



#### OUR MISSION

is to educate members and all South Carolinians about state and local public policy based on the traditional South Carolina values of individual liberty and responsibility, free enterprise, and limited government

# SCPC Issue Analysis

## Government Restructuring – Reform or Debacle?

*The law stipulates the governor write the budget and that the General Assembly amend this document. Therefore, the governor is responsible for outlining the state's spending priorities. Instead of curbing the unsustainable growth of government South Carolina endured over the last decade, the governor proposed the largest budget in state history. The governor's budget increases the size of government by 4.28%. The budget seems to ignore the fact South Carolina's families remain financially bruised from a still suffering economy. However, there are some good things in the governor's budget as well, such as targeted budget cuts, eliminating certain provisos, and evoking the concept of a budget cap. Here's our take on a few of the best and worst things of the budget.*

### BEST

#### **The governor's budget makes some – although not nearly enough – strategic cuts.**

Considering the explosion of the state's budget over the past decade, it is remarkable whenever any politician takes a stand against waste. Instead of seriously discussing spending priorities during revenue shortfalls, lawmakers skirt responsibility and pass the buck to the Budget and Control Board, who make across-the-board cuts. However, it is absolutely vital for lawmakers to consider the actual spending priorities of the state, and to make targeted cuts aimed at stamping out all waste while adequately funding only core government functions. Until lawmakers assume the responsibility of budget cuts – something we have argued for as part of restructuring – strategic budget cuts must take place at the front-end, during the creation of the budget.

In her budget, the governor spoke about separating “needs from wants.” With a budget of \$22.8 billion dollars, that distinction seems like a stretch. On a smaller scale, however, the governor proposed a small amount of strategic cuts aimed at eliminating state support for non-core functions. This included eliminating state funding for the Arts Commission, reductions for the Sea Grant Consortium, and cuts to ETVs budget. While these represent a start to strategic cuts, they are hardly enough (about \$4 million dollars of a \$22.8 billion dollar budget).

#### **The budget begins to stop treating small business owners like ATM machines.**

One particularly concerning budget practice is the state's growing reliance on fines and fees and “other” funds. As The Nerve recently pointed out, lawmakers use these funds to fill holes in budgets by transferring funds from one agency to another during the fiscal year. By using this non-transparent budget practice, South Carolina lawmakers fund pet projects with revenue taken from citizens without calling it a “tax hike.”

Take the example of the Department of Licensing, Labor and Regulation. A great deal of money this agency has comes from the licensing fees it collects from cosmetologists, barbers, funeral home directors, and other small business owners and entrepreneurs. Because of a proviso passed in FY 12's budget, LLR is required by law to transfer some of their money – money they take from South Carolina's job creators – to the Conservation Land Bank. That way, politicians can tout about supporting land conservation, while not taking the heat for “raising taxes.”

Such practices represent one of the worst aspects of state budgeting practices. Any money to spare should go directly back to the taxpayers. While the governor's budget eliminates this particular proviso, along with other "flexibility" provisos, "other" funds remain a huge and growing part of the state's budget. "Other" funds grew by nearly 4% from last year, and this money helps to feed our state government huge glut of waste.

### **The budget invokes the concept of a spending cap.**

In her budget, the governor notes her budget was based on "the fundamental belief that government should live within its means and establish priorities that begin with core services." In order to do so, she "caps" the general fund growth at the rate of population growth and inflation.

We argued in the past for a spending cap because lawmakers fail to exercise fiscal restraint on a regular basis – and this is certainly the case. We're happy to see a spending cap in the budget, but it could be improved in the following ways:

Firstly, the governor's "spending cap" includes only general funds, which make up less than a third of the state's total budget. A real spending cap covers all funds, not just 1/3 of state spending.

Secondly, the very notion that "government should live within its means" is flawed. The government has nearly unlimited means since it can simply take from taxpayers. Government should really be living within the means of taxpayers to pay. For that reason, a spending cap should be based on the ability of taxpayers to pay.

Finally, this cap takes spending – at its base – the current size of government (FY 12), and makes adjustments based on that. The cap should be based on an average, not one year. Basing the cap on the last FY does not consider the fact that the current size of government may be far too large.

## **WORST**

### **The Budget includes funding for economic development, private marketing, and other waste.**

Time and time again, economic development has proven to be a disastrous waste of taxpayer dollars. The common South Carolina practice of doling out favors to politically connected companies and industries is antithetical to the principles of free-enterprise, and has made our state uncompetitive and less prosperous.

Despite state – driven economic developments record of failure, it is still a priority of the governor's budget. Rather than end the state's disastrous experiment in government-driven economics, the governor expands it. The Department of Commerce – the epicenter of the state's economic development efforts – received a 10% budget increase, including an astonishing 62% increase in funding for "Global Business Development." Also, ReadySC, a program that gets \$10 million.

In addition, the governor continues to fund private business marketing and non-core government services. The budget includes nearly \$12.9 million dollars for the Department of Parks, Receptions and Tourism to fund "Tourism Sales and Marketing" (an increase of 15% from last year). And that's not the only example of handouts under the budget. Here are just a few more:

- \$3.2 million dollars to the Department of Agriculture for "Marketing and Promotions" (an increase of 189% from last year);

- The Film Commission receives a \$15 million appropriation;
- The Clyburn Center catastrophe gets \$1,335,489 taxpayer dollars.

### **Spending surplus taxpayer dollars to maintain a government monopoly.**

On occasion, the state collects more money in a given year than it spends. This surplus money is typically pretty sizeable. For example, the state started this fiscal year on July 1 with a collective \$1.498 billion surplus in “other” funds.

If the state takes more money from taxpayers than what was needed to provide government services, the state should return that money to taxpayers. Yet this almost never happens, and the governor’s budget is no exception. Instead of treating excess tax dollars as the citizens’ money, the budget proposes to spend every surplus dollar, while not returning a dime to taxpayers. Specifically, the governor’s budget shifts \$25 million of surplus funds to a “State Ports Development Fund.”

So not only does the governor’s budget fail to return surplus dollars to taxpayers, it directs that excess revenue to a costly and ineffective state monopoly – the State Ports Authority. (Remember, South Carolina is one of only a handful of places in the country with public ports.)

### **Federal dependency continues to grow in the budget.**

The governor signed a bill requiring agencies to reveal the “strings attached” to federal dollars. As we’ve reported in the past, over 1/3 of our state’s budget comes from the federal government, and that money comes with some hefty strings attached. In order to cut the strings – which affect everything from the K-12 education system to eligibility for state entitlements – we need to end our dependence on these dollars.

Instead of taking bold steps to regain fiscal independence, the budget proposes to increase federal dollars. Last year, the legislature passed a bill comprised of \$8.43 billion in federal dollars (39% total). This year, the governor proposes to increase that amount by \$372.5 million (also 39% total).

The governor’s budget does nothing to address the issue of federal dependency. Federal dollars grow by hundreds of millions on a yearly basis, handing over more and more state affairs to the whims of D.C. bureaucrats. The governor’s proposed budget is not a serious effort to cut federal strings.

### **Rapid growth in spending on public universities.**

According to a report released by the South Carolina Policy Council and the American Council for Trustees and Alumni, South Carolina’s higher education system is in crisis. State universities are experiencing severe mission creep, as more and more money is going towards administration and “economic development” projects. State higher education lacks a coordinated body accountable to state taxpayers. As a result of this lack of accountability, tuition has increased at a breakneck pace (18 to 36% in the last six years).

It is clear that the university system faces deep structural problems – not funding problems. Nevertheless, the governor’s budget includes massive spending increases for state sponsored higher education. While the overall budget grew by 4.28%, total higher education funding<sup>[1]</sup> grew by 5.4%. Not only is this growth faster than the overall budget, it is also above the 5.23% budget cap the governor proposed. Higher education funding is growing

faster than population growth and inflation, while these institutions are simultaneously becoming less capable of fulfilling their core mission of preparing students to compete in a global workforce.

Finally, the executive budget includes an “Accountability-Based Funding for Higher Education” initiative. This recommends evaluating higher education institutions in four major categories: completion, affordability and access, educational quality, and economic development. Economic development does not serve the core purpose of a higher education institution – educating the public. In addition, as we’ve pointed out recently, colleges and universities aren’t even good at it.