Fact Sheet

South Carolina Policy Council

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Executive Branch Reforms for 2011

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The concentration of power in South Carolina's legislature is such that the executive branch is generally unable to institute major reforms without the cooperation of the Legislature, whether stemming from good will or public pressure. Still, the executive branch could implement several initiatives – especially as related to good budgeting practices, health care and job creation – that would, not only complement a reform agenda in the Legislature, but make South Carolina more free and prosperous in concrete ways.

Implement Strategic-Based Budgeting Practices at Cabinet-Level Agencies

Balancing the budget is at the top of the Legislature's agenda this year – in particular, because state law (with some exceptions) requires passage of a balanced budget.

(Granted, the General Fund budget is down, but overall state spending hit a record high last year. Moreover, General Fund agency cuts were supplemented with raids from Other Funds revenue.)

Instead of settling for a balanced budget, the governor has an opportunity to show how good budgeting practices – such as strategic budgeting and effective spending and revenue caps – can reduce spending and increase accountability in cabinet-level agencies. To accomplish this goal, the governor should:

> *Cap agency spending*. Although agencies have already submitted their budget plans, they should go back to the drawing board and revise their budgets using a spending cap correlated with actual economic growth. The idea here is that each agency should not just submit a balanced budget (and some have not even done that), but a model budget that limits overall spending according to a consistent, objective measure.
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> *Implement strategic-based budgeting*. While zero-based budgeting has its merits, it is a time-consuming process. A better alternative to zero-based budgeting is strategic budgeting. The process has two parts. The first phase requires each agency to:
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> 1) Prepare a 50 percent base budget that funds Tier 1, essential core services and programs.
> 2) Justify from the ground up all Tier 2, less essential services that make up the remaining 50 percent of the proposed agency budget.

In effect, each agency would draft a modified zero-based budget that forces it to prioritize its activities by classifying each program as either Tier 1 or Tier 2. In the second phase, agency heads would meet to negotiate over spending and to set priorities together. The benefit of this collaborative effort is that savings achieved by one agency can be used to fund essential expenditures by another agency. In short, this process allows agencies to make strategic budget cuts in a manner that serves the interests of the state as a whole, instead of just one program or another.

Cap agency fines/fees. Along with capping spending, agencies should also cap revenue – all the more so because agencies are routinely spending more than the budget authorizes them to spend. One way of capping revenue would be to issue an executive order placing a moratorium on all agency fine and fee increases. The governor should also consider placing a moratorium on all new and current agency capital/building projects.

Request item-reduction veto power. Another key reform that would reduce state spending and allow for strategic budget cuts is item-reduction veto power. The state constitution permits the governor to veto specific items and sections in the state budget. According to a recent state Supreme Court opinion, this veto power applies only to nullifying entire items, as opposed to parts of an item. That said, governors in 12 states possess a line-item reduction veto. Such a veto would allow the governor to reduce funding for specific budget items without eliminating the item altogether. According to a 30-year historical analysis by economist Mark Crain, the item-reduction veto is among the most effective means of limiting spending, resulting in a 14 percent average decline in state spending. A constitutional amendment would be necessary to implement this reform.

Reform Health Care for South Carolina

We've written extensively on what South Carolina lawmakers can do to create a free market for health care in our state. As far as health care goes, we recommend a two-pronged approach that pursues free market reform, even as the state pushes back against the federal health care takeover. Game-changing reforms include:

Setting up interstate compacts. Georgia has been attempting to establish an interstate compact creating a multistate health insurance market for the past several years. Such compacts must be approved by Congress (but not necessarily by the president). South Carolina should join its neighbor to the south in creating an interstate compact that would allow for the creation of a deregulated, free market for health insurance. One option may be to expand the already existent Interstate Insurance Product Regulation Commission to include health insurance. Read more about interstate compacts here.

Requesting Medicaid waivers. While the Obama administration is unlikely to grant any Medicaid waivers that entail free market reform, the state should apply anyway, all the more so because the waiver process is very lengthy even under the best of circumstances. In particular, South Carolina should apply for a waiver that would allow the state to obtain its federal Medicaid funding in the form of a block grant. Rhode Island is the only state that currently possesses such a waiver, with the result that the Ocean State has reduced Medicaid spending by $110 million since 2009 (without reducing eligibility).

Exercising oversight over federal health care grants. Gubernatorial review and approval of all discretionary federal grants stemming from the Patient Protection and Affordable Care Act (PPACA) would help insure these grants don't place additional financial stresses on South Carolina. This reform would prohibit all executive branch agencies from applying for further grants without specific authorization.

Implementing a moratorium on the PPACA rulemaking process. Many of the more controversial policies in PPACA will be worked out via the federal government's rulemaking process. Yet, regulatory agencies in some states do not possess the authority to enforce some of these rules. This rulemaking process also threatens to overwhelm state regulatory systems. For this reason, the governor should issue an executive order placing a moratorium on PPACA rulemaking as it applies to South Carolina. Governors in North Carolina, Arizona and Washington have already issued such orders.

Encouraging waivers. The governor should direct the S.C. Department of Insurance and the Department of Health & Environmental Control to conduct a joint review aimed at determining what currently available waivers would allow the state as a whole to opt-out of various provisions of the Patient Protection and Affordable Care Act. Likewise, the governor can instruct the Department of Commerce to assist South Carolina businesses in obtaining temporary waivers from PPACA coverage requirements. As of mid-December 2010, the White House had already issued 733 waivers affecting millions of individuals.

Create Jobs by Cutting Spending

Government can't create jobs. As famed economist Walter Williams puts it, "[Government] can only shift employment or unemployment but cannot create net new jobs." More to the point, the government's proper role is to create the conditions – low spending, low taxes, reduced regulatory burdens, an equitable court system – that enable entrepreneurship to thrive.

We suggest South Carolina's governor take a cue from Texas. Job creation in the Lone Star state has exceeded all other states combined over the past 10 years. Observers credit this growth to the state's low rate of per capita spending – 47th in the nation for FY2011. Similarly, South Carolina should pursue policies that limit government spending and reduce taxes. Instead, the state has taken the opposite route of keeping taxes proportionately high while extending targeted tax breaks to select companies. The governor can do her part to end this failed economic experiment by:

Requiring gubernatorial review of Department of Commerce incentives packages. While the governor can do little to stop economic incentives deals initiated by the Legislature, the Department of Commerce also plays an active role in using state tax dollars to lure companies to South Carolina. Accordingly, the governor could require that all economic incentives packages extended by the Department of Commerce receive independent gubernatorial review and authorization. This review process could include a 30-day waiting period during which the public is invited to learn the details of the incentives and offer comment.

Requiring agency review of economic development incentives. Legislation (S 206) has been introduced in the Senate that would require the Department of Revenue and Department of Commerce to exercise active oversight over state economic incentive deals. Such oversight would include preparing an annual report that details the costs and benefits of economic development incentives. The Department of Commerce would also be charged with overseeing an independent review of every economic incentives package, with the aim of reporting specific job loss and creation numbers that include the ratio of public spending for each job created. Instead of waiting for the Legislature to act, the governor could direct the agencies under her control to proactively monitor and analyze economic incentives packages and provide yearly reports on whether these incentives are actually creating jobs – and at what cost to taxpayers. (For more on economic incentives transparency, see this report.)

Of course, requiring greater transparency regarding economic incentives deals will demonstrate one thing – targeted tax incentives and special interest deals don't create long-term prosperity. Thus, in spite of appropriating more than $2.5 billion in economic incentives from FY99-2000 to FY07-2008, lawmakers can point to little real economic growth. In fact, over the past 10 years, private sector growth (as measured by real Gross State Product per capita) was only 1.35 percent for South Carolina – as compared to 23.76 percent for Texas.

Again, the answer is clear – cut spending and lower taxes. Toward this end, one of the best ways to create jobs in South Carolina is to enact an effective and comprehensive spending cap. In theory, this is a reform the governor has already expressed support for, but the details remain to be worked out. In particular, we recommend a spending cap that:

- Is comprehensive – including General Fund, Other Funds and Federal Fund spending
- Tied to an objective measure of real economic growth – and not subject to political manipulation
- Refunds surplus revenue to taxpayers – and, thus, also includes a revenue cap

To learn more, read our new report: "An Effective Spending Cap for South Carolina."

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