State of South Carolina
Office of the Governor

MARK SANFORD
GOVERNOR

POST OFFICE BOX 12267
COLUMBIA 29211

March 10, 2009

Dear Members of the House and Senate:

Our administration has taken a detailed look at every aspect of the American Recovery and Reinvestment Act, and in the spirit of moving forward, I would outline where we have come down with regard to my decision on whether to accept federal stimulus funds.

As you know, I was an outspoken opponent of this legislation prior to its approval by Congress. I know that many of you were as well. I continue to believe that this massive spending effort will not achieve the economic stimulus that its proponents suggest, and I have grave concerns about the unprecedented level of debt that it represents for future generations.

But the legislation did win approval by Congress, so the question of its merits is no longer directly in front of us. Rather, we are now presented with a very different question. As we look to implement the bill's provisions, our team has spent the weeks since its passage carefully examining the direct implications for current and future generations of South Carolinians.

Under the budget conditions that prevail in many states, it might make sense to accept the funds. However, in looking at the long term implications for the people of South Carolina, I have come to conclude that it would be a mistake to simply accept the money as offered.

The reason we think it is not in our best interest to spend these monies lies in the fact that when one is in a hole the first order of business is to stop digging.

Spending that which is contemplated in the stimulus bill moves our state to an extremely dangerous tipping point with regard to annualizations in our state budget. In some ways this is unique to South Carolina, as states like Florida have a constitutional prohibition against patching their annual budget with more than three percent of non-recurring money. The proposed stimulus dollars would annualize over $1.2 billion in the next two years – approximately ***10*** percent of our state's budget. This level of new annualized spending would be the largest recorded level of annualizations in state history, and dwarfs last year's annualizations by nearly three times.

As a believer in federalism, I find it appalling that Washington would seek to effectively remake the entire budget process of the states. But philosophy aside, in the case of our state, doing so would lead to potentially disastrous budgetary consequences in future years. While I have joined with other fiscally-concerned members of the House and Senate since day one of this administration in advocating against paying for ongoing needs with one-time monies, the sheer scale of what is contemplated here overwhelms every one of those conversations of the last six years. We believe it is not only financially reckless to borrow from future generations to attempt to address today's economic problems – but in this case, along with digging a larger financial hole from which to dig out of in 24 months, it would allow us to gloss over changes long overdue in South Carolina.

In the same way one could very reasonably argue that the restructuring essential to the long-term survival and prospering of General Motors was only postponed by federal monies, I believe these stimulus monies would postpone changes essential to South Carolina becoming more competitive in the global economy and thereby degrade the long-term economic prospects of our citizens. On this point it is interesting to note that though GM said federal money was key to its survival, it has now come back just months later laying out the choice of either bankruptcy or more federal aid from taxpayers across the country. Though certainly well-intended to address real needs that do exist in this and other states, the debilitating thing about federal monies like these is the necessary, but hard choices, they forestall.

The annualizations problem created by this stimulus package also compounds the more treacherous issue of our state's long-term liabilities. South Carolina currently has roughly $20 billion in unfunded political promises, and stands at the unenviable position of being number one in the entire Southeast in per capita debt. We are 57 percent above the Southeastern average and three times higher than neighboring Georgia in our state's per capita debt load. The stimulus monies in question would enable us to continue a course that allows us to avoid, in substantive terms, these problems. This not only weakens our financial state, and by extension raises the cost of our state's borrowing over time – but again it prevents us from making the politically tough calls essential to a competitive South Carolina that offers more economic opportunity to every one of its citizens.

As you know, approximately 75 percent of the stimulus money is directed by federal statute to flow through programmatically to our state. Our administration is not able to redirect, or otherwise impact those funds. As our hands are tied in that regard, and while I find the restrictions on these funds' use highly regrettable, it is my hope that those funds are directed in the manner best able to promote job creation in our state.

The governors of the nation have been granted discretion over the remaining 25 percent of the stimulus funds, some $700 million in the case of South Carolina. As I see my duty to current and future generations of South Carolinians, for the reasons outlined above, I believe a blanket acceptance of the funds would be unwise. However, our taxpayers will still be required to pay for this federal spending in other states, so I therefore also think a blanket rejection of the funds would be unwise.

To that end, I have decided to send the President a letter asking for a waiver from spending this money we don't have. I believe doing so will prove to be a profound mistake, but so as to not penalize the people of South Carolina, we will ask to allocate the money for which our administration has discretion to paying down our very sizable state debt and contingent liabilities. In our opinion, that will do more to ensure our long-term economic strength, and to avoid our state's structural budget shortcomings, than would other contemplated uses of the funds.

Also, as I have previously indicated, I will not be seeking any federal money that requires an expansion of unemployment benefits.

After six years of budget battles, I want to be unequivocally clear about the degree to which I would prefer not to be asking for this waiver, and to instead simply accept all monies as offered. If we were to accept the stimulus funds, this annualizations problem would not be dealt with for 24 months, at which point I would be gone from office, and the shortfalls I believe that would certainly come would fall on the shoulders of future legislative leaders and whoever follows me in this office. The desire to avoid yet another area of conflict with legislators and constituencies advocating these funds is powerful. Unfortunately, I have come to believe that not offering an alternative to that which the President has proposed would cause even greater harm to the people of this state, and so I take the position outlined above.

Should the President grant our waiver request, we will accept the federal monies and apply them to our state debts and contingent liabilities, thereby strengthening both our short and long-term economic climate as a state. In the unfortunate case that the President would deny our request, I will not seek the funds, as I believe doing so would not help our current economic problems and would do real harm to our future financial picture.

If you have any questions on this please feel free to call me directly at (803) 734-2100. I look forward to working with you this year both on the budget before us, and the economic challenges to our state as a consequence of the tough times our nation now finds itself. Thank you for your consideration.

Sincerely,

Mark Sanford