions that prevail in many states, it may very well make sense to accept the funds. But in our state – where we have a retirement system less than 70 percent funded, the highest per capita debt load in the Southeast, and would look at beginning next year's budget \$740 million in the hole if we took all of this money – we believe not spending all the money to be the most prudent course of action. Accordingly, we respectfully ask for the flexibility inherent in staying true to the larger precept of federalism.

As you know, approximately 75 percent of the stimulus money is directed by federal statute to flow through programmatic means to South Carolina. Our waiver as expressed earlier in this letter would not impact these funds and this \$2.1 billion would be spent in accordance with the stimulus bill. The discretion to our nation's governors over the remaining 25 percent – including the Education and Fiscal Stabilization Funds – is the sole area for which we are requesting this waiver.

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In all this I would like to underscore the degree to which I would rather not be making this request. Doing so invites all sorts of criticism, and the \$1.2 billion financial hole that would be created in simply accepting the money would not come due for 24 months – though my term ends in roughly 20 months. So if I took the money my administration would avoid the criticism – and dealing with this extreme financial shortfall in 24 months would fall to the work of whoever follows me in this job and the future legislative leadership in our House and Senate. While it would be the easier decision, I do not believe it would be a wise course of action given its consequences for the near five million people I represent in South Carolina. Accordingly, I send you this waiver and humbly ask that you grant it to the people of this state.

In my opinion, this course will do more to ensure South Carolina's long-term economic strength, and help in avoiding our state's structural budget shortcomings, than would other contemplated uses of the funds. If your administration determines that it is unable to grant us this flexibility, we will in turn opt not to pursue these funds.

I would respectfully ask that you consider this request with all due haste, and we look forward to working with your administration during these challenging times.

Sincerely,



Mark Sanford