

State of South Carolina

Office of the Governor

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February 6, 2008

The Honorable Robert W. Harrell, Jr.
Speaker of the House
506 Blatt Building
Columbia, South Carolina 29201

Dear Mr. Speaker and Members of the House:

I am hereby vetoing and returning without my approval H. 3379, R. 185.

This bill would relax the qualification standards for the LIFE and Palmetto Fellow Scholarships for South Carolina students who attend an out-of-state high school.

My overriding concern regarding this bill, and for all pieces of legislation that reach my desk this year, will be the impact on spending in the budget. Over the long-term, we are faced with unfunded liabilities in the state's retirement system and the retiree health benefits that now exceed \$20 billion.

In the short-term, the budget for the current fiscal year contains \$270 million in annualizations, or one-time expenditures for recurring needs. In order to fund just those items alone in the next fiscal year requires revenue growth near four percent. According to the Board of Economic Adviser's most recent assessment for Fiscal Year 2008-2009, we will see revenue growth of only 3.2 percent. In short, that is going to require spending reductions and fiscal restraint in the coming budget. This is only compounded by the ongoing uncertainty of the economic picture nationwide.

Specific to this bill, we have urged the General Assembly to proceed cautiously on expanding the LIFE and Palmetto Fellows Scholarships for the simple reason that we need to maintain a sustainable course on spending. In the last 10 years, the number of LIFE scholarships has nearly doubled from 14,443 in 1998 to 27,916 last year. The Palmetto Fellows scholarships have grown by 176 percent in the last eight years.

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At the same time, the size of the scholarships has increased from \$2,000 to \$5,000 for the LIFE Scholarships and \$2,500 to \$6,700 for the Palmetto Fellows program. The net impact of these changes has increased scholarship spending from \$38 million to \$189 million – or almost 400 percent. To put it simply, these programs are growing faster than we can pay for them.

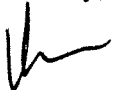
The implementation of the Lottery was intended to reduce the General Fund commitment to fund these commitments – but General Fund spending has actually increased by 60 percent since FY 2002-2003. The story doesn't get any better when you consider the fact that, just last fiscal year, total Lottery revenues fell by almost \$50 million from the previous year, while the demand for LIFE and Palmetto Scholarships increased by almost \$24 million during the same period. In addition, we think it's likely that the North Carolina Lottery – which is still less than two years old – will continue to have an increasingly negative effect on South Carolina revenues.

Last August, it was reported that the size of the Lottery scholarship might need to be reduced in the face of increasing competition from the North Carolina Lottery. At that time, Senate Finance Chairman Hugh Leatherman said, "Some day, we will have to cap the cost. The general fund cannot afford to have open-ended accounts like that."

I laid out some of these concerns when I vetoed similar legislation expanding these programs in 2004 and 2005, and I urge the General Assembly to sustain this veto and carefully examine the long-term sustainability of the current commitments to students in South Carolina.

For all of the reasons outlined above, I am vetoing H. 3379, R. 185, and returning it without my signature.

Sincerely,



Mark Sanford