

OFFICE OF GOVERNOR MARK SANFORD

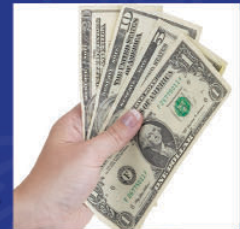
# 2004 ANNUAL REPORT

PUBLISHED FEBRUARY 1, 2005

COMPETITIVENESS



FISCAL RESPONSIBILITY



OWNERSHIP SOCIETY



QUALITY OF LIFE



## MESSAGE FROM GOVERNOR SANFORD



*W*hether you're talking about the world of government or the world of business, it's critical that those people in leadership positions are accountable to the people who are stakeholders in the process.

In my time in office, both in Congress and as Governor, I've tried to improve those lines of communication that I believe are so key to that notion of accountability. Whether it's holding neighborhood office hours in different corners of the state or spending a few minutes with folks at our Open Door After Four meetings each month, this administration has been committed to getting a first-hand view from South Carolinians about how government affects their lives.

I believe accountability also means I have an obligation to let you know exactly what is being delivered to you as a shareholder in our government and as a stakeholder in the future of our state. That's the idea behind this Annual Report, something we'll be doing once a year from now on to let you know about our work here and about our plans for the future.

This report will focus on our efforts in four core areas — keeping South Carolina competitive, bringing fiscal responsibility to state government, promoting an “ownership society” and improving our state's quality of life.

In some cases, our work has already made a material impact. In other areas, change is underway due to our influencing debates over how things have always been done. Some of our goals haven't yet been reached. In each case, it's important that you know where we stand so that as a taxpayer and a citizen, you have the ability to hold us accountable.

I look forward to continuing our efforts in the coming year. Thanks for your support and take care.

# COMPETITIVENESS

## OVERVIEW

The Internet and globalization have put us into direct competition with the rest of the world in ways unimaginable to previous generations. In a world experiencing transformative change, our number one priority is to focus on reforms that will keep our state competitive when it comes to creating opportunity for our citizens.

Our efforts on this front have focused on three basic objectives. The first has been implementing our legislative agenda, the "Contract for Change," which proposes specific ways to improve South Carolina's economic, educational, and operational competitiveness. Second, we will continue to work with our Department of Commerce to not only recruit new businesses, but also to support and help grow existing small businesses in our state. Third, we've begun a number of debates to challenge long-held mindsets about the way government should operate that will ultimately result in a more competitively operational government.



GOAL	IMPORTANCE	STATUS & NEXT STEP
<p><b>Contract for Change Goals:</b>  <b>Income Tax Relief</b> — Lower the income tax rate on individuals and small businesses from 7% to 4.75% over six years.</p>	<p>Over the past year, our unemployment rate has averaged a full point higher than the national rate. The change will make South Carolina a more attractive place for entrepreneurs looking to begin a small business.</p>	<p>In the past legislative session, income tax relief passed the House and had the votes to pass the Senate but was filibustered once it reached the floor. We hope updated Senate rules allow the plan to pass in 2005.</p>
<p><b>Government Restructuring</b> — Re-align the state's healthcare and administrative agencies to provide better service and cost-savings. Offer to voters the chance to lower the number of elected constitutional officers from nine to four.</p>	<p>Currently, South Carolinians spend 130% the national average on the cost of government, due in large part to an inefficiently structured government.</p>	<p>A 1,900-page comprehensive restructuring bill essentially died under its own weight last year. This year's efforts will focus on separate legislation for each part of our plan - healthcare and administrative restructuring, and constitutional officer referendums.</p>
<p><b>More Educational Choices for Parents</b> — Give parents more options and choices when it comes to educating their children. Create a marketplace dynamic in South Carolina to improve public education.</p>	<p>South Carolina ranks at or near the bottom in far too many measures of educational attainment. We believe market forces are key to creating the transformative change needed to keep our educational system competitive in a global economy.</p>	<p>The Put Parents in Charge bill will give low-to-medium-income parents tax credits and the option to transfer their children to another school environment. We'll also push for more charter schools, more spending flexibility for public schools, conduct grades and a Teacher Protection Act.</p>
<p><b>Civil Justice Reform</b> — End abuses of the legal system that cripple small business and drive up healthcare costs.</p>	<p>South Carolina was ranked the 11th worst legal venue by the US Chamber Institute. Hampton County is ranked the 3rd worst "Judicial Hellhole" by the American Tort Reform Association.</p>	<p>We believe lawsuit caps, elimination of joint and several liability, prohibitions on venue shopping and allowing seat belt evidence are key to effective tort reform.</p>
<p><b>Updating Senate Rules</b> — Change Senate rules that allow individual Senators to indefinitely obstruct legislation.</p>	<p>During the past legislative session, 39 bills left on the calendar had been held up by single senators' objections. Of those, single senators held up 13 bills for more than a year.</p>	<p>Completed. The Senate has approved rules reforms that are a step toward a more open political system.</p>
<p><b>Department of Commerce: Bring 10,000 jobs and \$1.5 billion in capital investment to South Carolina in 2004. Bring high-paying jobs that pay above the current average income earned by South Carolinians.</b></p>	<p>South Carolina has one of the highest unemployment rates in the nation, and its workers earn 80% the national average.</p>	<p>Commerce exceeded its goal, bringing almost 13,000 jobs and almost \$2.8 billion in capital investment and will continue bringing jobs to our state this year. The average job created by the Department of Commerce in 2004 paid \$34,773, compared to South Carolinians' average income of \$26,138.</p>
<p><b>Other Legislation: Small Business Regulatory Flexibility Act</b> — Requires cost-benefit analysis of new regulations that affect small business.</p>	<p>As the backbone of our economy, we have to make sure small businesses aren't hurt by overly-burdensome regulations.</p>	<p>Bill signed. This reform was another critical step for improving the underlying soil conditions for economic development.</p>
<p><b>Film Incentives Bill</b> — Lure motion picture production to South Carolina.</p>	<p>Film production is a clean industry that helps promote our state to visitors.</p>	<p>Bill signed. We will push for an expanded version of this bill in 2005.</p>
<p><b>Captive Insurance Bill</b> — Establish South Carolina as a hub for this insurance industry.</p>	<p>Captives are an alternative form of self-insurance for corporations. Last year, captive insurance companies contributed \$5.5 million to South Carolina's economy.</p>	<p>Bill signed. South Carolina is now the third-largest state for captive insurance companies.</p>

# FISCAL RESPONSIBILITY

## OVERVIEW

As stakeholders and shareholders in state government, I believe the taxpayers have a right to expect a government that spends dollars effectively and efficiently. Put another way, government should run more like a business. To further that goal we've focused our efforts on operating the same way any successful business does, by carefully examining every expenditure and activity, determining whether it's an activity that government should be performing, and if so, asking if there's a more cost-effective way to perform that activity. This approach has netted some real benefits for our state, most notably the repayment of an unconstitutional deficit left over from the previous administration, as well as more than \$100 million savings in our first Executive Budget.



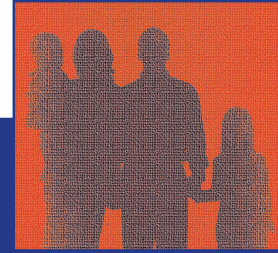
GOAL	IMPORTANCE	STATUS & NEXT STEP
Pay off the state's unconstitutional \$155 million deficit left by the prior administration	Not only is a deficit unconstitutional and illegal in South Carolina, it threatens the state's credit rating, which in turn can have a direct impact on taxpayers.	Completed. Gov. Sanford signed the Fiscal Discipline Act, a plan to pay back the deficit over 3 years. After challenging the General Assembly further, the deficit was paid in full after one year.
Present an outcome-based, balanced Executive Budget for the first time in state history that funds core needs without raising taxes	Prior to this administration, executive budgets lacked detail and contained only general spending recommendations for new state dollars. Our administration has changed the way Executive Budgets are formulated and written, providing a budget that could actually be used to run state government.	Recommendations adopted from our 2004-2005 Budget resulted in more than \$100 million in direct savings to the taxpayer. Our recently released 2005-2006 Budget outlines \$160 million in savings that we re-invest toward increasing funding to K-12 education, healthcare and law enforcement, and providing much-needed income tax relief.
Eliminate pass-through spending	Millions of dollars for local pork projects were regularly passed through agencies without being disclosed in the state budget.	Completed. We signed an Executive Order to end this practice in our Cabinet agencies. DHEC and DNR, two non-cabinet agencies, adopted the Executive Order.
Improve usage of state assets	In many cases, state agencies have held onto assets and property that are no longer necessary in fulfilling their missions. Selling those properties allows us to redirect those resources toward agencies' core missions.	Ongoing. Since taking office, our recommendations have resulted in an estimated \$75 million in surplus property that will be sold in coming months. That property includes the Department of Mental Health's Bull Street campus and the Port of Port Royal.
Stand against bobtailed pork-barrel legislation	During the legislative process, unrelated and sometimes un-debated amendments are attached to otherwise good legislation. In this past session, more than a dozen unrelated provisions were attached to the Life Sciences bill.	Vetoed the unconstitutional Life Sciences bill. Though the veto was overturned, the SC Supreme Court ultimately vindicated our veto. We'll continue to stand against pork-barrel legislation that's a bad value for the taxpayer.
Cost-Savings and Efficiencies — Cabinet Agencies	Our Cabinet agencies provide the best opportunity for us to directly influence spending decisions and maximize returns on taxpayers dollars.	Ongoing. Some examples are the Department of Commerce exceeding its jobs and investment goal despite a 25% staff and budget reduction, the Department of Health and Human Services halving Medicaid's growth rate, and the Department of Motor Vehicles cutting wait times 77% while requesting roughly half the general funds it had in previous years.
Cost-Savings and Efficiencies — Non-Cabinet Agencies	Despite having oversight of only 16% of state agencies, we've successfully influenced the debate over spending decisions in other parts of state government.	Ongoing. Two successes are the Budget and Control Board deleting 6,150 unneeded job vacancies and the Department of Transportation now charging market prices for tree removal around billboards.



# OWNERSHIP SOCIETY

## OVERVIEW

Ownership Society means a couple of things. First, it means people taking ownership of the services they receive from government, a principle we've pushed for with the creation of Health Savings Accounts and a housing loan program for low-income families. Second, it goes back to the notion of accountability — people need to have a real stake in the government process and need to have outlets for making their voices heard.



GOAL	IMPORTANCE	STATUS & NEXT STEP
Health Savings Accounts	Giving consumers ownership of their health care dollars drives expansion in consumer choice and controls costs.	Completed. In July, South Carolina became only the second state in the nation to offer HSAs to its employees and retirees.
State Housing Authority's 'Home Run' Mortgage Loan Program	Homeownership is key to building wealth, incredibly important when this state's income levels are 80% the national average.	Completed. We secured \$50 million for this program, a step toward allowing low-income families to buy homes rather than rent.
Open Government	Citizens need to have a way of communicating their concerns and ideas directly to their elected leaders.	Ongoing. We'll continue open Cabinet meetings, budget hearings, Open Door After Four and neighborhood office hours. Our Executive Budget is also published online for citizens' review.
Campaign Finance Reform	For open government and informed voting, people should have easy access to campaign finance information.	On January 10, political parties were forced to disclose expenditures for the first time. We're requesting funding for an online campaign disclosure system this year.
Medicaid Choice	We believe that allowing Medicaid recipients to take more ownership of their healthcare dollars will result in better quality service and will help rein in costs.	Ongoing. We've submitted a first-in-the-nation request to the federal government to allow Medicaid recipients to control their own personal healthcare accounts, so they can purchase services that best fit their needs. Unspent dollars would roll over to the next year or could even follow a Medicaid patient that leaves the system, creating a market-based incentive for Medicaid recipients to become more cost-conscious consumers.
Prevention Partnership Grants	To make a material impact on the health of South Carolinians, it's critical that individuals take ownership of their lifestyle choices. We believe focusing the state's efforts on disease prevention will be a key step toward furthering that goal.	Ongoing. We've proposed that the legislature provide \$5,000,000 in competitive grants for innovative prevention ideas and programs that have proven successful or have the potential to reduce preventable diseases and the related health care costs.

# QUALITY OF LIFE

## OVERVIEW

In a recent book called *The Rise of the Creative Class*, Richard Florida argues that wealth creation in the 21st Century will largely be driven by the creative processes of redesigning, marketing and innovating products. This 'creative class,' Florida argues, will gravitate toward areas that boast a good quality of life — a competitive advantage for South Carolina. This administration is committed to enhancing our state's quality of life on several fronts.



GOAL	IMPORTANCE	STATUS & NEXT STEP
Fund Conservation Land Bank	Protecting our state's natural beauty is key to preserving the unique way South Carolina looks and feels as a state. This fund provides a market-based incentive for private land conservation.	Completed. The Conservation Land Bank had never been funded before, and we successfully pushed for its full funding. This was an important step toward protecting South Carolina's natural beauty.
Family Fitness Challenge	South Carolina either leads the nation or is near the top of the list for far too many diseases that could be prevented through healthier lifestyle choices.	Ongoing. In May, hundreds of cyclists joined the First Family on a three-day, 170-mile bike ride across the state to highlight the importance of making healthy choices in our day-to-day lives. We will continue those efforts this year.
Minibottle Referendum	South Carolina leads the nation in alcohol related fatalities, due in part to our constitutionally mandated stiffest drinks in the nation.	Completed. Legislation to end the minibottle requirement should be passed during this legislative session.
Restore Adoption Incentives	A stable family environment is important to children's quality of life. Unfortunately, legal costs serve as a barrier to adoption.	Completed. Incentive was restored to \$1,500 from a previous level of \$250.
Cut excessive government regulation	People should be able to live and work without onerous government regulatory interference.	Ongoing. This year, we vetoed a bill that would have required hair braiders to receive 60 hours of training. We'll continue our efforts to make sure government isn't unnecessarily intruding on people's lives and businesses.