



State of South Carolina

Office of the Governor

MARK SANFORD
GOVERNOR

Post Office Box 12267
COLUMBIA 29211

March 30, 2009

The Honorable Hugh K. Leatherman, Sr.
Chairman
Senate Finance Committee
111 Gressette Building
Columbia, South Carolina 29201

Dear Hugh,

Thank you for your letter of March 26th.

Prudent financial practice is never chaos. It may not be great politics – but it's hardly chaos to have your financial house in order. Indeed, it was only three weeks ago that I was heartened to first hear about your concern over the stimulus bill's massive debt and dangerous annualizations. At that time you said you were, "fearful it's going to help us dig our state in a hole that's going to be tough to get out of in two years when that money's shut off." I believe what you said three weeks ago was just as true then as it is today, and accordingly regret your change of heart.

The concerns you expressed in your letter over the well-being of South Carolinians working in and served by state government is laudable, and a concern we hold in common. I think our difference lies in leaving some dividend or benefit to future South Carolinians who will be paying the bill on the federal stimulus monies as these monies will be borrowed. It's incredibly important to remember that simple fact – these monies are not coming from a big piggy bank in Washington – but rather from the tax load borne by future generations. Accordingly, what could be more equitable than paying down South Carolina debt whose cost will be borne by the same generation?

So while your letter's appeal to emotion and repeated use of the term "chaos" certainly offers a vivid, though inaccurate, picture of what our state budget would look like without stimulus dollars, I'd offer the following thoughts:

First, the fact seems to be lost that our Administration submitted a balanced Executive Budget proposal just three months ago that funded core government services without the draconian cuts to health care, public safety and education that you and a few others in the Legislature now claim

The Honorable Hugh K. Leatherman, Sr.
Page 2
March 30, 2009

as inevitable. For instance, our Executive Budget proposed decreasing healthcare spending by only half of one percent – and kept almost all of this spending as recurring, unlike the House’s recent budget which will inevitably lead to a dangerous annualizations cliff two years down the road. Public Safety spending was also decreased by only half a percent in our Executive Budget – not unreasonable given the challenging economic environment. And though state revenue has been adjusted downward since this January, the stimulus package still frees up an additional \$100 million or more Medicaid dollars than we had available for our budget.

In our Executive Budget, we offered more than \$271 million in potential savings, and – as in years past – many of these cost savings and efficiencies have been ignored. Our goal is to reduce costs without negatively impacting services. Even if the Senate Finance Committee cannot agree with those savings, the default position should not be simply making across-the-board cuts because all government spending is not created equal. Instead, we’d encourage your Committee to come to the table with us, a request we’ve made to your office in the last week, and together work to hammer out a responsible budget that funds core government services while protecting taxpayers from future liabilities.

Second, you and I agree that education is fundamental to our state’s well-being and its future in an increasingly competitive world. It’s worth noting that without one dollar of the stimulus, our Executive Budget was able to fund the Base Student Cost at \$2,339. The House’s Budget, with hundreds of millions in additional stimulus dollars, provided a Base Student Cost of \$2,342. That’s a difference of just three dollars per student.

Your daunting statements about educational job losses in the thousands are at best a stretch given the fact that our Executive Budget funded education at the above levels without laying off a single teacher. Likewise, while predictions of double-digit college tuition growth are serious, we have seen that level of tuition inflation over the last five years – when the state’s budget was healthy and growing quickly. For this reason, we proposed to cap tuition and correspondingly force colleges to eliminate duplicative and unnecessary programs. To date you have ignored this recommendation to do something about that which you now proclaim would be a problem if we didn’t spend every dime of the stimulus package from Washington.

Third, I am bewildered by your claim that as Governor somehow I have “the power to avert the possible scenarios” your letter describes with respect to teacher firings, higher ed tuition hikes and cuts to health care. For the last six years, this Administration has put forth proposal after proposal to head off what we saw as an inevitable state budget meltdown guaranteed to come when government grows by 40 percent in four years’ time, as our state’s did. Unfortunately you stymied those efforts at nearly every turn and even went so far as to call me Chicken Little for my predictions that the spending course we were on was absolutely unsustainable.

The Honorable Hugh K. Leatherman, Sr.
Page 3
March 30, 2009

The economic situation has borne my fears out. Your response, as typified in your letter, seems to be a Copperfield-like wave of the hand that distracts people with doomsday scenarios and then offers up the same old solution as that of Democrats in Washington D.C.: grow government so government can take care of people's problems. Meanwhile, South Carolinians are saddled with the highest per capita debt in the Southeast and more than \$20 billion in unpaid political promises in the state's retirement system.

Let's examine the historical record of this "grow government" mentality. In the early years of this Administration, we had to force the repayment of a \$155 million unconstitutional deficit, a decade-old \$105 million GAAP deficit, and \$500 million in raided trust and reserve funds that came as a result of runaway spending in the late 1990s. As revenues grew, we opposed spending too much too fast because both the Bible and the business cycle teach us that sustainable spending can help protect against drastic busts following boom times. As just mentioned, state government spending still grew by more than 40 percent in the four year period before this most recent economic downturn.

This spending spree has led to some ironic consequences. For example, for years the legislative budget funneled tens of millions of taxpayer dollars into the so-called Competitive Grants Committee to fun balloon festivals, Elvis impersonators, and various other "big check" presentations. Yet now, those millions, having been spent unwisely, some budget-writers seem caught unaware with the \$45 million deficit at the Department of Corrections – even though they themselves under-funded that agency for years. Additionally, the half billion dollars in savings at the Budget and Control Board recommended by the GEAR Committee were in large part brushed to the side. And just last year, you pushed through legislation over my objection to finance an automatic cost-of-living adjustment for state retirees with unrealistic investment assumptions rather than focusing on the unfunded liability first.

To address another threat from your letter, I'd simply say that if eliminating whole agencies is your preferred way of balancing a wholly balanceable budget, then please provide us the opportunity to submit a list of agencies we think less vital than the healthcare, public safety, and economic development agencies we have worked to shield from cuts you have leveled over the past few years.

The truth is that you and your Committee are anything but powerless. Both you and I know that it's your Committee's very decisions that could have taken our state down a more responsible path in years' past, and this year you could still avoid any and all lost education jobs that you so ominously foretell. It's your pen, not mine, that has in large part brought us to this point today. And threatening a catastrophe when it's within your power to stop it from happening seems to be a less than upright use of your power and responsibility as one of the state's chief budget writers.

The Honorable Hugh K. Leatherman, Sr.

Page 4

March 30, 2009

In conclusion, we continue to believe we've staked out a very reasonable middle ground in asking that just 25 percent of available stimulus dollars be used for debt repayment. Our fellow Republicans in Congress – including every single Republican from South Carolina – voted against this stimulus package. Had that position prevailed, we'd have access to no stimulus dollars rather than the 75 percent now contemplated. We believe our Republican representation in Congress voted the right way on this issue – on the side of the taxpayers, on the side of smaller government and on the side of passing less debt on to future generations. It seems at odds with that position for some in the General Assembly to turn a blind eye to the idea of paying down debt, and instead say in essence that we cannot govern for ourselves without help from Washington.

So while your letter sets up what you view to be a simple decision for me – either accept or reject the \$700 million, end of story – my fiduciary responsibility as Chief Executive is more complex. As Governor, I am called to look out for the best interests of present and future South Carolinians because our great state's story doesn't end with you and me. What is often in the best interest of those in politics or government in many cases is at odds with taxpayers and future generations of taxpayers, and accordingly I would ask you refocus on these two constituencies you seemed to have left out of your letter and approach to this budget.

It's indeed with that statewide, taxpayer-focused approach in mind that I thank you for your time, and look forward to continuing this discussion.

Sincerely,



Mark Sanford

MS/bf

cc: South Carolina Senate
The Honorable Robert W. Harrell, Jr.
The Honorable Dan Cooper