



# State of South Carolina

## Office of the Governor

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May 6, 2009

The Honorable Glenn F. McConnell  
President *Pro Tempore*  
South Carolina Senate  
101 Gressette Building  
Columbia, South Carolina 29201

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

Dear Senator McConnell and Mr. Speaker,

This week we have requested another \$20 million loan from the U.S. Department of Labor to help pay unemployment benefits for the month of May. Since September 2008, South Carolina has amassed \$300 million worth of debt for unemployment benefits, with estimated debt reaching as much as \$1 billion by year's end. Regrettably, failure to make reform to the system in a timely manner will inevitably lead to tax increases on employers across the state.

For this reason I ask you take one last attempt at pushing Employment Security Commission (ESC) change this session. While the American Recovery and Reinvestment Act suspends interest accruing on the debt through December 31, 2010, it absolutely does not protect businesses from a tax increase.

Just last December we were told, "If the Governor wants reforms now, he should work with the General Assembly to show the deficiencies at the ESC and recommend fixes." For this reason, we supported efforts by Representative Kenny Bingham and Senator Greg Ryberg to restructure the ESC into a Department of Workforce. We agreed the first step to addressing this growing problem was to introduce accountability into the system and try to eliminate the possibility of a major tax increase to cover the debt.

Despite their leadership and your support, efforts to pass this bill stalled, surprisingly in the House. Not surprisingly, opponents of reform failed to offer any proposal that would actually address the shortfalls in the system. Now that reform is, for all intents and purposes, not going to happen this year, the probability that state businesses will be burdened with a tax increase appears inevitable.

Given the failure to enact reforms to date, the state would be left with a depleted trust fund almost immediately pending further borrowing. Given the amount of money projected to be borrowed between now and when the General Assembly might act on this issue, we do not want to move further down the road of debt without your input. Is it your position that we continue to borrow funds to pay benefits until the General Assembly can address this issue next year?

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Under the current law, the state must repay the loan within two consecutive years or our state's businesses will be penalized. Without reforms and sufficient time for those to take effect, the state will be forced to increase the solvency of the Unemployment Trust Fund, primarily through a tax increase, or businesses will begin receiving a federal tax *increase* in October 2010.

In an April 29, 2009, letter, ESC Executive Director Ted Halley stated, "While the loans could be repaid from the state's general revenues, a more logical choice would be to impose higher revenue assessments on employers who benefit from the Federal Unemployment Tax deduction." Since we were first informed of the Trust Fund being depleted last September, the sole recommendation we have heard is to increase the tax burden on businesses.

The South Carolina Senate's Labor, Commerce, and Industry Committee hearings have uncovered a disturbing pattern that has brought us to this point: namely that the stewards of the Unemployment Trust Fund allowed the fund's balance to decline from \$800 million only six years ago to nothing last year while giving virtually no warning to those who should have been alerted – specifically your respective bodies. Unfortunately, we are where we are, and the current predicament leaves us with two options: raise taxes or reform the system. We have consistently called for the latter, but it appears that won't be happening this year.

Without this reform legislation or some other meaningful way to address the growing debt in our Unemployment Trust Fund, we are left with a climbing liability making it more and more likely you will be asked to increase taxes next session. This Administration has continually fought against growing debt, at times putting us in direct conflict on budget matters. Yet we have been forced to continue asking for loans, largely due to inaction, so again I simply ask that you attempt one last time to break this legislative impasse.

We've been clear we would oppose tax increases – and we accordingly believe that inaction on this matter, while perhaps the easy way out politically, will indeed lead to a tax increase on South Carolina businesses. We look forward to your response.

Sincerely,



Mark Sanford

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cc: South Carolina Senate  
South Carolina House of Representatives