

State of South Carolina

Office of the Governor

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May 28, 2008

The Honorable Robert W. Harrell, Jr.
Speaker of the House of Representatives
Post Office Box 11867
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Dear Mr. Speaker and Members of the House:

I am returning H. 4800, R. 293, the Fiscal Year 2008-09 General Appropriations Bill, with the line-item vetoes detailed below. It is this Administration's view that, as a nation, we are not yet out of the economic slow down that has driven the requirement for some of the cuts already made by the House and Senate – and those outlined on the pages that follow. At the front end of a slowing economic cycle we believe it is vital that policymakers ensure a balanced budget – so as to not require yet greater cuts in subsequent years. While we hope the national economy will quickly improve, it was former Chief of Staff of the U.S. Army, Gordon Sullivan, who wrote that hope is not a method. Accordingly we propose the attached course of action.

This Administration's goals for our veto message are based on four primary objectives: (1) correct what is effectively unconstitutional deficit spending authorized by the General Assembly in this budget, (2) replenish the funds taken from the OPEB account this year, (3) replenish the funds borrowed from Medicaid this year, and (4) materially reduce the \$161 million annualization hole created in this budget.

In approaching our veto message this year, we have tried to be very deliberate and concise in the number of items we vetoed and the objectives that we believe we can realistically attain in the veto process. Given our more than limited and judicious approach, and what we believe to represent an effort to find compromise between the Legislative and Executive Branches in the budget process, it is our hope that the overwhelming bulk of these vetoes will be supported.

The overarching goal in each of the four objectives listed above is to eliminate spending that we believe is inconsistent with the priorities of South Carolinians in these challenging economic times. The line-item veto is a very cumbersome tool from which to get at spending because many of the more troublesome areas of government are rolled up into entire agency budgets. In

those instances, the only way to get at spending is to veto an entire agency or category. Given the meritorious or essential work of other parts of the same agency you can begin to quickly work at cross-purposes. What all this means is that in reaching our first two objectives, eliminating deficit spending and not moving backward in beginning to address our \$10 billion OPEB liability, we were able to lay out, I believe, a very reasonable list of vetoes in closing what amounts to about a \$70 million shortfall. This was not the case when we moved to objectives three and four, but we continue to feel strongly about the dangers inherent in borrowing \$100 million from Medicaid and going into next year's budget cycle with \$161 million in annualizations.

As a practical matter to get to the \$100 million borrowed from Medicaid at this point in the process, we would have to veto entire agency budgets. Along with gutting the entire agency, offering these kinds of vetoes would make their passage essentially impossible, and therefore, render the exercise indeed counter-productive. A number of the vetoes that we have proposed, if sustained, would begin the process of replenishing the \$100 million borrowed from Medicaid. We would also ask that policy-makers earmark any residuals left aside in the Capital Reserve Fund to replenishment of the Medicaid borrowings.

Our Administration will continue to push for common sense in our budgeting practices, and we believe that borrowing from a critical reserve account like Medicaid and, more commonly, borrowing from a whole host of one-time monies to pay for recurring needs of government – as is done in the annualization process – is reckless. The first order of business in our executive budget in the new fiscal year will be addressing the Medicaid borrowings and annualizations, and it's our sincere hope that the General Assembly will follow suit.

Positives

Before I expand on the reasons behind these vetoes, I want to thank the General Assembly for adopting a long list of vetoes, many of which, we have proposed for five years now. In a perfect world, all things at all times would be funded for all people. As we all know we live in less than that perfect world – and for this reason we have consistently proposed setting spending priorities. Many of these cuts we don't like, but we accept them as part of the reality that must come in deliberately setting priorities as businesses and families do across our state.

In this regard it's worth highlighting the importance of the General Assembly's adoption of many of the cuts and funding proposals we have now offered in the executive budget for five years. This budget includes our recommendation to fund the Endowed Chairs programs at \$10 million and adopts our cost-savings proposals for agency travel and telecommunications. Funding for regional farmers markets is removed and a host of special projects totaling \$31 million is eliminated.

The General Assembly has also removed a majority of the dollars in the appropriations bill that we vetoed last year. In fact, \$142 million of the \$167 million – or 85 percent – of what we vetoed last year is no longer a part of this year's budget.

While we would have liked for the General Assembly to have made these choices well before the state's economy weakened and revenues dramatically dropped, we still give them credit for making the tough decisions because we believe they are important to both the sustainability of the government systems now in place – and taxpayers' wallets. We would hope to see more restrained and responsible spending practices as South Carolina continues to get through these difficult economic times.

Shortfalls

This budget creates what amounts to an unconstitutional deficit because it appropriates money with the full expectation that the anticipated revenues will not be sufficient to cover all state government expenditures. It is one thing to have a shortfall due to an unforeseen hurricane hitting our state; it is another to run deficits in education when everyone now knows that diesel is, and for the foreseeable future will remain, above \$4.00 a gallon. Unfortunately, we are at this point because budget writers have chosen to grow government faster than the underlying economy – increasing spending by over 40 percent over the past three years alone – while ignoring the reality that the good times would not last forever. Now the good times are over, as tax revenues are expected to decrease for only the second time in 50 years. Instead of making admittedly tough choices and prioritizing spending to adequately fund our basic state obligations, I am troubled that the General Assembly has not fully addressed the fact that there will not be enough revenue to pay for recurring budget obligations – effectively authorizing an unconstitutional deficit.

The South Carolina Constitution requires the General Assembly “to insure that annual expenditures of state government [do] not exceed annual state revenue.” Article X, Section 7(a). Inherent in this balanced budget mandate is the General Assembly's responsibility to use sound budgeting principles and adequately prioritize spending to prevent foreseeable deficits. This appropriations bill does not satisfy these basic principles for the reasons explained below.

1. The Department of Education's budget lacks sufficient funds to replace school buses and pay fuel costs.

Just last year, legislation was passed to establish a school bus replacement cycle for our aging bus fleet. Though there is some merit to the idea, we vetoed it on the grounds that the costly proposition failed to include less expensive options of getting to the same end – and for us those include leasing and private transportation providers. Our veto was overridden on promises that funding would be there for buses and just one year later, the money that had been “committed” to buses will go elsewhere and it is now likely that few, if any, new buses will be purchased.

Instead, the State Department of Education is projecting a deficit of up to \$20 million based on rising fuel prices, while at the same time borrowing an additional \$38 million from the school bus replacement fund. If FED EX built a business budget on the assumption of not replacing its aging plane and truck fleet vital to its ability to serve customers, and at the same time knowingly ignored the rise in fuel prices, most would argue they were not building a balanced budget.

Indeed, to build a budget that plans on being short by approximately \$20 million for education is to not build a balanced budget.

2. The Department of Corrections will continue to operate on deficit spending under this year's budget.

In this budget, the Department of Corrections will once again be forced to run a deficit. Corrections has been consistently underfunded for many years which has resulted in the agency running a deficit five out of the last seven years. In this current fiscal year, Corrections is running a \$4 million deficit and cutting their budget will only make the situation worse. Corrections will potentially face an \$8 million deficit next year based on rising fuel prices and further budget cuts. This level of funding for Corrections is unacceptable because the agency performs the essential function of housing and rehabilitating our state's inmate populations. Inadequate funding will eventually lead to prisons being closed, inmates being furloughed, and prison security being diminished. We believe our state cannot afford these results because they affect the safety of all our residents.

3. The Department of Health and Human Services' reserves are raided, jeopardizing the long-term solvency of Medicaid.

This budget raids the Department of Health and Human Services Medicaid reserves to the tune of \$100 million. The state has a commitment to provide healthcare to our poorest citizens through the Medicaid program. The importance of this commitment requires us to maintain a Medicaid reserve fund to ensure that we meet our obligations in hard economic times when government revenues are down dramatically. We believe raiding the reserve funds is inappropriate at this time because it comes right on the heels of a massive expansion of over \$21 million in the Medicaid S-CHIP program in last year's budget – a move we disagreed with. Instead of correcting the mistake by scaling down the program in a down-budget year, the General Assembly has decided to continue the program this year and fund Medicaid partially with reserve funds.

Using the reserve funds to pay for existing obligations causes serious concerns about whether the state can fully fund Medicaid in the near future when current economic conditions are worsening, unemployment is growing, and medical costs are soaring. When the economy weakens and unemployment rises, the number of people relying on Medicaid grows, and it makes no sense to use these reserve funds with a possible recession looming. Such action neglects the long-term solvency of Medicaid.

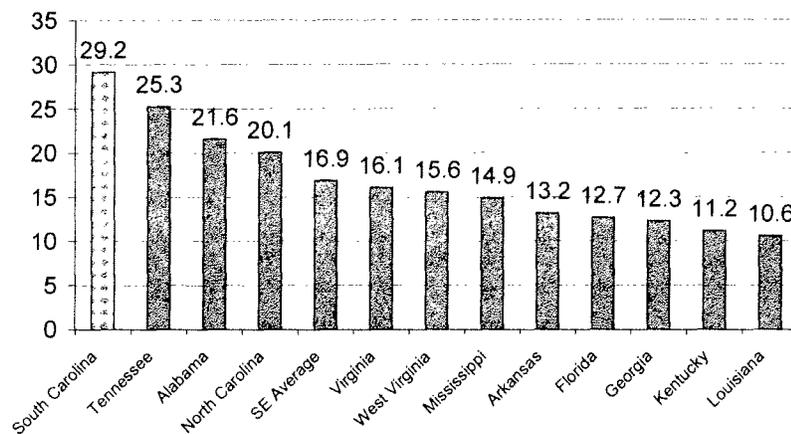
4. Budgeting should be long term, not one year.

This budget, with its significant cuts and potential deficits, is not simply the result of a weakened economy. We believe that the poor budgeting practices of overspending and annualizing in previous years have contributed significantly to this year's across the board cuts and agency deficits.

The budgets of the previous three years simply spent all of the money coming to Columbia with, what seemed, very little consideration of a future economic downturn. This notion of good times and bad times dates all the way back to the Biblical story of the seven fat cows and the seven skinny cows. During times of prosperity, we failed to restrain spending and as a result, the actions taken during times of economic weakness are correspondingly deeper.

South Carolina has grown the size of government more than any other state in the Southeast over the past two years. Government spending has increased by more than 40 percent over the last three years and almost 30 percent in just the past two, according to the National Association of State Budget Officers.

Southeastern General Fund Spending Growth for the Past Two Years (FY07 & FY08) - from the National Association of Budget Officers

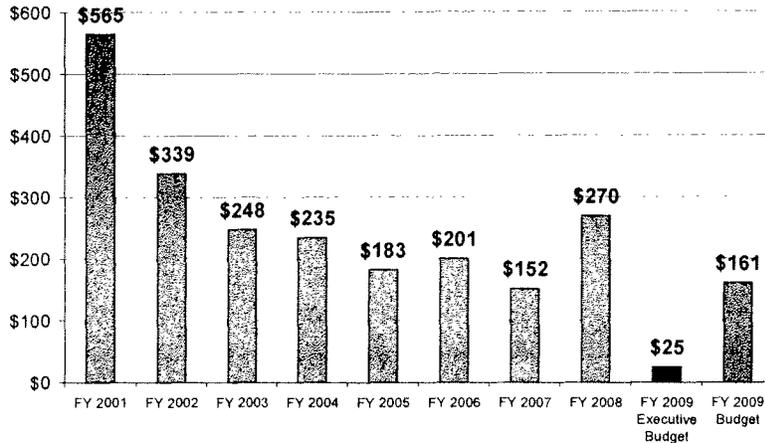


Another year has passed where no statewide spending cap has been enacted, and as a consequence, we will continue down the road of poor fiscal planning. In addition, we believe there should be a wholesale change to budgeting that requires Columbia to look longer term. A few years ago, we enacted a requirement that some agencies had to provide three-year projections of their needs. We will now take it one step further and call for legislation in the next year to establish a five-year spending projection on all legislation and for every program once the budget has been completed. Simply put, we have got to stop spending more than we can afford; reforming the budget process is a meaningful step in this direction.

5. Annualizations continue to increase.

If we are going to slow down unsustainable spending, we must stop the practice of annualizations – using one-time money to fund recurring needs – because this has been a major factor in the unsustainable growth of state government. Last year, in the FY 2007-08 Appropriations Act, annualizations almost doubled from the previous year to \$270 million. In our executive budget we recommended only \$25 million, while the General Assembly took a different and unwise approach by including \$161 million in annualizations. We believe that continuing to increase annualizations is irresponsible because there is no guarantee that we will be able to fund these recurring obligations after the one-time money runs out.

SC Annualizations Since FY 2000-01



6. Unfunded liabilities for state employee retiree benefits remain outstanding.

We believe that annualizations are particularly troubling considering that the state has billions of dollars outstanding in unfunded liabilities tied to future state employee retiree benefits. South Carolinians now hold a more than \$20 billion “I.O.U.” composed of promises made but not paid for – including retiree benefits and health care. This invisible mortgage totals \$10,000 per taxpayer, and will only increase if we choose to pass it on to our children and grandchildren. The numbers look even worse when this liability includes the *ad hoc* cost of living increases (COLAs) that have historically been given above the legislatively mandated one percent, growing the liability to \$27 billion – almost four times that of the entire state budget. Instead of looking for ways to increase the size of government through new spending and annualizations, we need to save now to pay off future debts. This budget fails to do that, and we believe continues to jeopardize the state’s ability to meet its obligations in the future.

7. Spending is not adequately prioritized to avoid across the board budget cuts.

To move closer to fiscal responsibility, we need to do a better job of prioritizing spending. With less money coming into the coffers, this means that we must reevaluate our core governmental functions and programs and prioritize them based on their importance. All functions and programs are not created equally, and that is why this Administration has consistently opposed across the board budget cuts. Unfortunately, this year’s budget mandates that nearly every agency’s individual budget be cut by 2.4 percent. This type of budgeting makes it difficult to eliminate the least vital government functions and programs and to fully protect those that are most essential.

Since the beginning of this Administration, we have prioritized spending by utilizing activity based budgeting in our executive budget and by directing our budget line-item vetoes at the most egregious examples of unnecessary spending. Although many of our ideas and vetoes were initially rejected, many others have been gradually accepted over time. For example, this year’s budget adopted a handful of the proposals included in our executive budget, resulting in a budget

savings of \$24.2 million. Also, 152 items that we vetoed but were overridden last year were not included in this year's budget, for a total of \$141.5 million. I am glad that our voice is having a lasting, if not immediate, impact in bringing more fiscal responsibility to the state, and I appreciate the General Assembly's willingness to reconsider our ideas.

Despite this progress in making more prudent budgeting decisions, this budget, nevertheless, suffers from across the board cuts and the cuts necessary to avoid *defacto* deficit spending. To remedy some of these defects, we have identified several areas in this budget that we believe need to be removed. Overall, I have vetoed 69 separate and distinct items of spending that represent \$72.1 million in savings this fiscal year. Of the items that I have vetoed, many are meritorious in their own right and potentially deserving of funding in more prosperous times. Faced with a budget that almost certainly requires deficit spending, I believe that I have a constitutional obligation to veto these items to ensure that the state has a balanced budget. We, therefore, submit the following vetoes and request that those dollars be recommitted to the general fund so agencies next year don't run further in the red.

As I mentioned on the first page these budget vetoes are broken in to sections based on the four objectives that we enumerated at the start of this document. They are as follows:

I. Vetoes of Part IA

Our first priority with budget vetoes this year is to provide enough vetoes to close out what we view to be an unconstitutional deficit embedded in this appropriations bill. As stated earlier it is one thing to run a deficit based on an unanticipated act of God, it is quite another to run one based on fuel prices that we can very reasonable expect to stay above \$3 a gallon over the next year. These vetoes in total amount to **\$28.1 million** and would close out deficits contemplated in Corrections and Education.

Veto 1 Part 1A, Section 1; Page 12; Department of Education, Section XIII. Aid to School Districts; C. Special Allocations, **YMCA – Youth in Government; \$18,445.**

We give due credit to legislators for eliminating the majority of pass throughs and line-item funding for non-profits in this year's budget, but this program, which brings high school students to the State House for mock government every year, falls into the same category of pass throughs and line items that should have been eliminated.

Veto 2 Part IA; Section 7; Page 30; Higher Education Tuition and Grants Commission; I. Administration; Special Items; **SC Student Legislature; \$25,000.**

This line item supports the South Carolina Student Legislature program, which brings college students to the State House for mock government every year. While we agree that the program certainly has value, we are facing serious shortfalls in the state budget. As with so many other special line items that have been taken out of this budget, this item should also be removed and funded by alternative means.

Veto 3 Part IA; Section 10; Page 38; University of Charleston; I. Education & General; Special Items; **Hospitality, Tourism, and Management Program; \$545,000.**

This special line item, added last year, effectively picks winners and losers when it comes to funding higher education. For example, Coastal Carolina is surrounded by one of the strongest tourism regions in the state, and yet they have no earmark in their budget for a Tourism program. We'd commend the University of Charleston for trying to add value to our tourism industry, but if this specific program has merit, we'd encourage the university to consider funding it with their base budget - which has itself grown by almost 27 percent in state funding over the past four years and during this same time, concurrently, seen tuition increase 49.5 percent.

Veto 4 Part IA; Section 10; Page 38; University of Charleston; I. Education & General; Special Items; **Business - Economic Partnership Initiative; \$1,204,314.**

We are vetoing this item because you don't make new political promises without first paying off past ones. The fact remains that South Carolina is staring at more than \$20 billion in unfunded liabilities going forward, and while the Real Estate Program at the University of Charleston may be worthwhile, our view is that it's a lower priority project given the massive \$20 billion state debt tied to retirement and health care benefits.

Veto 5 Part IA; Section 10; Page 38; University of Charleston; Education & General; Special Items; **Effective Teaching & Learning; \$901,800.**

We are vetoing this line item for three reasons. First, we believe that these services are duplicative of the Education and Economic Development Act, which performs many of these same functions at all public high schools. The EEDA allows students to pick a career major and take relevant courses, which will then prepare them for post-secondary education or related work. Secondly, the program works to increase HSAP passage rates and SAT scores, which is

commendable; however, the State Department of Education already allocates state and federal funds to school districts to cover materials and preparation for the SAT. Third, we believe this program should be able receive some funding through the Corporation for National and Community Service.

Veto 6 Part IA; Section 10; Page 38; University of Charleston; I. Education & General; Special Items; **Global Trade & Resource Center; \$350,000.**

There is clear merit in linking South Carolina to the rest of the world, but it is this Administration's view that we shouldn't enact legislative pass throughs. This line item provides \$350,000 to the Global Trade & Resource Center at the University of Charleston. It was added last year to partially support South Carolina World Trade Center (SCWTC) employees by paying for travel expenses at conferences and seminars. We consider this type of transaction a backdoor way of providing a pass through in a budget year when – to the General Assembly's credit – the majority of such questionable line items have been eliminated.

Veto 7 Part IA; Section 12; Page 44; Francis Marion University; I. Education and General; A. Unrestricted; Special Items; **Rural Assistance Initiative; \$600,000.**

We believe the Rural Assistance Initiative is duplicative of existing state programs in two ways. First, the Initiative's goal of providing health care screenings in rural areas is similar to DHEC's Primary Care Office, which focuses on retention and recruitment of health care professionals in rural areas. Second, the Initiative's second goal is to provide leadership training for non-profits and foster economic development in poorer counties. We believe this is currently being done through the Department of Commerce's Rural Crossroads Institute, which supports economic development and works to improve the quality of life for residents of rural counties.

Veto 8 Part IA; Section 12; Page 44; Francis Marion University; I. Education & General; A. Unrestricted; Special Items; **Omega Project; \$75,000.**

We are vetoing this line item for two reasons. First, though the Omega Project performs a meritorious service, the state already has a primary agency assigned to mentor high school students and encourage them to attend college. Through the Workforce Development initiatives at the Department of Commerce – with funding at almost \$70 million – there is a coordinated statewide program in place.

Second, we do not believe that state government should be in the business of favoring some non-profits over others. Bear in mind, too, that similar mentoring programs that offer positive and effective partnerships *do not* receive state funds – such as the Boys and Girls Club and the Big Brothers Big Sisters program of South Carolina.

Veto 9 Part IA; Section 15F; Page 61; USC - Salkehatchie Campus; Education & General; Unrestricted; **Salkehatchie Leadership Center; \$100,460.**

We are vetoing this line item which increases USC-Salkehatchie’s budget by \$100,460 for the purpose of funding its Leadership Center. Although this is a well-intentioned program, we are facing serious shortfalls in this budget. As with so many other special line-items that have been eliminated from this budget, this item should be removed and funded from other sources.

Veto 10 Part IA; Section 21; Page 85; Department of Health and Human Services; II. Programs and Services; A. Health Services; 3. Medical Assistance Payment; Z. **Children’s Health Insurance Program; \$21,279,557.**

Veto 11 Part 1B; Section 21.32; Pages 359-360; Department of Health and Human Services; **State Children’s Health Insurance Program.**

Last year our Administration vetoed this funding because, while well-intended, we were concerned about both long-term consequences on our ability to fund health care and to participate in private markets. This year, we share the same concerns.

First, we are concerned because the Board of Economic Advisors projects that \$30 million will be needed to fully implement the State Child Health Insurance Program (S-CHIP) for FY 2008-2009. As a result, the funds provided fall short of the amount necessary to manage this program in the coming year.

Several years ago, the General Assembly funded \$500 million in the Medicaid program with one-time funds. In 2000, the Medicaid program comprised \$1 out of every \$7 in state funding; now the ratio is approximately \$1 out of every \$5. Even without last year’s expansion in S-CHIP, projections showed that the state could spend as much as \$1 out of every \$3 in the state budget.

Since expanding this type of entitlement program in May 2008, Medicaid has added almost 2,000 participants to the program. Our current program covers a significant number of children relative to other states. For instance, the South Carolina program covers more than 40 percent of all children ages 0-18; only Arkansas, Louisiana, Mississippi, New Mexico, Vermont and the District of Columbia cover a higher percentage. Regionally, South Carolina covers a higher

percentage of children than Georgia, Florida or North Carolina. Expanding this system puts us even further toward the top.

As a reminder, last year we supported a logical provision requiring co-payments to be based on participants' income in an effort to make the cost of this expansion more affordable. However, the final version had no requirement for such payments, thus eliminating an important check on the growth of the program.

Additionally, as a result of S-CHIP expansions there is a certain "crowd-out" effect, whereby people who were covered by private insurance either through an employer or their own efforts find it more advantageous to go onto a taxpayer-funded program. Nationally, the Congressional Budget Office (CBO) has noted a reduction in the number of children participating in private health insurance and that 50 percent of the children now enrolled in S-CHIP were covered by private health insurance the prior year.

Finally, expansion of programs can bring in new enrollees, beyond those expected for the new program. The creation of the original S-CHIP program a decade ago led to many new enrollees in the existing Medicaid program. So not only were there new S-CHIP children, but thousands more were found eligible for regular Medicaid, and the expanded rolls led to DHHS declaring a deficit shortly thereafter. By continuing to fund this program at 200 percent of the federal poverty level opens the door to thousands of more beneficiaries and places the program in jeopardy for all.

Veto 12 Part IA; Section 30; Page 129; Art Commission; II. Statewide Arts Services; Special Items; **McClellanville Arts Council; \$12,500.**

I am vetoing this line item because it is the only local arts council that receives a separate and recurring line in the state budget. The General Assembly has rightly removed the majority of the direct pass throughs from this year's budget, and there seems to be no justification for this one to remain. In any case, we don't believe that government should be in the business of picking winners and losers through the budgetary process. If state funds are allocated to a special item like this one, it should be done through a merit-based, competitive process.

Veto 13 Part IA; Section 47; Page 180; Commission on Indigent Defense; III. Office of Circuit Public Defenders; Special Items; **DUI Defense of Indigents; \$1,000,000.**

Veto 14 Part IA; Section 47; Page 180; Commission on Indigent Defense; III. Office of Circuit Public Defenders; Special Items; **Criminal Domestic Violence; \$1,320,000.**

We're vetoing these items - which provide money to public defenders for criminal domestic violence and DUI indigent defense - based on the common sense notion that you can't move forward if you're constantly taking two steps back. South Carolina is near the top nationally when it comes to both DUI-related deaths and domestic violence deaths. Consequently, it seems odd to dedicate more dollars to defending the perpetrators of DUI and domestic violence when we're already facing these grim statistics, and, oftentimes law enforcement officers are forced to prosecute their own cases without the help of an attorney.

Veto 15 Part IA; Section 49; Page 187; Department of Public Safety; II. Programs and Services; D. Bureau of Protective Services; Special Item; **Hunley Security; \$257,317.**

This line item appropriates taxpayer dollars to fund security for the Hunley. We recognize the Hunley's value to the state and the need to protect it. While providing taxpayer-financed security may have made sense when the Hunley project was in its infancy, seven years later we do not believe state funding is appropriate. Additionally, we believe providing this funding is inconsistent with how other Bureau of Protective Service (BPS) posts are funded. For example, the Confederate Relic Room does not receive funding for a BPS detail. Our hope is that this veto would be sustained and the Hunley Commission, or the Friends of the Hunley, could negotiate with private security contractors for this need.

Veto 16 Part IA; Section 73; Page 256; Lieutenant Governor's Office; II. Office on Aging; Special Item; **Silver Haired Legislature; \$15,000.**

While we admire the mission of the Silver Haired Legislature, it often lobbies the General Assembly for programs and appropriations that it believes benefit our state's senior population. We are vetoing this line item because as a principle we do not believe taxpayer money should be spent lobbying for more public money. We issued an executive order to that effect in the first year of our Administration.

Veto 17 Part IA; Section 78; Page 266; Adjutant General's Office; X. State Guard; **Other Operating Expenses; \$97,768.**

There is no doubt that the men and women of the National Guard make sacrifices in times of need, both here and abroad. That said, crowd control training is one of the core functions of the South Carolina National Guard and should be funded from the Adjutant General's Office general

budget. This type of training could be incorporated within the confines of a guard training weekend – without additional cost to the taxpayer.

Veto 18 Part IA; Section 80A; Page 271; Budget and Control Board; II. Operations and Executive Training; C. Executive Institute; **Total Executive Institute, \$269,357.**

The Executive Institute under the Office of Human Resources acts as a training resource for on average 40 South Carolina state employees per year. With stand-alone funding of roughly \$269,000, the program spends \$6,725 per state employee graduate. In addition to this rather inappropriate cost per graduate, we're vetoing this program because the Office of Human Resources already provides comparable leadership training, making the Executive Institute a prime example of government duplication.

II. Veto of Part 1B Temporary Provisos

Our second priority with budget vetoes this year is to provide enough vetoes to replenish the monies borrowed from OPEB. We have \$10 billion worth of unfunded political promises, and when joined with our healthcare liability the total is over \$20 billion. In the same way that everyone seems to recognize that Medicare, Medicaid and Social Security are looming liabilities that have to be addressed we have the same problem at the state level with OPEB. If something significant isn't done, taxes will be substantially raised or benefits will be materially cut to address this unbalance. In the private sector, if you didn't have concrete assets to match these liabilities you would go to jail based on federal law. In fact, in the wake of the Enron debacle, new federal requirements (so-called GASB requirements) would require our state to come up with \$500 million a year in addressing the OPEB liability. We think the first step rests in not going backward and, accordingly, have proposed another \$44 million worth of vetoes to repay the money taken from OPEB in this budget.

Veto 19 Part 1B; Section 6.29; Page 349; Commission on Higher Education; **In-State Tuition.**

We are vetoing this proviso because there is no guarantee that a person with the "intent" to make South Carolina their permanent home will actually do so; therefore, we believe we should not make such persons eligible for in-state tuition. This proviso would allow potential college students who have lived in South Carolina for less than a year to be eligible for in-state tuition and fees, provided that the person "intends" to make this state their permanent home, and that they are employed full time in an adjoining county in North Carolina or Georgia. At a time when colleges are asking for greater appropriations to fully serve their student populations, and

at a time with South Carolina ranks number one in the Southeast for in-state tuition costs, we do not think it makes sense for the state to consider funding college costs for individuals who have lived in this state fewer than 12 months.

Veto 20 Part 1B; Section 19.4; Pages 352-353; Paragraphs 1 and 2; Educational Television Commission; ETV: SC Educational Broadband Service Commission/Broadband License.

This proviso creates a South Carolina Educational Broadband Service Commission. We are vetoing only Paragraphs 1 and 2 of this proviso because we recently signed H. 4735 into law which sets up the structure and authority for this commission and is identical to the language found in Paragraphs 1 and 2. Therefore, since permanent law has been enacted, portions of this temporary proviso are unnecessary. (This veto applies to the second reference to paragraphs (1) and (2) in this proviso, not the references setting up the membership of the commission.)

Veto 21 Part 1B; Section 21.12; Page 356; Department of Health and Human Services; DHHS: **Chiropractic Services.**

This veto was requested by the Department of Health and Human Services, and we agree with the agency that this proviso hurts their ability to best determine how to serve its customers, particularly in a tight budget year.

While it was most likely not this proviso's intent, because of federal rules, the effect of this proviso forces DHHS to provide this type of chiropractic coverage to literally every class of beneficiary. Last year, that meant DHHS spending \$90,000 to provide chiropractic services to children younger than the age of six – even though one would be hard pressed to find research supporting the benefits of those treatments for that age group. We also don't believe it makes sense to continue adding Medicaid benefits – as the General Assembly did with the SCHIP expansion – when the agency's reserve fund has been raided to the tune of nearly \$100 million.

Veto 22 Part 1B; Section 21.26; Page 358; Department of Health and Human Services; **Prior Authorization Exemptions.**

This proviso requires DHHS to fund certain mental health medications without the patient receiving prior authorization. We are vetoing this proviso for two reasons. First, mental health drugs were “carved out” of the preferred drug list – which was originally set up by the General

Assembly to encourage responsible prescribing and competitive bidding by manufacturers. If any mental health drug is available, the state cannot force a drug company to offer a rebate.

Second, DHHS believes and we agree that the director should have the flexibility to determine the best way to administer drug coverage – without having efforts restricted by the demands of special interests. Additionally, the State Health Plan and other commercial plans in South Carolina are not forced by proviso to not require prior authorization for more expensive drugs.

Veto 23 Part 1B; Section 21.35; Page 360; Health and Human Services; **Long Term Care Facility Reimbursement Rates.**

This veto was requested by DHHS to give the agency the flexibility to select a more convenient date to submit an important Medicaid amendment based on the agency's workload. This proviso directs the agency to submit the Medicaid State Plan amendment for long-term care facility reimbursement rates to the federal government by August 1. However, DHHS must review and examine 150 cost reports from nursing homes across the state before it can submit the amendment. This proviso hamstrings the agency by forcing it to make a submission by August 1, which does not give the agency adequate time to carefully review the nursing home reports.

Veto 24 Part 1B; Section 21.36; Page 360; Department of Health and Human Services; **Carry Forward Funds-Health Initiatives, \$1,283,695.**

This proviso takes \$1,283,695 from DHHS' carry forward funds to be used as the state match for rate increases to dentists. We believe it makes little sense to raid Medicaid funds intended to be used for some of the neediest in our state in exchange for increasing the compensation of a profession that already earns an annual average of \$118,000 a year. This part of the proviso also limits the agency's flexibility by restricting the use of any money that will be carried forward from the SCHIP program that could be used to reduce the impact of taking more than \$100 million from Medicaid reserves in this budget.

Veto 25 Part 1B; Section 21.36; Page 360; Medical University of South Carolina, **Rural Dentist Program, \$250,000.**

We are vetoing this pass-through from the Medical University of South Carolina (MUSC) to the Area Health Education Consortium which attempts to fund an increase in the number of dentists serving rural South Carolina. Although attracting dentists to rural areas is a worthwhile goal, we'd doubt that the roughly \$5,000 per county this program allows for would have little if any

impact on dentists' professional locales. Additionally, we'd point to the ridiculous fact that last year more than half of the eight dentists receiving these rural grants to repay student loans were MUSC dental school faculty members with state salaries averaging more than \$115,000.

Veto 26 Part 1B; Section 21.38; Page 360; Department of Health and Human Services; DHHS: **Monthly Reporting Requirement.**

This proviso requires DHHS to provide monthly impact statements to the General Assembly. We are vetoing this requirement because it is wasteful and redundant based on readily available information. Currently, DHHS provides quarterly statements to both the House Ways and Means Committee and the Senate Finance Committee. A similar proviso was proposed in the FY 2004-2005 Appropriations Bill and vetoed. The veto was sustained in the House. Further, this proviso is duplicative of Executive Order 2002-23, which requires DHHS to prepare an annual report with the same information as required in this section.

Veto 27 Part 1B; Section 21.39; Page 361; Health and Human Services; **Upper Payment Limit for Non-State Owned Public Nursing Facilities.**

We are vetoing this proviso for two reasons. First, DHHS requested the veto because it is in violation of the state's commitment to Centers for Medicare & Medicaid Services (CMS) "transitional funding agreement" to terminate nursing facility payment methodology. Second, this proviso potentially jeopardizes the state's ability to negotiate future transition periods that would ease the impact of changes made by the federal government to the state's programs.

Veto 28 Part 1B; Section 21.40; Page 361; Health and Human Services; **Nursing Services to High Risk/ High Tech Children.**

We are vetoing this proviso because Centers for Medicare and Medicaid Services has informed the agency that the proviso would not be in compliance with federal reimbursement guidelines, which already take into account the types of services the healthcare professionals are performing.

Veto 29 Part 1B; Section 26.18; Page 375; Department of Social Services; **C.R. Neal Learning Center.**

We are vetoing this proviso because it directs DSS to provide funding to C.R. Neal Learning Center, which no longer exists. Instead, the Center has been transferred to the Midlands Community Development Corporation, which actively solicits donations and generates revenue from the rental of the 33,000 square foot facility. While Senator Jackson's group undoubtedly provides quality after-school services for low- and moderate-income families, we believe that DSS should ultimately be able to make choices about who they contract with for services. This Administration has advocated that awards such as this should be based on the merits of a program and not the relative political strength of its supporters. Especially in cases like this where there is a direct connection to a member of the General Assembly.

Veto 30 Part 1B; Section 26.28; Page 377; Department of Social Services; **Teen Pregnancy Prevention; \$1,200,000.**

If this were truly a merit-based system, how could two distinct entities end up receiving the exact same dollar amount? We are vetoing the proviso because it sets up a process by which a legislatively-appointed commission must select two entities that will equally divide the \$1.2 million. If this is truly going to be a competitive process, our recommendation would be to allow the grant process to be open. We believe the Department of Social Services should be administering those dollars on a truly competitive, results-based basis. This proviso leads an objective observer to believe this is an attempt to mask the directive of appropriations to the two agencies that have historically received these funds: Heritage Community Services and the South Carolina Campaign to Prevent Teen Pregnancy.

Veto 31 Part 1B; Section 37.1; Pages 382-383; Department of Natural Resources; **County Funds.**

Veto 32 Part 1B; Section 37.2; Page 383; Department of Natural Resources; DNR: **County Game Funds/Equipment Purchase.**

I am vetoing these two provisos because in *Knotts v. SCDNR* the Supreme Court found that legislative involvement into nearly identical funds to be unconstitutional. The Founding Fathers' precept was in large measure based on the balance of the separation of power. These two provisos breach that separation of power by having the legislative body execute the laws of the land and in that process break with the findings of *Knotts v. SCDNR* wherein they found that the General Assembly "may not undertake both to pass laws and to execute them by bestowing upon its own members functions belonging to other branches of government." In addition, this

proviso hamstrings the agency's ability to manage its own affairs in the best interest of the taxpayer.

Veto 33 Part 1B; Section 39.5; Page 385-386; Department of Parks, Recreation, and Tourism; **Litter Control**.

This proviso deals with the governance structure of the PalmettoPride program, which we believe is a legislative encroachment on an Executive Branch program. Sustaining this veto would not affect PalmettoPride's funding, and would simply return the governance of the program to its original form.

Veto 34 Part 1B; Section 39.7; Page 386; Department of Parks, Recreation, and Tourism; **State Park Privatization Approval**.

This proviso would tie the hands of PRT from pursuing any kind of competitive sourcing arrangement for any activity, no matter how minor, at Cheraw State Park, which lost \$304,588 in FY 2006-07, and Hickory Knob State Park, which lost \$286,531 in FY 2006-07. Frankly, we're surprised by the resistance that a Republican-controlled General Assembly has shown to the idea of privatization, particularly considering the positive results it has yielded in other cases.

As an example, PRT outsourced the state parks' reservation system to a private contractor who provides that service for many other park systems around the country. The reaction from most of the parks' customers has been positive as the change to a private contractor has led to vastly improved services, lower costs for taxpayers, and higher revenue. I strongly believe that officials at PRT should be free to pursue other similar arrangements to provide better services at lower costs.

This proviso was created three years ago in response to this Administration's and PRT's request for proposal to explore the feasibility of privatizing golf course operations at Cheraw State Park. It is our firm belief that whatever government does it ought to do well, but that which the private sector can do, in fact, ought to be done by the private sector. The running and administration of the golf course has proven to be a core competence of the private sector in South Carolina. We see no reason why we wouldn't want that expertise applied in this instance

Veto 35 Part 1B; Section 39.15; Page 387; Parks, Recreation and Tourism; **Regional Tourism.**

This proviso takes \$550,000 from the Department of Parks, Recreation, and Tourism and allocates it to the eleven Regional Tourism Districts in the state. We believe the first order of business should be to investment in statewide tourism efforts and, in as much as the Regional Tourism Districts are willing to assist in these efforts, we welcome it. However, in a budget that cuts PRT's marketing dollars \$11.5 million, this proviso puts PRT at an even further disadvantage in recruiting visitors to our state.

Veto 36 Part 1B; Section 40.20; Page 390; Department of Commerce; **Funding for I-73 & I-74.**

We are vetoing this proviso because we do not believe that it is the General Assembly's role to tie the hands of the Secretary of Commerce and his team in determining the best ways in which to grow the economy of South Carolina. This Administration has long been a supporter of the I-73/74 project, and in fact, the Governor, as a member of the U.S. Congress, was able to change the terminus of the original routing so that it ended in Myrtle Beach. We have correspondingly lobbied the federal government for flexibility and funding of I-73/74.

The principle at play here is a fairly simple one – the General Assembly should not be routing money to specific earmarks – whether buildings, festivals, or, in this case, a road – because, at the end of the day, a politically-driven decision is often times at odds with the most meritorious option. We will continue to work with both the federal and state DOTs to look for ways to facilitate this interstate, and it is our strong belief that a tolling option will be the most expeditious way of making this road possible.

I-73/74 would make a remarkable difference not just to the people of Myrtle Beach, but by extension, the economy of South Carolina. If we simply wait for \$1 million a year – given the \$1 million it costs to build one mile of this proposed road – then it will be a long time before this project is realized.

Veto 37 Part 1B, Section 40.29; Pages 390-391; Department of Commerce; **County Industrial Utility Infrastructure Grant Program; \$1,500,000.**

This proviso requires the Department of Commerce to set aside \$1,500,000 in a special account for grants. We are vetoing this proviso because the money allocated to this program could be put to better use. This proviso has been in the budget for the last two years, yet during that time no funds have been drawn from this account. These funds could be better used, for instance, to replenish recruiting funds that were reduced 35 percent in this budget. While this funding was

no doubt initially well-intentioned, it is clearly no longer needed. The taxpayers would be better served if the Department of Commerce were able to use these funds to recruit new businesses to South Carolina.

Veto 38 Part 1B; Section 40.35; Pages 391-392; Department of Commerce; **Economic Development Organizations.**

We are vetoing this proviso because we believe that these funds should be given directly to the Department of Commerce in support of a coordinated, statewide approach to economic development. For many years one of the curses of our state has been a balkanized approach to economic development. To his credit, Governor Carroll Campbell started the Department of Commerce with the belief that a coordinated approach to economic development would serve the state better than what was traditionally a “Greenville vs. Charleston” and “Florence vs. Aiken” approach to economic development. While we think that these development organizations can be a useful and important compliment to that statewide effort, we don’t think it should be done to the detriment of the statewide umbrella. In this instance it is, given the cuts to the Department of Commerce that would not be seen by these local economic development organizations in accord with this proviso. The remaining funds from last year’s budget for these Economic Development Organizations should revert to the Department of Commerce to offset the dramatic cuts to its budget this year.

Veto 39 Part 1B; Section 40.41; Page 392; Department of Commerce; **Repayment of Energy Loan.**

This is a fine idea, but we do not believe the Department of Commerce should be forced to repay this loan. Instead, we proposed repaying the money from the so-called “competitive grants” committee.

We certainly appreciate having Lockheed Martin in the Upstate. So much so, that this Administration secured an unprecedented \$1 million from the Appalachian Regional Commission to help pay for the upgrades at the Donaldson Center. However, given the fact that Commerce’s budget for closing economic development deals has been reduced by 35 percent, we believe the General Assembly should find a lower priority program, like “competitive grants” to repay this loan.

Veto 40 Part 1B; Section 51.32; Pages 410-411; Department of Corrections; **Quota Elimination.**

This proviso requires the Department of Corrections to accept new inmates from local jails. We are vetoing this proviso because of the impact it is having – and will continue to have – on the agency. As we stated at the last Budget and Control Board meeting, this proviso can be directly linked to the deficit being created at Corrections that could climb as high as \$12 million next year. In the past we have tried to reach an agreement with all parties involved to ensure a smooth and seamless transition of prisoners held at the local level to Corrections. However, this proviso gives the agency little flexibility in accepting prisoners from around the state. This proviso supersedes all funding requirements and, in light of the fact that Corrections was not adequately funded, we are left with little choice but to veto this proviso.

Veto 41 Part 1B; Section 65.10; Page 420; Labor, Licensing and Regulation; **Wind and Structural Engineering Research Lab, \$100,000.**

LLR is requesting this veto because the \$100,000 in pass through money funds an in-state study of wind and seismic data that is already being performed on the national level using the very same instruments. Therefore, this proviso is duplicative and unnecessary.

Veto 42 Part 1B; Section 76.15; Page 438; State Treasurer's Office; **Printing Wage Statements.**

This proviso would effectively eliminate all state employee rights to receive full disclosure of their pay under the Wage Payment Act because this proviso eliminates the State Treasurer's duty to provide wage statements to state employees for every pay period. The South Carolina Wage Payment Act, S.C. Code § 41-10-30, requires every employer to provide each employee with an itemized statement showing gross pay and deductions for each pay period. This provision in the Wage Payment Act is intended to give timely and full disclosure of the details of employee pay so that employees can ensure that they actually receive all of their earnings. State employees, just like private employees, have the right to monitor their pay, and this right should not be taken away just because it may be cheaper for the State Treasurer to provide the notification less than every pay period.

Veto 43 Part 1B; Section 80A.6; Page 442; Budget and Control Board; **Real Property – Sale/Leaseback/Repurchase Revenue Account.**

We are vetoing this proviso because we believe that agencies should not be in the land management business as a means to supplement budgetary needs. This proviso allows agency heads to sell state property and bring those dollars back into the agency outside of the normal budgetary process. Ultimately, we believe all state-owned property belongs to the taxpayers of this state and is not the property of an agency.

Veto 44 Part 1B; Section 80A.9; Page 443; Budget and Control Board; **Compensation – Agency Head Salary.**

As a result of this proviso, the executive branch members of the Budget and Control Board will have no role in overseeing agency head salaries and providing a check to the legislative appointees that compose a majority of the Agency Head Salary Commission. If this proviso would have been in effect last year, agency heads would have received a nearly 4 percent increase in salaries at a time when the state could have least afforded them. The Board voted to reject these raises, proving that it provides an important check on the commission.

This proviso gives the Agency Head Salary Commission final approval authority over all salaries for agency heads and technical and community college presidents – eliminating the Board's oversight in determining proper salary levels. The Commission is composed of eight members appointed by the Senate Finance and House Ways and Means Chairmen, three members appointed by the Governor, and is chaired by the Senate Finance Chairman.

We believe giving the commission final approval authority gives the Chairman of the Senate Finance Committee too much authority in setting salaries.

Veto 45 Part 1B; Section 80A.47; Page 451; Paragraph 3; **Budget and Control Board; Employee Compensation.**

Paragraph 3 of this proviso seeks to undo a 2-0 vote that was taken by the Budget and Control Board in December of 2007 in which four percent average salary increases were proposed for agency heads. We think this is a mistake and does not make common sense for agency heads to receive on average a four percent increase, while our everyday state employee receives a one percent raise.

By way of background, when this issue came up at the Budget and Control Board several months ago the two legislative members, along with the Treasurer, refused to take a vote. As a consequence the affirmative votes of the Governor and Comptroller General prevailed and the

pay raise was stopped. Their point then, which holds today, was that leadership ought to lead by example – and that today’s budget climate was not the environment for four percent raises. The very same members who refused to vote on the measure in December are now trying to circumvent the process by inserting this into the budget at the 11th hour.

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- Veto 46** Part 1B; Section 22.40; Page 367; Department of Health and Environmental Control; **Competitive Grants.**
 - Veto 47** Part 1B; Section 39.6; Page 386; Department of Parks, Recreation and Tourism; **Competitive Grants.**
 - Veto 48** Part 1B; Section 40.23; Page 390; Department of Commerce; **Competitive Grants.**
 - Veto 49** Part 1B, Section 80A.31; Page 447; Budget and Control Board; **Competitive Grants.**
 - Veto 50** Part 1B, Section 80A.33; Pages 447-448; Budget and Control Board; **Grants Review Committee.**
 - Veto 51** Part 1B; Section 89.87; Page 482; General Provisions; **Competitive Grants Funds Carry Forward.**

In a budget year where we may see a large deficit at the Department of Corrections and the State Department of Education, allowing this program to continue makes absolutely no sense. This program has been referred to by some as a “legislative slush fund” and has funded many items from pork-themed festivals to an Elvis impersonator. There is currently \$18.5 million in the fund that should revert back to the general fund to be used for a higher priority.

The biggest flaw in the program is that there is no priority setting process in place for either considering or making awards. Until recently, reporting requirements back to the Competitive Grants Committee or the Budget and Control Board were limited and poorly enforced.

The program has funded a wide variety of items, but a few examples raise concerns about the strength of the program. One grant was approved for “playground equipment” though it was later learned the funds went to a town festival and paid for an Elvis impersonator. Another grant, funded as economic development to buy “needed equipment” was actually used to purchase a deep fryer at the baseball field. Another grant sent \$10,000 to support a festival that reported back an \$18,000 profit.

In a year where there are projected shortfalls for school buses and secure prisons, we believe there are better ways to spend this funding. We would add that if the General Assembly is willing to raid \$100 million from reserve funds at the Department of Health and Human Services

intended for health care for our neediest citizens, they should be willing to take back these low priority funds.

We believe this program should be eliminated and the committee should be asked to stop all future grants from being considered.

Veto 52 Part 1B; Section 89.94; Page 483; General Provisions; **Homeland Security Projects.**

This proviso allows the Speaker of the House and the President Pro Tempore of the Senate to direct a taxpayer-funded security measure at the State House. Our objection to this proposal is that the dollars spent protecting the political class in Columbia could be better spent on higher priority law enforcement activities around the state.

In the days following September 11, 2001, there was a good deal of concern that so-called “high profile” structures would be subject to potential terrorist attacks. However, seven years later, this outdated mindset only reinforces the castle mentality that political figures need and deserve better protection than the average citizen.

Meanwhile, South Carolina consistently ranks in the Top 5 for violent crimes and cities like North Charleston continue to struggle to keep the streets safe. If we are really serious about prioritizing, does it really make sense to further harden a spot that has its own state house police force, security cameras and limited access – at the expense of putting this money to places wherein it would make a material difference?

Finally, the proviso exempts this project from the procurement process and puts it in the hands of the Speaker and the President Pro Tem management authority for the project. This breach from normal procedure might be warranted if policy makers seriously thought the State House was actually a serious terrorist target, and as a consequence thought it necessary to fast track this project. Actions suggest otherwise as we are nearing almost two full years since the funding was provided. The project not only remains incomplete, but will not even be implemented until well after the legislative session is over. This project should be stopped and the remaining dollars should be dedicated to providing greater security to the people of this state.

Veto 53 Part 1B; Section 89.96; Page 483; General Provisions; **Employee Actions.**

This proviso is built around protecting the Commissioner of the Department of Health and Environmental Control’s job as head of the agency and was put into place last year after the Governor’s re-election to office. We think that this is a mistake given the current law and practice with regard to the head of DHEC which has served the state well for more than the past 30 years. To put in something that protects any governmental employee further insulates that

person from the concerns of the South Carolina citizenry. This point was underscored recently when the person who had been head of the Solid Waste Division at DHEC left the agency to then lobby on behalf of the company that this person was permitting. Ultimately, being accountable back to the people is important.

Veto 54 Part 1B; Section 89.99; Page 483; General Provisions; **I-95 Corridor Study.**

I am vetoing this proviso, which relates to funds for the I-95 Corridor Study, because the General Assembly has appropriated no money for this project in this year's budget. Last year, the budget included \$500,000 in non-recurring funds for Francis Marion and South Carolina State University to conduct this study, and this funding was not renewed this year. This proviso is, therefore, unnecessary.

Veto 55 Part 1B; Section 89.100; Page 483; General Provision; **Lt. Governor Security Detail.**

We are vetoing this proviso because it directs money budgeted for the Lieutenant Governor's Office to be spent on a security detail, whereas we believe that money would be better spent on core functions of the Office on Aging.

To be clear, we are not vetoing the funding – this veto does not affect the \$106,255 additional dollars included in Part 1A for the Lieutenant Governor's Office – only how the funds are spent. As we said last year, we believe former Lieutenant Governor Bob Peeler set the correct example when he refused his Security Detail, a practice that subsequently served his office and state taxpayers well for a decade. Based on the tight financial times we are facing, we believe it would be prudent to return to that model.

As for the funding tied to this line item, we believe it would best be used as a down payment for a recurring source of funding for the Meals on Wheels program. Again this year, budget writers declined to fund a recent supplement to that program using recurring dollars, instead choosing to use one-time money. Using this money for that purpose would be a small but important step toward ensuring the program's future funding.

Veto 56 Part 1B, Section 89.103, Page 484; General Provisions; **Attorney Dues.**

This proviso would allow state agencies the option of using taxpayer funds to pay the South Carolina Bar Association fees for their attorney employees. This practice is not consistent across

state government for professional license fees and members of other professions. As an example, medical doctors at the Department of Corrections do not have their licensing fees paid for by the state.

Veto 57 Part IB; Section 90.12; Page 489; Item E; Department of Health and Human Services; **Rural Hospital Grants; \$3,000,000.**

We are vetoing this bill for the following reasons:

First, this program is currently limited to only 13 of the 23 designated rural hospitals in South Carolina. The grants program began at the Department of Health and Human Services under the previous administration as a direct payment to some hospitals. Since this type of direct provider subsidy is outside of DHHS's core mission, we ended this practice. The former DHHS Director, who initiated the program, has now successfully lobbied to successfully restore the program.

Second, the program, in its current form, equally distributes the funding to each of the recipients. As with other grant programs, this should be a proposal to encourage rural hospitals to invest in outcomes – not simply to collect a check.

Third, we do not think that health care is well-served in South Carolina when funds are raided from Medicaid, which provides health care for the neediest in our state and dedicate it to purposes like this. Roughly \$100 million was raided from reserve funds set up to transition in our Medicaid reforms and to absorb growth in the softening economy.

Veto 58 Part IB; Section 90.12; Page 489; Item G; **MUSC Disproportionate Share; \$7,000,000.**

We are torn on this particular veto. There are two components that have merit and are worthy of support. First, the \$600,000 for the Hollings Cancer Center at MUSC reflects a priority we have laid out in Executive Budgets. This year, the Hollings Cancer Center is expected to become a National Cancer Institute designated cancer center, the first of its kind in South Carolina. Second, \$575,000 would also be dedicated to fully funding the Disproportionate Share Hospital tax for MUSC.

Unfortunately, the funding is tied to a larger amount that is dedicated to neither of those items and is simply an increase to the MUSC budget through the Department of Health and Human Service's reserve funds.

While MUSC does an extraordinary job of providing care to the less fortunate, they are far from the only hospital that does so. Since MUSC is the state's teaching hospital, DSH funds are appropriated through the budget.

We do not think we enhance health care in South Carolina by taking funds from Medicaid, which covers the neediest of the needy and applying it to other purposes. Roughly \$100 million was raided from reserve funds set up to transition in our Medicaid reforms and to absorb unexpected growth in the softening economy.

Veto 59 Part IB; Section 90.12; Page 490; Item C.4; Department of Disabilities and Special Needs; **Greenwood Genetics Center; \$3,500,000.**

Our Administration supports the important efforts of Greenwood Genetic Center in preventing and finding treatments for genetic diseases – which is why we have never vetoed limited state funding for the Center. The Center was established in 1974 as a private, non-profit institution; however, it has a public and private funding structure with the bulk of its funding coming from private and charitable sources and a limited amount from the state – \$126,000 per year in the last six years. We are vetoing this special line item in this proviso because it appropriates \$3.5 million to build a new treatment center. We certainly commend the worthy goal of building this center for treatment of genetic disorders; however, we believe in our current fiscal climate, we must focus on meeting critical state obligations, like providing fuel for school buses, and let the primary source of the Greenwood Genetic Center's funding – private and charitable sources – support the development of the new treatment center.

In addition, we believe funding for a capital project, although important, should not be taken from Medicaid funds, which covers the neediest of the needy. Roughly \$100 million was raided from reserve funds set up to transition in our Medicaid reforms and to absorb unexpected growth in the softening economy.

Veto 60 Part 1B; Section 90.12; Statewide Revenue; Page 490; Item E.2.; Department of Alcohol and Other Drug Abuse Services; **State Block Grants; \$500,000.**

We are vetoing this money because it exceeds the amount the Department originally requested and it is our view that instead of measuring alcohol, tobacco and other drug use outcomes and evaluating processes, this money would be better spent as our Executive Budget suggested - in evidence-based direct prevention services.

- Veto 61** Part IB; Section 90.13; Page 491; Item (B)(4); Non-recurring Revenue; H12-Clemson University; **LightRail; \$700,000.**
- Veto 62** Part IB; Section 90.13; Page 491; Item (B)(5); Non-recurring Revenue; H27-University of South Carolina-Columbia; **LightRail; \$700,000.**
- Veto 63** Part IB; Section 90.13; Page 491; Item (B)(6); Non-recurring Revenue; H51-Medical University of South Carolina; **LightRail; \$700,000.**

These line items allocate \$2.1 million for MUSC, Clemson, and the University of South Carolina to implement SC LightRail, which is a computer network for our research universities. While we understand that this project has already begun, we believe that the research universities have other ways to complete this project. First, we believe that the research universities can and should fund this project through their carry forward and reserve accounts. For example, it has been reported that Clemson has carry forward funds of up to \$80 million, and USC has a similar amount. With some state agencies already projecting a deficit in the next fiscal year, these schools are well-ahead of almost all of state government. The universities will argue that these carry forward funds are already committed to other projects, in which case we would simply ask our research institutions to prioritize, and decide whether those other projects are more or less important than the completion of SC LightRail. Second, we believe that this project is the exact kind of project that the Research University Infrastructure Act (RUIA) was intended to fund. Funding through RUIA, which encourages public-private partnerships, would allow us to accomplish the goal of implementing LightRail in a much more cost-effective manner for the South Carolina taxpayers and the universities.

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- Veto 64** Part IB; Section 90.13; Page 491; Item (B)(10); Non-recurring Revenue; P20-Clemson University-PSA; **Operating expenses; \$275,000.**

Under this line item, Clemson PSA would receive an additional \$275,000 in operating funds. In a year when state agencies are facing roughly 2.5 percent across-the-board budget cuts, we don't think it is appropriate to increase Clemson PSA's operating budget. State government's core functions, like fuel for our school busses or securing our prisons, should be fully funded before we ask taxpayers to fund projects such as Master Gardeners, Master Bee Keepers, and turf grass research.

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- Veto 65** Part IB; Section 90.13; Page 491; Item (B)(14); Non-recurring Revenue; E23-Commission on Indigent Defense; **Public Defenders & Staff; \$3,993,844.**

This appropriates non-recurring funds to the Commission on Indigent Defense to hire public defenders and staff. We are vetoing this line item because we believe it is bad public policy to

pay employee salaries with non-recurring funds – especially in uncertain budgetary times when funding may not be available in the future. While this is my primary objection, I also believe it sends a bad message to add nearly \$4 million to the Commission on Indigent Defense while – in the same budget – cut the Prosecution Coordination Commission.

III. Medicaid Reserves

Our third priority with budget vetoes this year was to provide enough in the way of vetoes to replenish the General Assembly's borrowing of \$100 million from Medicaid. We believe that this is a particularly poor year to borrow from this program which helps the neediest of the needy in our state. I say this because it's a \$5 billion program and our reserves are paper thin in even a year without change. This is, however, a big year of change given our waiver from the federal government to be the first state in the nation in instituting a consumer-directed approach to Medicaid. We think leaving those reserves in place are vital because we can't quantify to the penny utilization rates in the new program. Those reserves are also important given that the national economy has slowed - because historically, demand for Medicaid has gone up when the economy slows.

As we moved to this level of vetoes, it essentially became impossible to find line items that would work. Rather than going through the pointless exercise of vetoing entire agencies necessary in reaching \$100 million, we would ask that policymakers earmark any residuals left aside in the Capital Reserve Fund to replenishment of the Medicaid borrowings. A number of the vetoes that we have proposed, if sustained, would begin the process of replenishing the \$100 million borrowed from Medicaid.

IV. Annualizations

As an Administration, we will continue to push for common sense in our budgeting practices and we believe that borrowing from a critical reserve account like Medicaid and more commonly borrowing from a whole host of one-time monies to pay for recurring needs of government – as is done in the annualization process – is reckless. The first order of business in our executive budget in the new fiscal year will be addressing the Medicaid borrowings and annualizations and it's our sincere hope that the General Assembly will follow suit.

V. Conclusion

For the reasons stated above, and pursuant to the authority granted to the governor by Article IV, Section 21, of the South Carolina Constitution, I am vetoing the specific sections and items of H. 4800, R. 293, the Fiscal Year 2008-2009 General Appropriations Bill, as indicated. I look forward to working together in a spirit of cooperation and mutual respect toward the goal of disciplined budgetary practices and cooperative service to the citizens of South Carolina.

Sincerely,



Mark Sanford