

2003 State of the State Address

Governor Mark Sanford

Mr. Speaker, Mr. President, Ladies and Gentlemen of the General Assembly,
Constitutional Officers, My fellow South Carolinians:

It's an honor to be with you tonight and I would say before I begin that the last few months have been an amazing voyage for our family. While I am in the process of recognizing people, I would like say that no one has played a larger role in this personal voyage than my wife Jenny, South Carolina's new first lady. I would ask that you recognize and welcome her as well.

Our campaign from day one has been about change so that we raise income levels, education, and quality of life in South Carolina. Since November 5th we've been busy building a cabinet. I think we have assembled a great team, and I would ask that they stand and be recognized.

They are competent, share a genuine concern for our state and represent a great diversity of perspectives.

Tonight I am here to deliver my view on the state of our state.

I wish I could tell you that the state of our economy was strong, but Dickie Moorehead, working construction in the upstate, knows better, as does a plant worker in Anderson or Spartanburg.

I wish I was assuming leadership of a state whose budget is sound- but everyone in this chamber knows it is not.

I wish I could tell you our education system is second to none - but too many children in South Carolina don't graduate or graduate without skills essential for success in the 21st century.

Despite these challenges we have a great opportunity because if we address them properly, we can move South Carolina forward.

To make the right changes, as I said in my inaugural, it is important that we begin by shooting straight. Our budget is a mess. There is a disconnection between the promises of government and our ability to pay for those promises.

I propose beginning to close that gap by not offering the normal state of the state speech- typically a laundry list of new programs regardless of the budget capacity to support them. To do that this year would be misleading. As you all know, we are struggling to pay for the promises already on the table.

Therefore let me make this, my first state of the state, one that focuses not on more money for programs but on the root causes. Root causes, the structure of our government, have contributed to the situation we find ourselves in: Quite simply, I think they boil down to five things.

I. Do you have a voice in our state government? Said differently, do we have a government that is accountable?

II. Does our state government spend your money the way you do? For me, this goes straight back to the structure of government.

III. Are we competitive? In the information age, this is increasingly a question of education.

IV. Are there innovative things we can do to raise income and revive wealth creation in our state? Translated, it's the economy, stupid.

V. Man does not live on bread alone. Are we doing what is needed to maintain or improve our quality of life?

In some cases, more money would help in each of these areas, but it's not realistic in this budget year. So, I will refine my focus to structural issues. In fact, to make lasting change in any of these areas, we have to make structural change. So think of me as a carpenter.

Just as a carpenter couldn't possibly repair a home without the right tools, raising income levels in our state will require government to use new tools and new approaches.

I want to repeat this; my hands are tied right now monetarily, so I'm not here tonight asking for new programs, but for new tools. The transforming effect of new tools on government could be told with a thousand examples, but here's one – Ataturk. Ataturk emerged as the national liberator of the Turks at the collapse of the Ottoman Empire. He ended the Ottoman tradition of theocracy and dynasty and instituted a Republic system. As he described it, he moved to a system of the people. He transformed the legal and educational systems, and made similar advances in housing, manufacturing, and agriculture. His reforms were so dramatic that within the decade, gross national product increased five-fold. In the similar vein, Argentina had the highest per capita income of any country on the globe in the 1920s, but because it didn't change its government structure, it failed to adapt to changes in the world. Its economy now shows it.

So in this year of budget crisis – structure, not spending, is the card we've been dealt. Let's make lemonade out of that lemon, because in an odd sort of way, we should be thankful because structural change is only possible when times are tough. Creative destruction occurs every day in the business marketplace. Change is constant in the world of technology. It has been ten years since we have addressed the structure of this government.

Here is what we propose:

I. Do South Carolinians have a voice in State government? For me, this is all about accountability.

1. I will do this several times tonight, but let me repeat something I said at the Inaugural. I believe in the concept of servant leadership. Too many people in government seem to think they are above regular folks. I will expect humility in the way each member of my team serves – this comes with recognizing that the taxpayer is boss. It is my goal that this tone grows from this administration to other parts of government.

2. Voices can only be heard, and solutions can only be reached, when we work together. Columbia has been a divided place for too long. I began the process of preparing for this first state of the state by having conversations with the leadership of the House and the Senate, the Black Caucus, and individual legislators. The Bible talks about being quick to listen. This administration will listen to every one of you, regardless of your party affiliation. For this reason, I will hold regular office hours and visits with the legislature, members, caucuses and leadership alike.

3. Each of us holds a sacred trust – we are stewards. We are the divide between taxpayers and tax spenders. This administration's goal is to work with each one of you as we maintain and strengthen that trust. For this reason I am proposing an executive order directing my agencies to end the practice of stonewalling the legislature as you do your job of gathering information from them. Each of you may represent different

constituencies, but at the end of the day, we all represent South Carolina. The free flow of information is vital if we are to make good decisions.

4. Let's sign the campaign finance reform bill that has been gathering dust in Columbia. My predecessor vetoed it. Wes Hayes, Doug Smith, Tommy Moore and the Speaker worked with many of you on this. If given the chance, I'll sign it.

5. Just as we need disclosure of campaign finances, we should no longer hide expenditures at the Department of Commerce. Bob Faith is someone in whom I have - well, tremendous faith. He will work hard to create a more open and accountable Department of Commerce. But we should also go one step further by passing the Speaker's bill that will require the disclosure of all special fund accounts at Commerce.

6. Last year South Carolina government spent \$1.9 Million lobbying itself! Governmental agencies hiring lobbyists to lobby for more taxpayer dollars creates an unacceptable cycle that fuels the growth of more government. Taxpayers can no longer afford this practice, and our budget can no longer accommodate it. Let's pass a bill similar to the one proposed by Representative Merrill to fix this.

7. In this state, too many people have to travel to the statehouse complex to be heard. When I was in Congress I held office hours throughout the district so that people didn't have to drive to Charleston. It can be intimidating to go through security and secretaries - to meet "the Congressman." I wanted to meet folks on their territory at a spot familiar

and comfortable to them, like the Wal-Mart, or the grocery or hardware store, where people could voice their concerns. I'll do the same thing as Governor.

I'll also host an "open door after 4" one evening each month in the governor's office so that folks who can't otherwise get off work can have personal access to me. This meeting is not with my staff, an intern, or an agency director; that's a visit with me. They won't be long visits, but anyone from anywhere in South Carolina will be able to sit down in the governor's office with the governor for a visit.

II. Does our state government spend your money the way you do? For me, this goes straight back to the issue of governmental structure.

I realize that for many of you, this is like watching paint dry, but its impact can be felt in the cost of South Carolina government – approximately thirty percent above the national average. If we are to get our economy going, we have to be more lean and efficient. Structural change can reduce that thirty percent number and continue what Carroll Campbell began in 1993.

1. There are still too many un-elected boards and commissions controlling too many aspects of our lives. I think having the number of constitutional officers that we do dilutes the executive branch's ability to administer government effectively. Philosophically, I think every constitutional officer, with the exception of the attorney general, should be

appointed by the governor. Send me a proposal to reduce the number of statewide-elected officials, and I'll accept it.

2. I'm troubled by the vagueness of authority in the governance of the five-member Budget and Control Board and the 1100 or so employees that comprise that agency. Remember the old adage that when too many are in charge, no one is. Work with us and let's consolidate the bulk of these functions into a Department of Administration within the Governor's cabinet.

3. Too many positions in state government are classified. I recently learned that most of our newly elected constitutional officers, with the exception of the governor, couldn't hire a single person to form their own team unless existing employees resign or retire. All of the positions in these offices are "protected or classified." This is crazy. In the business world, could you imagine giving a new manager a task but allowing him no flexibility in his ability to tackle the job at hand? Whether it's the governor or a board or commission, I strongly believe that the next two tiers in each agency should also serve at the will of the agency director. I ask you to work with us in giving our government leaders, elected or appointed, the support they need to accomplish what we ask them to do.

4. On a related issue, isn't it time that we allow the Governor and Lt. Governor in this state to run on a ticket? These should not be separate and autonomous officers, but rather an extension of the same philosophy and beliefs. I would also ask that we strengthen the

Lt. Governor's office so that he or she becomes a more active participant in the executive branch.

Within this category of structure and spending, let me address the budget. The dragon in this building tonight is the budget. Little can be done about so many of the issues that we care about until we address the budget.

Allow me to pause here for a second and thank Chairmen Harrell and Leatherman for their help and time in exploring any number of budget issues during transition.

I'd say first and fundamentally, we are going to have to do what small business does every day –tighten our belts and look closely at priorities. We began that process at the governor's mansion this week. The mansion director was paid \$80,000 a year and we have decided to eliminate that position. We did not cut each person's salary by 5%. We looked for a role, a function that we thought we could do without. If every agency and department finds just one function they can do without, we can go a long way toward closing the budget divide before us. Over the months ahead, I will earnestly look at state government priorities with you. Here are a few of the principles this administration will employ in addressing the budget.

Let's begin with the home office – for us it's the executive branch. We need to lead by example. For too long, the executive branch has been exempt from the very balanced budget rules that this legislature holds sacred. Governors have sent you budgets devoid of

the realities that you all have to contend with. I think that this practice needs to end. Send me a bill requiring that the Governor's proposed budget be balanced when it is sent to the legislature, and I'll sign it.

Then there is the issue of conservative forecasting at the BEA. As best I can tell, the system is gamed. When folks in government want more money to spend, the numbers are revised upward. We all know that the numbers are subject to political pressure – and I want to take the politics out of something as important as economic forecasting for our state. The average family cannot survive on a budget built on overly rosy predictions- and neither can our state. Please help me to work with Chairmen Leatherman and Harrell to find a way to get politics out of our forecasting processes.

Send me a bill that caps the growth of government realistically, requires a public justification for the creation of every new program, and requires cost projections for these programs, not just for the first year -- but also for the first five years, and I'll sign it.

This kind of thing has been done elsewhere - the legislature and Governor Bill Owens in Colorado came together and capped the growth of government to inflation and population growth. Passing this will protect us from government's normal propensity to spend every new dollar on the growth of existing programs or the creation of new ones. Granted, this hasn't been a problem over the last two years, you've been cutting budgets rather than raising them – but it is a problem that will return as our economy improves.

Allow me a few other budget thoughts.

You've realized some limited success in getting a few agencies to move toward performance budgeting. I'll help you to continue and broaden this effort by requiring every cabinet agency to adopt either zero-based or performance budgeting within the next four years.

Let this also be the year that we curb the annualization problem. No sensible family would use a one-time bonus to finance a new car - if they didn't have some other source for payments - not just this year's - but also each following year's payments. This principle should also hold true for our state.

In this vein, I think we ought to be much more methodical in our budget process. I'd ask you to consider the possibility of a biennial budget, a six-year financial plan for the state operating budget and the adoption of a true capital budgeting process with a ten year planning window.

Ronald Reagan is a man many of us in this room admire, and I would like to steal an idea of his that was an effective tool in the fight against waste and duplication in government - the Grace Commission. Some of the brightest minds in the business world took an exhaustive look at the workings of government and did indeed find things that could be done better. We need to do this in South Carolina and I will ask for this commission to begin its work immediately after Memorial Day.

III. Are we competitive? In the information age, this has increasingly become a question of education.

There are a number of things we could do to improve education that do cost money – but once again because of the budget crisis we are in, I want to stay true to what I promised at the beginning of this speech, and focus on structure.

We are in a tough spot. Providing a quality education for South Carolina’s children is this state’s most important responsibility. I applaud the House, the Senate, Superintendent of Education Inez Tennenbaum, and former Governor Hodges for leading a renewed emphasis on education in our state over the past four years. I also want to applaud the work of teachers. The fact that I can remember Clyde Hincer or Lilian Spears speaks volumes about the impact teachers have in every student’s life- for the rest of that student’s life. Yet education is more than half of the state budget – and if you are in a budget crisis it’s going to be tough - so I will say just a couple of things.

I will work with Inez, our Superintendent of Education, to make sure that the money is indeed going to high priority areas – teacher quality and early childhood education are two on my list.

There are a few structural things we could do:

1. Block grants. What are the most efficient uses of our education dollars in each of our state's school districts? I am the first to admit that I don't know - each district has unique needs and challenges. Currently, the state provides about \$1 billion of your tax dollars to local districts through a confusing 80 or so spending categories. How can we hold local administrators accountable for their PACT scores without giving them the authority to spend their funding where they see fit?

We think you could send the same dollars in a much more simplified system using just six different categories of block grants.

2. Conduct grades, in-school suspensions, and boot camps. On the last two we will try to work with other agencies in my cabinet to find creative solutions. On conduct - why not arm parents with a report card so that they know whether or not Junior is behaving in class? Too many teachers in South Carolina are forced to baby-sit, not teach, and I think that's wrong. It's wrong not only for our teachers, but for our students as well because often times the behavior of a handful robs the rest of the class of opportunities to learn.

Discipline in our behavior toward each other and toward those in authority has as much to do with our success as our academic performance in reading or math. I say this because if you learn control in your behavior, you can also become disciplined in learning math or reading skills. I will look at advancing any idea that might better help a teacher to be sovereign of the classroom.

The fact is that school crime has increased 26 percent during the past four years.

Unfortunately, this problem was highlighted just last Thursday in Sumter when a fourteen year old, a twelve year old, and an eleven year old allegedly tried, at gunpoint, to steal school board member Iona Dwyer's car at 11 AM in the elementary school parking lot. It is insane to believe that people are expected to teach or learn in this kind of environment.

3. In the campaign there were many misrepresentations about my proposals for increasing parents' choices for their children's education. Every one of the ideas we advanced had been tried in another state, and had worked to improve education and achievement. This ultimately ought to be the test of any idea of educational choice. Charter schools will be our first step; as there are currently only 14 in the state. As a result, we are leaving millions of dollars in available federal matching funds on the table.

4. On the issue of higher education, we do not have the resources to allow every institution to be everything to everybody. Universities, colleges and technical colleges are all a part of the formula for raising income levels in South Carolina. But it must be a formula that involves more focused roles, better coordination, less duplication, and better responsiveness to the workforce needs of this state. I'm open to how this should be done, but I am committed to working with each one of you in seeing that it will be done.

In all of these things my goal will be simple – to improve the education of our children. But I want to go beyond simply saying that I'm for education. I want to work with each one of you to better education in our state.

IV. Are there innovative things we can do to raise income and revive wealth creation in our state? Translated, it's the economy stupid.

The answer is yes. Bob Faith has been charged with a tremendous responsibility in trying to help us set a better playing field for all businesses in South Carolina. He will do well. One of many ideas he has brought to my attention is the creation of a small business ombudsman in Commerce. Small businessmen and women – the backbone of our state's economy - have never had this kind of advocate before in Commerce.

We need a focus in the whole administration on jobs and wealth creation, and I will expect not just the Secretary of Commerce, but every agency head to ask what every program or function does for the business climate in South Carolina.

We need a Governor who will focus on business development the way Carroll Campbell did. While I have no illusion of filling his shoes, I will follow in his footsteps.

Finally, I don't think we can be competitive as a state in attracting investment and new jobs by being midrange in taxes. Economist Richard Vedder completed a fascinating study showing how people in America have literally walked from high tax states to low

tax states – and in the process taken jobs and investment with them. To increase the number, and quality of jobs in our state, we have to be a low-tax state. This was one of the key premises behind my income tax proposal. The other was tied to the need to change the structure of South Carolina’s tax system – so that it rewards the efforts of the small businessman and the productive behaviors of savings and investment. The income tax system is a tax on the generation of wealth, and we need to generate more wealth in this state.

V. Man does not live on bread alone. Are we doing what is needed to maintain or improve quality of life in South Carolina? I recognize this term means a lot of things to different people in our state:

1. To some, a better quality of life means not waiting in a line for hours at a DMV office. This ought to be a simple and basic function of state government. I know that many of you in this chamber worked hard on this issue. J.T. Gandolfo, Chairman of my DMV Task Force, did a great job of researching this problem, as did Chairman Townsend’s House DMV Committee. Unfortunately, their findings present a gloomy picture. If left unchanged, the lines will grow longer this summer at DMV offices across our state. The technology is flawed, and the culture requires change.

The problem also highlights the lunacy of our present government structure. Let’s pretend these were not DMV offices, but instead a chain of carwashes. After a visit to your facilities customers, leave irate because they were forced to wait for hours, or -

sometimes only get half a carwash and are told to come back for the other half, or - better still- are occasionally told that the carwash has lost their car. Can you imagine anyone in the business world leaving the existing management team in place? Yet this is the card I'm dealt. I can't replace the head of Public Safety or the head of DMV who works for him. How can we ever get good government in South Carolina with this type of accountability?

In the meantime, I ask that you join with me in adopting immediate measures to thwart the crisis headed our way. As an example, we propose extending the renewal period on licenses from 5 to 10 years, the licensing of new cars by the auto dealers who sell them, and people not having to make two trips- to the DMV and the Auditors office- when one trip would suffice. There are many other ideas, but the point is that many immediate steps could be taken and we ask for your help over the months ahead.

2. For others, a better quality of life means a health care safety net that is truly safe. Medicaid spends over 3 billion dollars each year – and it is currently in crisis. It will require about a \$150 million increase in funds just to keep the existing programs going. One solution is to simply raise taxes. I think this action alone would be a mistake because simply raising taxes is no more than a band-aid for a patient in critical need of surgery. We have a duty to work together to find a solution not just for this year - but also for subsequent years.

Each of you knows my aversion to tax increases. Like many of you, I have pledged not to increase taxes. Polls apparently say the tobacco tax is palatable, if not popular. The polls do not change my mind, nor do they release me from my pledge. Any specific tax increase should be accompanied by a plan for a corresponding decrease of our tax burden in other areas. Not surprisingly, I have specific thoughts on decreasing the income tax with any proposal to increase the cigarette tax to fund Medicaid. This may well be an acceptable tax substitution as the federal government pays 70% of Medicaid while South Carolinians pay 100% of the income tax.

Let's also look at Medicaid reforms - eligibility, better linkage with non-profit and faith-based institutions, and a different approach to the way that Medicaid provides service.

Medicaid doesn't look at health in any sort of long-term context, but rather seems to serve as an insurance agency that simply pays to treat symptoms. I think it's very important that we implement a system wherein Medicaid patients have medical homes and primary care physicians that look at their health needs and the causes of those health needs.

There's something wrong with a Medicaid system that paid for \$26 million in visits to emergency rooms last year, though in many cases care could have been provided in a setting less expensive for the taxpayer and less institutional for the patient.

There is something wrong with a Medicaid system that will pay for a series of different specialists' opinions or specialty procedures, but doesn't pay for significant preventive services.

There is something wrong with a Medicaid system that will pay for a \$1500 a year drug plan to reduce cholesterol for twenty years – but it won't pay for an ongoing, \$200 a year nutritional plan that would reduce cholesterol by an even greater amount.

We know that a diet high in saturated fat can lead to coronary heart disease. Well, we have plaque in the Medicaid blood stream. Before we ask for more blood to go through those constricted arteries we owe it to taxpayer, patient, and provider alike to reform the system. Concurrent with any proposal for more money, there must be reform. If we need waivers for more flexibility, I will go to the mat in Washington to get them.

3. Public safety – DNR, SLED, DPS troopers, corrections officers - they are all part of law enforcement. The men and women who make up these organizations are unsung heroes because of the risks they take for each of us. It's important that we reward those risks when our budget rebounds.

4. While on the subject of safety, let me say something about driving and drinking in South Carolina. We have a problem. Road deaths are about double the national average. By moving to a .08% blood alcohol standard, we can save lives, avoid losing \$60 million of federal money, and stay consistent with a conservative philosophy that says your rights

end when they begin to infringe upon mine. Some would say let's handle this by confiscating the car of a drunk driver. I say let's go .08% and confiscate the car. Send me a bill and I'll sign it.

5. Since I mentioned the issue of state workers a moment ago, let me add this. All state workers have been hit hard over the last few years. This isn't the budget year to promise that big pay raises are coming. But it is important we do something to recognize the way each one of them contributes to quality of life in South Carolina.

I propose making their retirement more secure. Let's move the fixed income portfolio for state employees out of the Treasurer's office and into its own trust fund. Monies managed and controlled by the state are monies that can be borrowed in tough times. None of us can serve two masters, yet the state treasurer is placed in the unfortunate position of trying to do just that. This current policy also creates a fragmented investment process – and neither of these things is good for a state government retiree in South Carolina. It's not the raise we all would like, but it does a better job of investing \$15 billion of their retirement money. It is, for the moment, a way of saying thank you for working through these tough times.

6. Ultimately, the biggest part of quality of life is the way that we look and feel differently as a state. I believe it's a point of profound competitive advantage in attracting participants in all business arenas - but particularly in the technology revolution taking place all around us. We will propose many ideas whether it's making sure we stay true to

our commitment to the Conservation Bank, or looking at the way we build roads. But let me give you a perfect example of what I'm talking about...neighborhood schools.

I believe very strongly in the concept of neighborhood schools- and we need to make these schools a much bigger part of the educational effort in South Carolina. Our current policies encourage the construction of massive, isolated schools that are inaccessible to the communities they serve. Rather than walking or biking to their neighborhood school, many students spend more time stuck on buses than they do with their families. And perhaps worst of all, many children are ignored in these large schools.

Anonymity and education don't go together. By the educational oversight committee's own analysis, one of the keys to improving education is a sense of community where teacher, student and parent all feel a sense of ownership in *their* school.

In addition to depriving many students of a quality education, these remotely sited mega schools also accelerate developmental sprawl into our rural areas – and what comes with it - increased car trips, lengthened bus routes, and a disappearing countryside.

Please help me to bring back smaller community-centered schools. First, let's work with the State Department of Education to eliminate minimum acreage requirements so that school boards have greater flexibility in site selection.

Second, let's enact legislation that caps student populations for our future facilities. Florida just did this, limiting elementary schools to 500 students, middle schools to 700 students, and high schools to 900 students. I ask that you send me similar legislation.

Our children are the heart of this great state. Let's allow their schools to be the hearts of our communities.

We've covered a lot of ground tonight but the key to moving any of these ideas forward through the legislative process lies in the courage to act. In this regard, may I read to you from part of a note sent to me by a good friend?

A letter from underway, after the tragedy

Below is an e-mail from a young ensign aboard the USS Winston Churchill to his parents (Churchill is an Arleigh Burke class AEGIS guided missile destroyer, commissioned March 10, 2001, and is the only active U.S. navy warship names after a foreign national).

Saturday, September 14, 2001

Dear Dad,

We are still at sea. The remainder of our port visits have all been cancelled. We have spent every day since the attacks going back and forth within imaginary boxes drawn in the ocean, standing high security watches, and trying to make the best of it. We have seen the articles and the photographs, and they are sickening. Being isolated, I don't think we appreciate the full scope of what is going on back home, but we are definitely feeling the effects.

About two hours ago, we were hailed by a German Navy destroyer, *Lutjens*, requesting permission to pass close by our port side. Strange, since we're in the middle of an empty ocean but the captain acquiesced and we prepared to render them honors from our bridgewing. As they were making their approach, our conning officer used binoculars

and announced that the *Lutjens* was flying not the German, but the American flag. As she came alongside us, we saw the American flag flying half-mast and her entire crew topside standing at silent, rigid attention in their dress uniforms.

They had made a sign that was displayed on her side that read “We Stand By You.” There was not a dry eye on the bridge as they stayed alongside us for a few minutes and saluted. It was the most powerful thing I have seen in my life. The German Navy did an incredible thing for this crew, and it has truly been the highest point in the days since the attacks. It’s amazing to think that only half-century ago things were quite different.

After *Lutjens* pulled away, the Officer of the Deck, who had been planning to get out later this year, turned to me and said, “I’m staying Navy.”

I’ll write you when I know more about when I’ll be home but this is it for now.

Love you guys.

None of us know who the German officer in command of the *Lutjens* was, but every one of us knows he’s a leader. I’m sure it wasn’t in the German naval manual to take down the German flag and fly an American flag over a German Naval destroyer. I’m sure it wasn’t standard practice to ask his men to don their dress uniforms, go topside, and salute the men and women onboard the American vessel alongside her. I’m sure it was against protocol to paint a sign and hang it from the edge of the ship. He took risks. To me that is what leadership is all about. Over the months ahead, I will ask you to lead. I will ask you to take risks, because leadership is impossible without it. Most of all, I will ask you to set aside the manual of how it was done before, because frankly, there is no manual for the path before us. But working together, I know we can chart a course that will improve the life of every South Carolinian. I look forward to your help. I ask for your prayers. God bless our great state, and good night.