



March 31, 2008

Budget OK'd by House needs improvement

Government should adopt practices families, businesses use in tough years

By Mark Sanford

I'm not sure what it will take to get the attention of state budget writers.

A few years ago, I walked upstairs with a pig under each arm after eight months of fruitless jaw boning on our budget. Those pigs, Pork and Barrel, did get budget writers' attention and we're all better off because they finally dealt with the unconstitutional deficit we had unsuccessfully tried to change through quieter channels for months.

Given the lack of reception we have gotten from House budget leaders on changing budget course, and the severity of what I see before us, one would be compelled to carry in two wildebeests in light of the larger budget issues looming.

I hope not to -- but the quieter approaches we have tried this year seem not to be working -- and accordingly I write to instead ask you insist that our state budget be held to the same realities that prudently managed family and business budgets are held to on a daily basis across South Carolina.

The House has completed its budget but this fortunately can be changed in the Senate and at Conference. Here's our situation:

The national economy continues to weaken. Whether in foreclosure notices, falling retail sales or rising prices at gas pumps across the nation, all the ingredients are in place for a full-blown national recession. When I pointed things like these out more than a year ago, the head of the Senate Finance Committee simply discounted it as "Chicken Little" talk. Even if people in Washington and Columbia are the last to grasp the obvious on the economy, I think they are now beginning to indeed see these troubling signs as real.

This has been the case over the last two weeks, given the unprecedented steps the Federal Reserve took to expand money supply, lower interest rates and ward off the bankruptcy of one of the nation's big investment banks. In fact, the Fed's actions have been without precedent since the Great Depression.

Since we are in stormy waters that will probably become still choppiier, I think that there are a couple of essential things that we do in the budget to avoid real trouble if the financial storm around us grows. Our administration is asking for just two things:

One, the first step in protecting your home or business finances rests in dealing with the situation as it is, not as you wish it were. We should do no differently in government and not paper over shortfalls.

In this vein, the House budget borrows from Peter to pay Paul to the tune of \$169 million -- called "annualizations" in government circles. This is a really bad idea when we are going into the kinds of economic times we face for two reasons.

First, in this case along with borrowing from things like Commerce -- and thereby undermining our efforts to attract jobs and grow the economy -- \$109 million is borrowed from Medicaid, the same

program they decided to expand despite our veto just last year. We have built up reserves in this account because historically when the economy has weakened, the need for social safety net programs, like Medicaid, has increased -- and because we are the first state in the nation attempting an overall reform in running Medicaid. In this reform, we have worked hard to ensure all our assumptions in program utilization are valid, but in a \$5.5 billion program you can't get every assumption down to the penny. Leaving the cushion we had in an economy moving downward is important, and we desperately ask the Senate not borrow these moneys.

Second, this is a big annualization as a percentage of what is coming in and what may come in next year. Those pushing for more spending this year will counter that last year's annualization was \$270 million, but they will neglect to mention that \$1.5 billion of new money came into Columbia. Not only does this make this year's much larger than last's on a relative basis, but it makes holding the line much more timely given that last year's annualization occurred after state government had grown by a remarkable 40 percent over the preceding three years.

Finally, we ask they prioritize. When times are tough families don't cut across the board. The movie ticket budget isn't the same as the mortgage budget. Outside of education and health care, the House budget essentially cuts government equally by 2.4 percent. We think it's a mistake, and beg the Senate to do something other than across the board cuts.

Doing these things would certainly involve budget pain this year -- but set us up to avoid much greater pains next year, and for this reason I hope you'll make it a point to jump into this year's budget debate. Please make your voice heard to your senator.
