

January 3, 2001

To the Citizens of South Carolina:

I am pleased to present my Executive Budget for FY 2001-02.

In my first two years as governor, education has been my top priority. I am pleased to report that our state is firmly on a path toward excellence in our public schools.

In the year 2000, South Carolina led the nation in SAT improvement. More children tested ready for the first grade than ever before. In just one year, South Carolina increased the number of its National Board certified teachers by 800% -- from 39 to 370. For the first time since the 1950s, we provided a massive investment in school construction and renovation, putting three-quarters of a billion dollars into our local schools without raising taxes.

We have launched an aggressive effort to prepare children for the first grade. This initiative, called First Steps, is off and running in all 46 counties. In Greenville County alone, two out of three at-risk students in a First Steps summer initiative have now tested ready for the first grade. Our recent success stories in education prove that we can dramatically improve our schools if we hold fast to our priorities.

Our top priority must continue to be education. During the last few years, we have put the basis of teacher accountability in place. With this in mind, I propose we take a major step forward. My first and highest priority for this year will be winning \$68 million from the legislature to increase teacher salaries to \$1,000 above the southeastern average -- the first step of our six-year initiative to raise teacher pay to the national average.

With increased salaries, we should demand more from our teachers. Parents deserve to know how their schools measure up to a set of standards. Schools that don't perform well will need our assistance to reach new heights. Therefore, we must budget \$54 million to fund fully the requirements of the Education Accountability Act, including teacher and principal specialists to improve at-risk schools.

We will be asking more of our teachers, but we will be giving them the tools to reach their goal. And we will be treating teachers like the professionals they are. I challenge the legislature to make this vital commitment to improving education their number one priority for the year as well.

In keeping with our commitment to education, I have also exempted \$2.7 billion worth of appropriations for public education, LIFE scholarships, and tuition grants from budget cuts.

Overall, my budget includes \$481 million in tax relief. My budget replaces the temporary food tax relief enacted last year with a permanent, across-the-board \$25 million food tax credit. The budget devotes \$55 million to maintain the senior homestead exemption. Furthermore, my budget proposes that a second "sales tax holiday" be held in February. I am pleased that this very successful, targeted tax relief has become a model for similar "sales tax holidays" around the country. It is a boon to working families and retailers across South Carolina, and its modest cost makes it a worthwhile investment.

Our revenue has been dedicated to our twin priorities of improving public education and maintaining targeted tax relief. At the same time, we will begin to reverse substantially the trend of annualizations which currently plagues the budget. My Executive Budget contains an almost two-thirds reduction in annualizations -- from \$702 million to \$250 million, of which \$150 million is to continue educational improvements.

Unfortunately, there is no revenue to maintain other initiatives at their current levels. Consequently, this will be the year we downsize state government. We will remove \$469 million from current programs. This requires an unprecedented 15% budget reduction for most agencies.

Despite these cuts, we expect state agencies to maintain service quality in the face of reduced resources. All state agencies should align their priorities with those contained in my business plan for state government -- EnVision South Carolina -- in order to guide them as they face this challenge.

I urge the members of the General Assembly to fund our priorities in education and tax relief, so that we may continue the progress we have made. As governor, I stand prepared to assist them in this effort.

Sincerely,

Jim Hodges

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FY 2001-2002 EXECUTIVE BUDGET

Summary

From the outset, the FY 2001-02 state budget is hamstrung by \$702 million in promised initiatives from the FY 2000-01 budget that were either partially funded, given one-time funds, or expected to be phased-in. Of these promises, \$104 million was for public education, and \$114 million was needed for tax relief initiatives. Our first priority is to address these promises.

While all of these programs have merit, we are presented with the fact that our available revenue is \$197 million above the current budget. Revenues continue to grow, but this year's increase is much less than in previous years and is not sufficient to meet current expectations.

I have allocated more than one-fourth of this year's revenue growth, \$57 million, to maintain and expand existing tax relief programs. Of the remaining revenue increase, \$122 million is committed to public education. This increase, however, is not enough to address all of the educational needs of the state, much less continue our educational progress. Therefore, I am realigning \$55 million of the state budget to meet my commitment to improving public education.

Although I have identified \$35 million of expected lapsed funds that can be used for other programs, the remaining programs in state government must be reduced to balance the budget. This requires an unprecedented level of 15% budget cuts totaling \$469 million. I have exempted \$2.7 billion of appropriations for public education, LIFE scholarships, tuition grants, and programs with unique circumstances.

Included in my budget recommendation is a bond package of \$345 million. We must be responsible stewards of our capital assets and manage these resources accordingly. Given the magnitude of these projects, the recurring budget is not sufficient to address adequately our capital infrastructure needs. Like the private sector, state government must take advantage of favorable financing rates for appropriate long-term capital investments.

PUBLIC EDUCATION

Our education initiatives are beginning to pay dividends. Our PACT and NAEP scores are rising, as are SAT scores and the number of children who test "ready" for first grade. Our efforts to improve our teacher workforce by promoting National Board Certification led to 331 new teachers receiving National

Certification this year. That is among the top in the nation. To ensure that we change our future, we must sustain the momentum we have begun.

Teacher Salaries

We expect a teacher shortage in South Carolina in the near future. The median age of a South Carolina teacher is 42 years old. Over the next five to seven years, we are going to need an additional 8,000 to 10,000 teachers. Furthermore, one-third of our new teachers leave the profession after less than five years. We must improve our efforts to attract and retain qualified teachers.

I am firmly convinced that an investment in quality teachers is one of the best ways to enhance student achievement. That is why I am proposing that we raise the pay of South Carolina teachers to the national average by the year 2006. I am including \$68 million beyond the EFA requirement for teacher salaries as the first step toward that goal. These funds will raise teacher salaries to \$1,000 above the southeastern average.

Teacher Supplies

This year the General Assembly provided \$100 for teachers to purchase school supplies. I propose that this be increased to \$200 for classroom teachers, guidance counselors, and media specialists. To avoid the many problems experienced with the handling of receipts, this \$200 should be given to teachers in their initial paychecks for the school year.

Accountability

Schools will receive their first report cards in November. I support the Education Accountability Act and high standards, but we must do more than just grade schools. We must provide underachieving schools with the means to improve as recommended by the Education Oversight Committee. My budget contains over \$54 million for homework centers, teacher and principal specialists, external review teams, and retraining grants to ensure that these schools will have the capacity to improve.

Transportation

South Carolina's 5,600 school buses carry over 335,000 students every day. More than 1,200 of these buses are at least 15 years old, and more than 400 buses have at least 200,000 miles on them. We cannot allow our children to be exposed to the potential hazard created by unsafe school buses. I am recommending that we authorize \$40 million of state bonds for the purchase of

new school buses over the next two years. Furthermore, I propose that bus driver pay be increased by 2%.

HIGHER EDUCATION

Research Investment Fund

Our higher education institutions will also play a huge role in the future of our state. I am excited about my proposal to invest \$5 million in a Higher Education Research Investment Fund. This commitment will enable our colleges and universities to expand their research efforts and compete more successfully at the national level by leveraging state dollars with federal and private funds. While continuing our quest to develop world-class institutions of higher education, this funding will enhance new and existing economic development projects, promote research, and nurture South Carolina's efforts to attract high-tech businesses.

Capital Needs

To help higher educational institutions offset their portion of the base budget cuts, I propose to give higher education institutions \$60 million in bond money for deferred building maintenance. This should provide some flexibility in using state funds in more critical areas. Furthermore, we must ensure that capital assets are maintained at proper standards.

In addition, I propose that we authorize \$102 million for capital projects for our institutions of higher learning. These are as follows:

| | |
|------------------------------------|--------------|
| The Citadel | |
| Padget Thomas Barracks | \$ 6,000,000 |
| Clemson | |
| Civil Engineering Textile Building | 10,000,000 |
| University of Charleston | |
| New Science Building | 16,000,000 |
| Coastal Carolina University | |
| New Science Center | 5,000,000 |
| Francis Marion University | |
| Schools of Education and Business | 2,000,000 |
| Lander | |
| Student Center | 2,000,000 |
| SC State University | |
| Lowman Hall Renovation | 8,500,000 |
| Whittaker Library | 12,500,000 |

| | |
|--------------------------------------|------------|
| USC-Columbia | |
| Law School | 5,000,000 |
| Gibbes Green/LeConte College | 10,000,000 |
| USC-Aiken | |
| Convocation Center | 2,000,000 |
| Winthrop University | |
| Peabody Health Sciences Building | 4,000,000 |
| Medical University of South Carolina | |
| College of Dental Medicine | 6,000,000 |
| Florence Darlington TEC | |
| New Applied Manufacturing Center | 4,000,000 |
| Midlands TEC | |
| Northeast Classrooms | 5,000,000 |
| Williamsburg TEC | |
| New Technology Building | 2,000,000 |
| York TEC | |
| Classroom Building, Chester County | 2,000,000 |

HEALTH AND SOCIAL SERVICES

For the current fiscal year, SilverCard and the various health and human service agencies were appropriated over \$190 million of non-recurring funds for ongoing program operations. This amount included over \$145 million of funds appropriated to the Medicaid program to be used for three-to-one federal matching funds.

My Executive Budget annualizes these non-recurring funds, maintains the Medicaid program by minimizing the loss of federal matching funds, and prevents the elimination of cost-effective health programs that benefit vulnerable populations of children, seniors, and the disabled.

Medicaid

To fully sustain the Medicaid program for FY 2001-02, \$215 million is needed. My budget recommendation for FY 2001-02 appropriates \$200 million to Medicaid to replace non-recurring funds and to maintain the program due to its ongoing budget shortfall, client and product growth, and match rate change. Despite this increase in funding, the Department of Health and Human Services must reduce state-funded provider reimbursements by \$34 million to avoid eliminating vital components of the Medicaid program.

Other Health and Human Services Agencies

For the current year, \$25 million of non-recurring funds were appropriated to the Departments of Health and Environmental Control, Mental Health, Disabilities and Special Needs, Social Services, and Alcohol and Other Drug Abuse Services to administer recurring programs. For FY 2001-02, I recommend that these funds be appropriated in the recurring base budget.

Health Care Trust Fund (Tobacco Settlement Funds)

For FY 2001-02, approximately \$32.9 million of interest earnings will be generated for the Health Care Trust Fund. This fund was established with revenues received from the settlement with the tobacco industry. In accordance with the trust fund requirements, and consistent with my philosophy that these funds be used for preventive and cost-effective programs, I recommend that these funds be allocated as follows:

- \$24 million to maintain SilverCard, the Seniors' Prescription Drug Program, which provides financial assistance for approximately 33,700 seniors' prescription drug costs once a \$500 deductible has been met.
- \$1.4 million to maintain hearing screenings for newborns.
- \$1.8 million to maintain funding for youth smoking prevention and cessation programs.
- \$2.4 million for home and community-based services for seniors to provide 750 additional slots to assist with a 3,000-person waiting list. These services are available to assist seniors who are eligible for nursing home care and whose incomes do not exceed \$1,500 per month.
- \$2.3 million to provide 150 new community training homes for disabled persons currently on a 1,400-person waiting list for services. The cost to serve disabled individuals in this type of community setting is two-thirds the cost of providing similar services in regional centers.
- \$165,000 to enhance the Ombudsman program within the Department of Health and Human Services. These funds will add additional personnel to investigate complaints in residential care and nursing home facilities.
- \$1 million for state and community-identified efforts to prevent and eliminate health disparities such as oral health, diabetes, hypertension, stroke, and other cardiovascular diseases. These disparities have a disproportionate

impact among our African-American community and must be addressed. A portion of these funds should be used to establish community grants to better coordinate ongoing and future interventions to eliminate chronic health conditions and to provide technical assistance to communities in their efforts.

PUBLIC SAFETY

DROP Plan for Police Officers

The Teacher and Employee Retention Incentive (TERI) Plan adopted last year should be expanded to include all state and local employees under the state's Police Officer Retirement System (PORS). The vast majority of school, state, and local employees are now eligible for the program which allows an employee to retire after attaining the required years of age or service time. However, the employee may continue to work for up to five years while putting retirement benefits into an escrow account. Our law enforcement officers deserve similar treatment with a Deferred Retirement Option Plan (DROP). The cost of this DROP program can be absorbed within the PORS with no noticeable fiscal impact.

Drug Courts

Last year my Executive Budget included \$1.5 million to maintain drug court operations in several local jurisdictions and to expand this successful program to other judicial circuits. This item was placed in the supplemental appropriations act, but given such a low priority that it was not funded when revenue collections fell short. Drug courts, like the ones run by Judge William Keesley in Lexington County and Solicitor Robert Arial in Greenville County, have been extremely successful in breaking drug dependency habits of defendants and instilling personal responsibility. Unfortunately, grant money is running out in many programs, and we must not allow such successful programs to end. There must be a commitment to continue those programs currently in place and to implement, ultimately, similar programs in every judicial circuit in the state.

Highway Safety

Despite continuous public awareness and enforcement efforts, South Carolina highways remain among the most deadly in the nation. Last year, I asked for, and the General Assembly approved, 50 new troopers for the Highway Patrol. Unfortunately, this priority was also placed low on the supplemental funding list and not funded. We must continue to explore ways to reduce traffic-related injuries and deaths. Given the across-the-board reductions, I am returning \$3.5

million specifically for the Highway Patrol in order to maintain needed troopers on our highways.

Emergency Preparedness

South Carolina was fortunate this past hurricane season not to have experienced any major natural disasters. Last year, the General Assembly addressed several issues essential to implementing an improved coastal evacuation plan, but our work is not finished. I am renewing my call to move the Emergency Preparedness Division (EPD) to the Governor's Office.

ECONOMIC DEVELOPMENT

Coordinating Council Set-Aside Funding

I am recommending a \$20 million bond appropriation for the Coordinating Council to provide basic infrastructure for new industries. Again, while the General Assembly agreed to fund this item in the current year with supplemental appropriations, it was not funded due to the low priority that it was given. In recent years, it has been necessary to obtain supplemental appropriations totaling over \$30 million to meet the needs of project demands. This supplemental funds have now been exhausted and this amount is needed simply to maintain the current level of funding.

Cluster Industries Incentive Funding

The Department of Commerce is focusing on attracting major industry clusters to the state as a way to further diversify and enhance our industrial base. These industry clusters have been identified due to the high probability of growth in these industry areas. Focusing our efforts to attract these industry clusters will guarantee a high degree of technically-oriented jobs for our citizens. This proposal would provide the Department of Commerce with a revenue stream and the bonding authority to provide basic infrastructure needs for industries that would invest more than \$400 million, create a minimum of 400 jobs, and likely attract other industries as a result of this investment.

Community Development Initiative

Both urban and rural communities face critical problems resulting from the lack of economic prosperity and employment opportunities. To address this need, I propose to increase our commitment to the Community Economic Development Act by adding a \$1 million appropriation to supplement the tax credits currently offered by the Act.

Small Business Ombudsman

I am directing the Department of Commerce to create a small business ombudsman to better serve the needs of the small business community throughout the state. This office will serve as a valuable tool in identifying resources and coordinating efforts.

Ports Authority

My budget includes \$55 million in bond authorizations for Ports-related projects.

Other Projects

My budget completes the state commitment to the Spartanburg Renaissance Project with \$8.4 million.

NATURAL RESOURCES

Open Space Matching Grants

Last year, I proposed that we spend \$5 million to encourage local governments to preserve open space in urban areas. I am renewing this commitment and expanding this recommendation to \$15 million for preservation of both open space and historical sites.

Over the past twenty years, South Carolina has experienced a surge in growth and development at a level at which land is being developed at a much faster rate than the population is growing. While we have made a good beginning at protecting areas on a landscape scale with projects such as the ACE Basin, Jocassee Gorges, and Congaree National Monument, we now need to increase our effort by beginning a program that recognizes the need to protect a vital ingredient in our quality of life.

Furthermore, the Governor's Task Force on Historic Preservation and Heritage Tourism recently reported that the state is losing irreplaceable historic sites and structures at a rapid rate. This grant program would help protect these historic assets, while also enhancing wildlife habitat and providing green space for our citizens.

Under this proposal, the state would partner with local governments, local land trusts, other private organizations, and our many interested and involved citizens and assist them in protecting these important natural assets. The \$15 million in

grants will provide 50% of the acquisition or easement cost, thereby providing at least \$30 million in land protection.

Forest Inventory

Last year, I recommended \$500,000 for the Forestry Commission to survey our forest conditions so that we can better manage our forest resources. This inventory program is supported both by the forest industry and environmental groups. Nonetheless, the General Assembly made this item the lowest priority on the supplemental list, which fell well short of funding. Consequently, the Forestry Commission had to transfer funding from other programs to meet this important need. For FY 2001-02, I propose that we restore funding for this program.

EMPLOYEE BENEFITS

State Health Insurance Plan

Increasing health care costs require that health insurance premiums for the state health plan increase. For the current year, costs are rising faster than anticipated, which means an even greater increase is needed in 2002 to catch up and balance this fund. My budget recommendation provides \$24 million in state funds for a 12% rate increase on employer premiums to meet the rising health care cost and to establish a 30-day reserve account. While an increase in employee premiums is also expected, I am also recommending that the Budget and Control Board review co-insurance and deductible options in order to keep employee increases to a minimum. Furthermore, I am establishing a cost savings committee to find and implement changes in our program that encourage cost savings for both employers and employees.

Employee Pay

Due to the severe fiscal constraints, employee raises will be limited next year. My budget provides \$11.5 million to increase employee salaries in January. With this funding, I propose that employees making \$30,000 or less receive a 2% pay increase and those earning more than \$30,000 receive a 1% increase.

OTHER AREAS

Educational Television

I am proposing that we authorize \$20 million in bond proceeds to allow ETV to convert to digital transmission which is required of them by 2003 in order to maintain their broadcasting license.

Court Information Technology

To ensure that the Judicial Department can effectively serve litigants and the general public, I am recommending funding for court technology infrastructure in the amount of \$4.4 million. To operate efficiently and responsively, the judicial system is in dire need of technological modernization. I support Chief Justice Jean Toal's effort to develop and implement a state-of-the-art computer system to link state and local courts, improve the case management process, and provide improved access to information for citizens, judges, clerks of court, and attorneys.

Deferred Maintenance

Deferred maintenance of state property is a critical issue. In a tight budget year, these types of expenses are commonly delayed so that more resources are available for personnel and other priorities. In an effort to be a better steward of state assets, I am recommending that \$7 million in bond proceeds be used to address the capital needs of our agencies. This should provide agencies with some flexibility in managing their budget cuts next year.

World War II Monument

I am renewing my call for South Carolina to honor its sons and daughters who served in World War II with a monument on the State House grounds or other appropriate site.

REVENUES AND TAXES

My budget recommendations contain \$481 million for tax relief.

Homestead Exemption

This budget adds \$55 million to maintain the \$30,000 increase in the homestead exemption for seniors, which was funded in the current year with one-time

money. In lieu of an across-the-board cut, I am capping the level of funding for the school operating exemption at the current level.

Sales Tax Holiday

One year ago, I proposed that South Carolinians be given a sales tax holiday to purchase clothing and school supplies. This past August, taxpayers and merchants celebrated this weekend with tremendous success. Consumers spent \$60 million on clothing and school supplies free of the state sales tax. For FY 2001-02, I propose that we expand our sales tax holiday to a second weekend, this one taking place during the first weekend in February.

Food Tax Relief

Last year the General Assembly adopted a temporary food tax relief proposal for \$25 million. I propose that we create a permanent food tax relief fund of \$25 million and provide an across-the-board tax credit to all South Carolinians. This fund would be used to send households a tax refund. With a credit, tax relief can be targeted to South Carolina residents only. Furthermore, this method is fairer to small businesses that now must implement a fragmented sales tax plan. Future increases can be considered as revenue allows.

Car Tax Relief

In January, car owners will see higher tax relief as the constitutional amendment reducing the assessment ratio takes effect. At that time, the average tax relief will increase from \$7 a vehicle to \$20. This tax relief will continue to increase each January for the next five years, reducing car taxes by 43%. Furthermore, with the adoption of the second constitutional amendment, local governments will have the option to eliminate car taxes altogether through a local sales tax and in a shorter period of time.

APPROPRIATIONS DETAIL