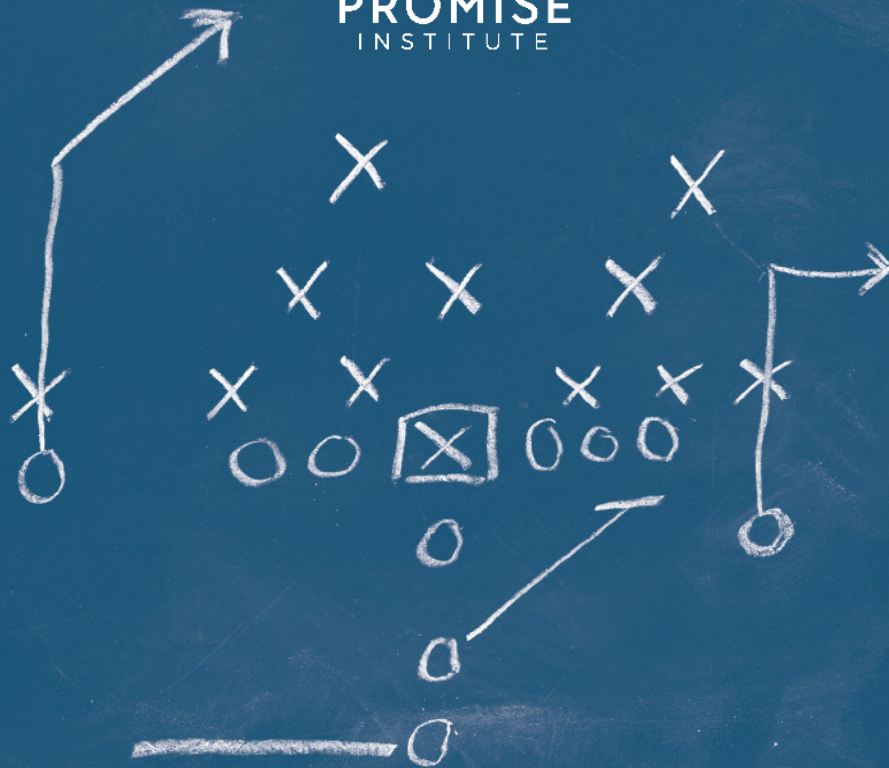


PALMETTO PLAYBOOK

STRATEGIES TO MARCH SOUTH
CAROLINA'S ECONOMY DOWN THE FIELD



PALMETTO
PROMISE
INSTITUTE





WHAT WE NEED IS A GAMEPLAN...

Dear Fellow South Carolinian,

After months of COVID-induced disruption to our economy, education, and more, South Carolinians are saying “spot the ball—it’s go time!”

This *Palmetto Playbook* is presented in that can-do spirit: a practical, solutions-focused game plan to help our beloved state meet the challenges of the COVID-19 moment.

If you’re looking for cookie-cutter plays or “Hail Mary” schemes, this won’t be the book for you. Every one of the over 60 ideas presented in the following pages are tailored to specific, longstanding needs in our Palmetto State, needs which have been brought into laser focus by the COVID crisis.

Which is why the *Palmetto Playbook* is needed now more than ever. Not only do we have to muster a strong defense to turn back COVID’s damage, we must go on offense to advance the ball for real South Carolina families and businesses on issues of education, energy, healthcare, taxes, and quality of life.

The fact is, our friendly rivals in Tennessee, Georgia, and North Carolina are tough competition. We can expect a rigorous training regime if we’re going to be in shape for gameday: to compete for the best jobs and economic development that will deliver the promise of a bright future of every citizen of our state.

So we won’t pretend that accomplishing every idea in here will be easy: things worth doing rarely are! Leadership, commitment, and courage will be essential. But these ideas are necessary if we are going to position South Carolina to take home the national title: best state in the nation to live, work, and raise a family.

Yes, COVID-19 has hit us hard, but the South Carolina spirit is strong: “while we breathe, we hope.” But we mustn’t forget the second phrase on our state seal, which calls us to be “prepared in mind and resources.”

Focusing our minds and marshalling our resources wisely requires a strategic plan. The *Palmetto Playbook* is such a plan: down, set, hike!

“It is my hope that after reading the *Palmetto Playbook*, you will respond with the best phrase football ever inspired: “Put me in, coach!”

– Jim DeMint
former U.S Senator
Founding Chairman of
Palmetto Promise Institute

For Team South Carolina,

Ellen Weaver
President & CEO

Note: items marked **✓COVID Lesson Learned!** are policy recommendations that we consider absolutely non-negotiable given our experience with COVID-19 and the suppression that followed. No policy play sheet should be without them in the wake of this crisis.

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TAX & BUDGET



TAX & BUDGET

INTRODUCTION

As is clear from the Table of Contents, our *Playbook* of recommendations covers five general areas of public policy, the five pillars of what we call our Freedom Agenda.

We choose to begin with Taxation and Budget. Why? Because if the Palmetto State cannot put its fiscal house in order, there is little hope for the bold innovations we propose in the other crucial policy areas.

So, taking the burning questions head-on: Is the government of the State of South Carolina *under*-spending or *over*-spending? And are citizens and companies *under*-taxed or *over*-taxed?¹

SPENDING The answer to the **spending** question has been a subject of fierce debate, but there is no disagreement about one fact: the State of South Carolina, through its budget-writing General Assembly, *spends when it is flush and cuts when it isn't*. There isn't much in between.

One recent attempt to start a discussion of state spending was the “Failing South Carolina” series from *The State* newspaper published in 2016.² We cite it here to show how these efforts can go awry right from the assumptions stage. That series cherry-picked the *highest* level of state spending before the 2008 recession and compared that figure to the *lowest* post-recession spending data point.

The inevitable conclusion to such a slanted analysis was that dams were breaking and prisoners were rioting because the state government was *starved for revenue*. Why was it “starved”? Because ultra-conservatives took over the General Assembly (1995-2001), then hardened their hearts against a hike in spending (and taxes) needed to recover from The Great Recession.

That series made a number of mistakes—like virtually ignoring the huge expense (30% of total state spending) represented by Other Funds spending items. It also failed to include *all* education spending in school calculations, and used spending per capita as an absolute measuring stick for determining a proper level of state spending. Unsurprisingly, the report produced an “*underfunded govern-*



A GLIMMER OF GOOD NEWS

According to Americans for Tax Reform (ATR), South Carolina is doing some things right fiscally. Their recent (Fall, 2020) analysis of budget growth using figures from the U.S. Census Bureau and NASBO (the National Association of State Budget Officers) showed that South Carolina was one of only four states that “stand out for their superb fiscal restraint.” Florida, Missouri, South Carolina, and North Carolina (in that order) were the only states in the ATR study that held inflation-adjusted per capita spending growth to single digits for the period analyzed (2000-2018). South Carolina currently ranks tenth lowest in absolute 2018 state spending per capita.¹⁷

SOUTH CAROLINA STATE BUDGET³

Fund Type	2006-07 (Pre-Recession)	2017-18
General Funds	\$6.12 B	\$7.90 B
Other Funds	\$6.90 B	\$9.40 B
Federal Funds	\$6.12 B	\$8.08 B
Total Funds	\$19.13 B	\$25.38 B

ment!” conclusion with education as *the most* under-funded. These tendentious reports are all too common.

There is a fuller, more accurate picture of the spending side of the South Carolina state budget. Yes, state coffers took a dip due the 2008 recession, but when all funds including “Other Funds” are included, we see that they were quickly filled to overflowing.

Until COVID hit, we continued to spend because we continued to have the money to spend, even if a large portion of the budget consists of “other funds” income (see our discussion of Other Funds on page 11). As the adjacent table shows, total spending before the 2008 recession (General Funds + Other Funds + Federal Funds) was **\$19.13 billion** (2006-07). It was **\$25.38 billion** for the most fully audited year available (2017-18)⁴. To adjust for inflation, in real 2016 U.S. dollars, appropriations per capita were flat, **\$5,402** in 2007 and **\$5,362** in 2018.⁵

Let’s face it, because of our beautiful natural resources and due to the continued decline of the rust belt, the I’s (I-95, I-85, I-26, and I-77) are hot. South Carolina has the fourth highest domestic in-migration rate in the United States (trailing only Idaho, Nevada and Arizona), with about 50,000 people moving into the Palmetto State every year.⁶ A lot of money has “walked”⁷ (or driven) into South Carolina. So, state revenues have spiked. For 2018-2019, South Carolina’s economy grew faster than any other Southern state with the exception of Texas.⁸

Last summer, one national media outlet was already singling out South Carolina, making the

observation that in the Palmetto State the 2020-2021 budget was “expected to be down by perhaps \$1 billion — but all of that shortfall was in extra money the state expected to collect in taxes and fees before the pandemic crash.”⁹ This fiscal picture became clearer with the most recent revenue projection report of the Board of Economic Advisors. According to BEA, the General Assembly will have a one-time (non-recurring) spendable reserve and surplus of \$987.4 million. The legislature will also have \$182.2 million in new recurring revenues. The total in additional funds to spend or to save will be \$1.17 billion.¹⁰

✓COVID Lesson Learned! Prosperity can be dangerous for planning purposes and the pandemic has shown how false our sense of security was. Over one billion dollars + disappeared seemingly overnight. State spending will be the topic for a forthcoming comprehensive analysis from Palmetto Promise, **but the bottom line here is the state simply must plan, control spending, bring “Other Funds” into the budget, reduced dependence on Washington, monitor local spending, and fully commit to filling rainy day funds.**

TAXATION You may have heard that South Carolina has low taxes on average, but as Palmetto Promise teased out fully in *Funding South Carolina’s Future: A Practical Plan for Tax Reform that Creates Equity, Stability and Growth*, there is more to that equation. Averaging hides the fact that some taxpayers reap large benefits while others bear a heavy burden. Working families, renters, and small business owners are among those who get the wrong end of the stick from the tax man in South Carolina. There are specific changes to our tax code we can employ to remove these disparities.

COVID CONTEXT

As the Board of Economic Advisors explained, here in South Carolina, COVID-19 has marched in and taken much of our surplus. COVID also meant new expenses for the state, with much of that cost being reimbursed by deficit-spending in Washington. The year ending June 30, 2020 (2019-2020) was in the black, but for 2020-2021, the legislature has less to spend than they expected when the House passed its version of the state budget way back on March 11, 2020. How much less is uncertain. So, state government is operating on a Continuing Resolution (CR) until a more predictable pattern of state income is established. The terms of that CR are unlikely to change until at least January 2021.



UNNECESSARY ROUGHNESS

Football is a violent game, but when a player takes it too far, the referee is likely to call a personal foul for “Unnecessary Roughness,” particularly if the player is considered (and this is the NFL term) a “defenseless player.” Blindsiding is illegal. Our tax code is unnecessarily rough on some of the most defenseless of our citizens. For example, 41% of taxpayers in South Carolina are subject to the Southeast’s highest marginal tax rate of 7%. Where does that blindsiding rate start? At an annual income of just \$15,400. That’s a penalty in any rule book.



PERFORMANCE VERSUS OUTLOOK

Every year, the American Legislative Exchange Council (ALEC), in cooperation with Dr. Arthur Laffer, publishes *Rich States, Poor States: ALEC-Laffer State Economic Competitive Index*. The *Index* produces two rankings for each of the 50 states, its **Economic Performance** and its **Economic Outlook**. A new edition was released as this Playbook was being developed.

South Carolina has fared well on the actual **Economic Performance** ranking, which is based on past and present data. Today, the Palmetto State stands at **#7** (that’s seventh best) in Performance in the look back assessment. Our high ranking is due to our strong numbers on the three data points that combine to form the index: Gross Domestic Product Growth, Domestic Migration, and Growth in Non-Farm Employment over the last decade. That means jobs are being created here, output is high, and people are moving to South Carolina to take advantage of the economy and (presumably) the weather.

South Carolina has not fared as well on the index that predicts future growth, the **Economic**

Outlook ranking. We stand at **#32** for 2020. The calculations for the fifteen variables that make up future competitiveness are complex, and a number of states are packed densely together on some of the variables. But, South Carolina is the lowest ranked southern state in the calculus—below even Louisiana and Mississippi—so the data is worth examining.

The areas in which South Carolina does not match up well with neighbors North Carolina and Tennessee will be no surprise given our own analysis. We lost points on the Outlook ranking for our high top marginal personal income tax rate, our high top marginal corporate income tax rate, and the progressivity of our tax code. ALEC also noted, as we have elsewhere in the *Playbook*, that we carry heavier state local debt as a percentage of income than our southern neighbors. This factor is hidden from public view, but lurks beneath the surface. A South Carolina economist saw this trend developing¹⁸ several years ago in an analysis for the period 1999-2013. Much of this near-doubling of debt per capita is driven by local government borrowing.

RECOMMENDATIONS

TAX REFORM & FAIRNESS

Implement the findings of the comprehensive analysis conducted by Palmetto Promise Institute to make our tax code fairer to all citizens and more competitive versus our neighbor states to grow economic development and jobs. Our own *Funding South Carolina's Future* nailed it. To compete with the other Carolina,¹¹ this Carolina must get each of the legs of the three-legged stool of taxes right:

Cut the personal income tax rate, currently the highest in the Southeast. A majority of South Carolina citizens do not file a tax return. But for those who do, the highest rate (7%) is not competitive with our neighbors (North Carolina's highest rate is 5.25% and Georgia's is 5.75%). SC's top rate kicks in at just \$15,400! Ad hoc committees have met and studied. We know what we must do. Now that legislation needs to move.

Reduce sales tax exemptions and cut the sales tax rate in half at the state and local level. Henry McMaster campaigned for Governor in 2010 and 2018 calling for a *lower, broader* taxation. This is correct policy. Our economy has changed dramatically since our tax code was written (and it has been amended piecemeal). To restore balance, as a matter of policy, we must account for the shift from an economy based on the sale of goods to one based on the sale of services. The General Assembly should also resist well-meaning efforts to reward service to the state with a hodgepodge of tax breaks. (The legislature creates new carve outs each session. This is a recipe for disaster.)

Update incomplete property tax data and outline a strategy to reduce rates and increase fairness. Property tax reform may need to travel separately from income tax and sales reforms, but all three legs of the tax stool must be functional. The state Revenue & Fiscal Affairs Office (RFA) has improved its presentation of data in recent years, but much work remains to develop an accurate evaluation process for all properties. Good policy starts with good data.

Resist efforts to create more “penny” sales taxes imposed at the local level that have questionable accountability and throw our tax system out of balance. The worst case is the Richland County transportation program, where the Department of Revenue (DOR) has audited spending to May, 2018 so far, but has already found \$32.5 million misspent. According to the *Post & Courier*, the program (which passed in a referendum in 2012) paid \$20 million in duplicative pay to project managers,



FISCAL HEALTH

Another respected think tank weighing in on the fiscal sovereignty of states is the

Mercatus Center at George Mason University. For its most recent (2018) rankings, South Carolina came in at **#20 for overall fiscal health**. Within the overall rankings are five separate indices. On **Budget Solvency**, defined as “whether a state can cover its fiscal year spending using current revenues,” South Carolina ranks 5th. For **Long-Run Solvency**, “whether a state has a hedge against large long-term liabilities,” South Carolina ranks 11th. For **Service-Level Solvency**, or “Fiscal Slack”—that is whether “spending is high or low relative to the tax base,”—South Carolina ranks 22nd. The state also came in at 22nd for **Cash Solvency**, or “whether a state has enough cash to cover its short-term bills.” The Palmetto State comes in at 35th, our lowest ranking, in **Trust Fund Solvency**, which is “how much debt a state has,” or more to the point, “how large are unfunded pension liabilities.” It is no surprise to policymakers that South Carolina would rank low on coverage of pension liability. The legislature has begun to address the problem but more needs to be done. Were it not for the poor grade in the Trust Fund category and Service-Level Solvency, South Carolina would have broken into the teens. But competition from our neighbors is stiff. Tennessee is 3rd in the nation, Florida 4th, North Carolina 9th and Georgia 18th.¹⁹

\$1 million in public relations, \$800,000 in legal fees and \$89,000 for a mentorship program—all not allowed under the authorizing legislation. DOR also discovered that the program paid \$17 million for only \$11 million in wetlands mitigation credits. Millions of dollars meant for roads were funneled to coffee and public relations firms.¹² DOR has ordered the county to reimburse the transportation fund for the misspent dollars, but a majority on county council has the temerity to defend its waste and abuse. A showdown is coming.

KEY FACT: All but three counties—Oconee, Greenville and Georgetown—have a local option sales tax of some kind.¹³

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BARRON'S WEIGHS IN

As this *Playbook* was going to press, the investment gurus at *Barron's* published a state-by-state

COVID-impact fiscal analysis of their own.²⁰ So, we “called an audible” and added their assessment here. *Barron's* chose to partner with Wall Street consulting firm Eaton Vance to develop six key factors for determining if a state is in good or poor fiscal condition. In this ranking, South Carolina comes in at **#24**. Our **Jobless Rate, Rainy Day Fund Balance as Percentage of Revenue, Revenue Shortfall Estimate, Moody's/S&P Bond Rating, and Yield Spread Over AAA** were in the range or lower than our competitors in the region. But the key sixth standard, **Debt & Unfunded Liabilities as Percentage of GDP**, nailed us again. We were such an outlier on that measure that the comment from Eaton Vance was: “strong revenue though poor pension funding.”

The competition? Tennessee ranked #7 with the comment “Good operations. Well-funded pensions.” Georgia (#12), “proactive budget management and solid reserves.” North Carolina (#13), “growing economy pre-recession with well-funded pensions.” Florida (#16), “heavy reliance on sales tax performance.” (Florida has no income tax.) (Can you tell that Wall Street is strongly focused on pension liability when assessing a state's long-term financial health?)

Originally, counties passed local option sales taxes (LOST) in order to reduce property taxes. A shift. But in recent years, a host of other purposes have sprung up: roads, capital projects, school construction, community improvement, and tourism development. Though the state sales tax rate is **6%**, the tax on a cup of coffee in Charleston is **11%**, including the hospitality tax. (Don't laugh Myrtle Beach, you pay 11% too!) In Chicago, which has the highest combined sales taxes among cities 200,000+, you would pay only **10.25%** tax on that joe. **South Carolina now has the highest average combined state and local sales tax bite among states along the Atlantic seaboard south of New York.¹⁴**

Cut the corporate tax rate and reduce our reliance on one-off deals that don't hold businesses accountable to actually create jobs in return for tax breaks. Our corporate tax rate is **5%**. The Tarheel Carolina's is **2.5%**. Also, government should not insert itself into economic development activities and the marketplace to unfairly pick winners and losers.

Keep an eye on debt service costs. One calculation of a state's fiscal responsibility is its debt payments as a percentage of its tax receipts or total receipts. South Carolina (state and local combined) pays more on debts as a ratio to total receipts than our neighbors.

Keep the estate tax at \$0. Keeping a good policy is also a recommendation. Some South Carolina policies are already conducive to an economy that protects wealth so that it can fuel economic expansion. One of these is the estate tax rate. The South Carolina rate is 0%, which is already drawing wealth here. According to *How Money Walks*, IRS tax data for 1992-2018 shows that South Carolina gained \$28.47 billion of wealth from other states. The top dollar travelers into the Palmetto State were \$3.78 billion (New York), \$2.97 billion (North Carolina), \$2.65 billion (New Jersey), \$2.19 billion (Pennsylvania) and \$2.00 billion (Ohio). The counties enjoying most of this infusion are: Charleston, Greenville, Beaufort, and Horry.¹⁵

Protect “pass-through” businesses. Pass-through businesses (for example sole proprietorships, S corporations, and partnerships) pay their taxes through the tax return of the owner of the

business. Nearly one out of every two businesses is a pass-through business. South Carolina doesn't have as high a percentage of pass-through businesses as some states, but according to the Tax Foundation, though rates nationally are within a tight range, we are among the higher taxers of pass-through businesses.¹⁶

CAPITAL PROJECTS

✓ **COVID Lesson Learned! Refuse to pass a bond bill for unnecessary higher education arms race building projects.**

No one who has darkened the door of the Statehouse in recent years will have missed hearing that “we need to borrow and build buildings now while money is *cheap*.” Fortunately, higher ed and other bonds bills have been rare and unpopular in recent years, particularly on the Senate side (no bill since 2000). An attempt by some in the House to pass such spending as a part of the state budget failed a few years ago as well. That rebellion was made possible by a modicum of budget transparency. But the high-end (and low-end) structures continue to sprout on state college campuses using other funding mechanisms. Higher Ed's business model is broken, and trendy brick and mortar buildings on college campuses matter less and less in a post-COVID 19 South Carolina.²¹

✓ **COVID Lesson Learned! Consolidate facilities and actually sell²³ surplus real estate holdings as recommended by the MAP Commission.**

The Commission on Management, Accountability and Performance (MAP) held its last meeting over a decade ago when the internet was young and state employee telecommuting was nearly impossible. But smaller, more flexible workspaces are now trending, accelerated in the private sector by COVID. Government is shifting online as well. It is the time to reduce state real estate holdings.²²

MISCELLANEOUS COMMON SENSE

✓ **COVID Lesson Learned! Freeze state government hiring by executive order.** Several South Carolina municipalities, counties, and universities have enacted freezes, as have other states. The state government should take this step as well and keep it in place until the fiscal outlook is clearer—at least until June 30, 2021. Public safety and medical positions could be excepted.

✓ **COVID Lesson Learned! Offer early retirements to cut state government expenses.** At least one university in South Carolina took action earlier than any other, demanding that reductions in costs be implemented in the summer to the level of the projected drop in its fall 2020 enrollment. With that plan in place with state Human Resources, other agencies should follow.

Restart government modernization and restructuring begun under the MAP Commission to save money and increase efficiency. Several state agencies and boards are overdue for merger or restructuring, like Juvenile Justice (DJJ) with Probation, Pardon and Parole (PPP). Wil Lou Gray and John de la Howe could be combined under one board at least. Now is the time.



OTHER FUNDS?

According to the Office of Revenue & Fiscal Affairs, “Other Funds” consists of a variety of revenues such as certain taxes, fees, tuition, licenses and other miscellaneous receipts. The largest revenue items in Other Funds are higher education tuition and fees and auxiliary services, state and federal motor fuel user fee revenue, Education Improvement Act (EIA) sales taxes, and lottery proceeds. Other Funds includes certain taxes; court fines; lottery; earned revenue from private sector individuals/businesses or clients/customers (ex. DNR boat registration fees, higher education tuition and fees, PRT park fees); and others (ex. sale of assets). The taxes category of Other Funds includes: Motor Fuel User Fees, Education Improvement Act 1% Sales Tax, Documentary Stamp Tax, Admissions Tax, Bingo, Insurance Tax, Cigarette Surcharge, and the Electric Power Tax.

Limit government spending growth by embedding a Taxpayer Bills of Rights (TABOR) in the State Constitution or strengthen the existing Constitutional (Article X, Section 7c) spending limit to include “Other Funds.” TABORs can be

used not only to limit appropriations, debt, or total spending, but can require excess revenues to be placed in reserve funds or returned to taxpayers. South Carolina limits spending growth year over year (by either the average growth in personal income or 9.5% of total state personal income for the previous year, whichever is greater). But the existing limit isn’t much of a limit.

Here’s how it works in practice. The spending limitation applies only to the sum of General Fund + Highway Trust Fund + Education Improvement Act. For the most recent year for which we have solid numbers (2017-2018), the spending limit was

\$18.62 billion of which the legislature appropriated **\$10.82 billion**. That left excess spending capacity of **\$7.80 billion**.²⁴ But, total State, Federal and Other Funds spending for that fiscal year was **\$25.38 billion**. The reason for the discrepancy is the current limit on the books does not limit all spending, especially all of that pesky “Other Funds” category that has grown larger than both State Funds and Federal Funds categories.

Revisit state hiring limits & pay practices. The state limits the number of state employees to a ratio of the state population, but that limitation needs to be revisited. For 2019, the limit on full-time (FTE) state employees was 62,624 with only 35,116 actually on the payroll—in essence reflecting a capacity for 27,509 more hires!²⁶

When the legislature awards pay increases, those increases are usually across the board. The last pay increase based on merit was in 2001-02. A return to merit pay should be considered.

We do not have a legislative supermajority or public referendum requirement to raise taxes or pass a state budget.²⁵ As for **debt**, there is General Obligation Debt subject to constitutional debt limitations, General Obligation Debt not subject to constitutional debt limitations, and Revenue Debt. Maximum annual debt service may not exceed 5% of the general revenues of the state for the latest completed fiscal year.

Revenue Debt is essentially debt that is incurred for a revenue-producing project. Examples would be Ports Authority facilities, MUSC hospitals, and

institutions of higher learning housing. The leader in this category by a mile is the South Carolina Public Service Authority (Santee Cooper) which reported debt as of June 30, 2019 of \$7,419,007,000. (Santee Cooper plans to pay this obligation with revenue from customer utility bills.)

General Obligation debt includes state economic development bonds, state research university infrastructure bonds, and state highway bonds. Some state institutions are bumping up against their maximum bonded indebtedness. (For example, the maximum debt service may not exceed 90% of the funds received by institutions of higher learning through tuition and fees.)²⁷

Post the state budget and state checkbooks online in an understandable, transparent format. Old hands to Statehouse ways can find details of the state budget with just a few clicks. But the average citizen will be lost in seeking to determine if (for example) the budget contains earmarks that find their way into the budget due to legislative logrolling. The Department of Administration’s Budget Office and the State Comptroller General have made improvements to their websites to take transparency to another level, but those efforts are useful primarily *before* and *after* a state budget is passed, not *during* deliberations. One option: change Senate & House rules to make earmarks out of order.



DEFINITIONS

Earmarks: a budget line item or directive that government funds should be spent on a specific project, often at the direction of a single member and without public transparency.

Legislative Logrolling: a practice where two or more members of a legislature trade votes on projects to benefit their home districts by spreading out the costs of the project to all taxpayers.

LOCAL GOVERNMENT

The state should take a comprehensive approach to reining in local government spending. Currently, the S.C. Code of Laws requires that 4.5% of General Fund Revenues be appropriated to the Local Government Fund (83% for counties, 17% for municipalities). That percentage has been suspended for over a decade, but has been supplemented with recurring and non-recurring appropriations in recent years. Since the 1994-95 fiscal year, local governments have been reimbursed for lost property tax revenue due to property tax relief.²⁸

Reforms in local government spending could include:

Caps to rein in local government spending.

Elimination or replacement of the state local government fund.

Required sharing of services across neighboring jurisdictions.

Transparency measures that would help citizens understand municipal and county budgets as they are being debated.

Requiring or maintaining citizens' right to vote on "penny" sales tax increases by referenda on the November General Election ballot, not in special mid-year elections when few citizens vote.

To prepare for future fiscal uncertainty in Washington, South Carolina should at least require every cabinet agency to report its reliance on—and uses of—federal funds.

FEDERAL FUNDING

Pass a state budget proviso to track all federal funds in the state budget and how this funding could be replaced (or not) with state sources if federal funding is withdrawn. Of the funds authorized by the General Assembly, one third is from federal sources,³⁰ and the federal government in Washington cannot continue expanding the national debt and go on printing money forever. To prepare for future fiscal uncertainty in Washington, South Carolina should at least require every state cabinet agency to report uses of federal funds and whether the programs they fund should be ended or financed in other ways if those funds are no longer available from DC. In 1994-95, South Carolina spent \$3.13 billion from Washington. That figure for 2017-18 was \$8.08 billion.²⁹

Use federal relief funds responsibly. Thus far, South Carolina's tapping of federal funds under the CARES Act and other Congressional relief legislation has been transparent and responsible. South Carolina has accepted and used federal funds to help mitigate the impacts of COVID's government-induced economic crisis. Government forced businesses to close. Other state legislatures in America were not as responsible—raising taxes, giving elected officials raises, and seeking to use federal COVID funds for pre-COVID state financial mismanagement.³¹

FEDERAL TAX CODE CHANGES IN RESPONSE TO COVID

✓ **COVID Lesson Learned!** The federal CARES Act included a number of provisions to grant tax relief to businesses hit hard by COVID-19. Some states have what is known as “rolling conformity” with the federal tax code, allowing *federal* changes to become *state* changes without further action. But, for the South Carolina code to reflect federal tax code changes, specific legislative action must be taken. Here are three federal tax code changes that are worth considering for South Carolina as a response to the hammering businesses have endured due to COVID.

Net Operating Losses (NOL) Carryback. CARES provided a five-year carryback for losses earned in 2018, 2019, or 2020. It also suspended the NOL limit of 80 percent of taxable income. Finally, the Act allowed pass-through business owners to use NOLs to offset their non-business income above the previous limit of \$250,000 (single) or \$500,000 (married filing jointly) for 2018, 2019, and 2020.

Modifications to the Business Interest Expense Deduction Limitation. The CARES Act increased the percentage threshold of a taxpayer's Adjusted Taxable Income (ATI) from 30% to 50% for tax years beginning after December 31, 2018 and before January 1, 2021. Taxpayers may also elect to use their 2019 ATI for purposes of calculating their allowable interest expense deduction in 2020.

Reclassification of Qualified Improvement Property (QIP) to be Eligible for 100% Bonus Depreciation. CARES included a retroactive technical correction to make new investments eligible for the Tax Cuts & Jobs Act of 2017's (TCJA) 100% bonus depreciation provision. The TCJA amended Section 168(k) to allow full expensing in the first year for qualifying assets placed into service between September 28, 2017 and December 31, 2022.³²

EDUCATION



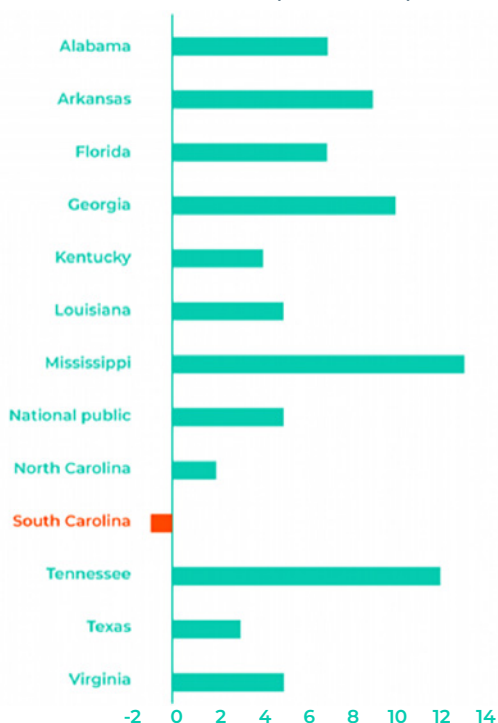
EDUCATION

INTRODUCTION AND COVID CONTEXT

Our other *Playbook* sections separate *Introduction* from *COVID Context*, but for Education, they have truly merged —both in this document and in reality. The COVID-19 epidemic has both exposed weaknesses and broken down barriers. It has also exacerbated inequalities that separate the haves (the digital) from the have-nots (the broadband dead spots).

Chevy is selling us automobiles these days with the futuristic phrase “find new roads,” while the film *Back to the Future* (which celebrated its 35th Anniversary in 2020) asked if we would even need them in the future (“Roads?”, asked the Professor). Education is no different. The future means change, and COVID-19 has accelerated the trip into the future. Education must change, and in South Carolina, it must change *more than in any other place* if we ever hope to catch up. We are behind Mississippi now, but still spend more than Mississippi...and all our immediate neighbors.³³

TOTAL GAINS IN GRADE 8 MATH
(2003–2019)



Source: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, National Assessment of Educational Progress (NAEP)
@palmettopromise

2018 PUBLIC SCHOOL SPENDING PER STUDENT BY STATE
(Southern States, FY 2018)

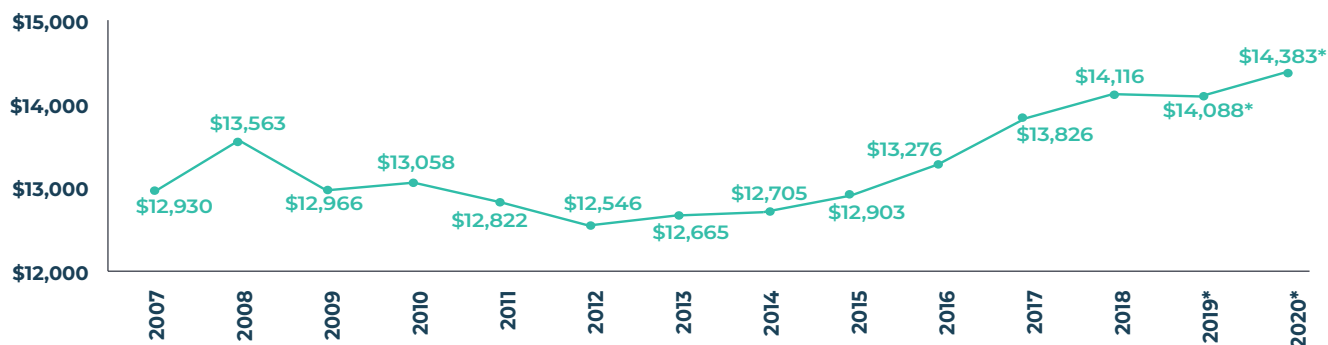
1	Virginia	\$12,216
2	Louisiana	\$11,452
3	South Carolina	\$10,856*
4	Georgia	\$10,810
5	Arkansas	\$10,139
6	Alabama	\$9,696
7	Texas	\$9,606
8	North Carolina	\$9,377
9	Florida	\$9,346
10	Tennessee	\$9,344
11	Mississippi	\$8,935

Source: Governing; 2018 Annual Survey of School System Finances, U.S. Census Bureau

* You may notice the difference between these numbers and the chart on page 16. These numbers are provided by the U.S. Census Bureau as a way to compare spending between states. Data provided by the SC Revenue and Fiscal Affairs office is much more precise and state-specific.

Furthermore, data from the Revenue & Fiscal Affairs Office³⁴ shows we crossed the **\$10,000,000** mark in spending for education for the most recent school year for which we have complete data (2018-2019).³⁵ Even adjusted for inflation and excluding bond-revenue spending (see adjacent chart), the trend is ever upward.³⁶

TOTAL INFLATION-ADJUSTED EDUCATION REVENUE PER STUDENT (EXCLUDING BOND REVENUE)



* Estimated

Source: "Revenue Per Pupil Report by School District for 2019-20 Excluding Bond Revenue," South Carolina Revenue and Fiscal Affairs Office (RFA). Numbers inflation-adjusted by Acuitas Economics.

RECOMMENDATIONS

EXPAND EDUCATION CHOICE

In proclaiming 2020-2021 "The Year of School Choice," *The Wall Street Journal* editors recently wrote: "As parents, teachers, principals and students have adapted to the pandemic, too many traditional public schools have been far less nimble in serving students than have charters, private and religious schools. Many parents are realizing this won't change as long as funding is tied to buildings and bureaucracies rather than students."³⁷ We agree. That's why South Carolina should make education choice its #1 innovation.

✓ **COVID Lesson Learned! Adopt an Education Scholarship Account (ESA) law that will provide qualified students with online accounts which can be used to customize their educational experience at no cost to them.** ESAs are effective in other states, serving over 20,000 students in Florida, Arizona, and Mississippi during the 2019-20 school year. They can work here.

✓ **COVID Lesson Learned! Shift virtual education to a true Course Catalog including more courses, more providers, higher standards, and dependable funding from existing sources.** The State Department of Education operates a virtual program under the banner of VirtualSC, and several of the larger school districts had virtual programs in place before the arrival of COVID. But, a true Course Catalog means multiple providers and a wide variety of courses. Our goal should be *every course* available to *every student* in *every county* in South Carolina. That will require a very different approach and funding, at least a portion of it, to follow the student. Louisiana is a model, with over 15,000 course offerings, a 700% increase from just a few years before.

Reimburse homeschoolers for education expenses. Tax credits or tax credit scholarships could be used to reimburse parents for some or all of their homeschool expenses. Homeschool accountability

organizations are reporting record growth. One organization reports an increase of 35% over last school year. Homeschooling is challenging and expensive for a family—normally one parent must be out of the workforce and serve as teacher—and curricula and supplies must come out of pocket. If parents could receive some relief for homeschool expenses, it would be some consolation for them while their taxes go to support schools they do not use. Even \$1,000 would go a long way to assisting these families who take pressure off public schools but still pay taxes to support them.

Move charter schools—which are public schools—out of the Education Improvement Act (EIA) and ensure that they are funded by formula and in the same manner and to the same level as other public schools, taking care to provide adequate capital and transportation funding. Though they serve 40,000 students in South Carolina, charter schools remain in budget proviso status, not permanent status. This must change. With dedicated and dependable funding, charters can reach more rural areas and build a true community around their schools.

Allow the fast-tracking of charter applications that replicate successful existing charters. The

more innovative charter authorizers are cutting red tape and breaking down ill-conceived barriers to the establishment of charter schools. Applications that mirror successful models should not be resisted as has been the case in the past, but encouraged.

Adopt a true open public school enrollment statute that would allow parents to self-assign their children to the public school of their choice without question and without charge. Children should not be assigned to a school based on the location of their parents' house, or the value of it, but on what school best meets his or her needs. Colorado and Florida³⁹ have shown the way to craft policies that work for everyone.³⁸

Homeschooling is challenging and expensive for a family—normally one parent must be out of the workforce and serve as teacher—and curricula and supplies must come out of pocket.

all parents could use an assessment that is independent of those doing the teaching. Recommended sources for these services include Kumon, the College Board, BJU Press, and Bayside School Services. (Yes, that's the BJU Press located in Greenville.)

As parents, teachers, principals and students have adapted to the pandemic, too many traditional public schools have been far less nimble in serving students than have charters, private, and home schools. Many parents are realizing this won't change as long as funding is tied to buildings and bureaucracies rather than students.

Support independent appraisals of student progress.⁴⁰ A unique idea coming out of the COVID experience is to provide all families a tool that has been used by homeschool families for nearly as long as there has been homeschooling: an independent appraisal of their child's learning. Homeschool parents use these assessments as a check on the education they are providing. But

EMPOWER EDUCATORS

Institute pay bands for teacher salaries to reward excellence, not just time in grade. The single largest school district expense is teacher salaries. Continuing to reward only credentials and years of experience is not a sensible way to keep outstanding teachers in the classroom. Dare we say it?; four words: *pay great teachers more.*

Dare we say it? Four words: pay great teachers more.

Provide more alternatives to state teacher certification to reduce restrictions on the teacher talent market. We have made a start, but more needs to be done to attract brilliant minds who have excelled in other fields into the teaching profession without insulting red tape. Adjunct certifications and micro-credentialing are options.

Provide a portal for parents to evaluate the performance of the teachers of their children. Few college students register for a class without consulting Rate My Professor or a similar evaluation site. Matching a younger student to the right teacher is even more critical.

Require more transparency on the adequacy of preparation provided by colleges of education in state universities. The graduates of which colleges of education are scoring *best* on the teachers' exam? Which colleges fare *worst* for preparing their students for the classroom and mastering the content? The taxpaying public needs to know.

Enact full **reciprocity** for licensed out-of-state teachers. South Carolina is not in the most restrictive category, but also not among the most likely to recognize out-of-state licenses. With hundreds of slots open at any given time, the teaching profession should not be a cartel... and South Carolina does not have a monopoly on adequate preparation.

Bridge the digital divide with a comprehensive plan to provide fast internet to rural and unserved areas.

INCREASE INNOVATION

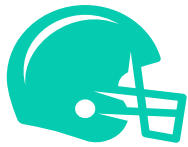
Streamline education funding along the lines of Palmetto Promise's *Funding Our Children for Success*, so that all education funding is student-centered rather than program-based. If we want "base student cost" or the broader "state aid to classrooms" category to mean something, collapse *all* categories of funding and empower districts—and even principals—to spend it best.

Provide charter-like expenditure flexibility for school districts that have proven themselves to be effective and meet transparent, fair student performance and financial best-practice benchmarks.

✓ **COVID Lesson Learned! Bridge the digital divide with a comprehensive plan to provide fast internet to rural and unserved areas** perhaps through the use of a lottery system that would allow private providers the opportunity to bid.

Consolidate tiny and shrinking school districts with the goal of achieving greater efficiency, through regional cooperation, a more stable funding base, and more accountability.

✓ **COVID Lesson Learned! Promote micro-schools and family learning PODS.**⁴¹ For **micro-schools**, think one-room schoolhouse on steroids. Groups of fewer than fifteen students meet anywhere, from homes to churches to businesses. Teachers in PODS are actually "learning guides." A national network of micro-schools known as Prenda now has over 200 schools. **PODS** or "Parent-Organized Discovery Sites," are created when about three to six families hire a teacher, and/or the parents teach. Some school districts and YMCAs host PODS. A similar concept has existed for years with homeschool families known as co-ops or learning centers. We must clarify existing laws to protect this important innovation from unnecessary regulation.



CHECKDOWN

A quarterback may have expected a play to evolve the way it was drawn up. But if the receiver who was supposed to be open is covered, the QB can toss the ball to his checkdown, usually a running back or a tight end. When plans are laid by administrators that are not working, the players on the field need to innovate, not mechanically follow a plan that is destined to fail.

OTHER NEEDED ACTIONS

Address the challenges of higher education in the state, including the too-limited role of the Commission on Higher Education, the geometric growth of state university tuition, and the myth that a four-year baccalaureate degree is required for success in career and life. The influence of the influx of South Carolina Education Lottery funds on tuition should be reviewed as well. In its first year, the lottery brought in \$81 million. For 2017-2018, income (including interest and unclaimed prizes) was \$437 million.⁴²

Protect free speech on college campuses, by requiring South Carolina public colleges and universities to adopt *The Chicago Statement*. The

Citadel took action in 2016 and others are considering adopting the Statement. Our neighbor to the north has taken free speech up a notch. Just last year, North Carolina State University scrapped its old, politically correct campus speech code in favor of a free speech approach. At this writing, with NCSU added, the State of North Carolina has an amazing eleven universities that have attained the highest rating from the free speech watchdog Foundation for Individual Rights in Education (FIRE).⁴³

Address the challenges of higher education in the state, including the role of the Commission on Higher Education, the geometric growth of state university tuition, and the myth that a four-year baccalaureate degree is required for success in career and life.

Stand up for America's Founding. Too many state universities are skirting the law that requires that each student pass a course on the Declaration of Independence, the Federalist papers and the Constitution to graduate with a baccalaureate degree. That law should be enforced.⁴⁴ The state should also affirmatively ban any K-12 curriculum based on the faulty and revisionist ⁴⁵"1619 Project," and require school districts to list on their district websites the specific curricula they use in each school.

HEALTHCARE





HEALTHCARE

INTRODUCTION

Healthcare is too complicated and too expensive. In response to those facts, some would have us throw up our hands and turn our entire medical system over to a single-payer, a payer known as Uncle Sam. But make no mistake. Medicare for All, or Medicaid for All would leave us poorer and sicker than we are today. So let's not give up on the free market since if we have not tried it in decades and spent two or three generations undermining private solutions. For over 50 years, healthcare has been entangled with government or business or both, preventing a true market-based healthcare system from operating. That must change.

COVID CONTEXT

With a few courageous but practical steps, South Carolina can lead the nation in market-based reforms. Using our football analogy again, the plays we suggest work, but they haven't been run in quite some time...or they were run for only a short time (the beginning of the COVID crash).

RECOMMENDATIONS

REGULATORY REFORMS

✓ **COVID Lesson Learned! Eliminate Certificates of Need (CON) to increase supply and generate competition among medical providers.** That means better quality and lower prices. There's no other way to explain it. Certificates of Need laws require medical providers to obtain the approval of the state government *and their competitors* if they wish to open a new service or expand an existing one. Governor McMaster set CON aside temporarily during COVID due to the possibility that hospitals would need beds on an emergency basis but would be forbidden to add them.⁴⁶

✓ **COVID Lesson Learned! Expand Scope of Practice for Nurse Practitioners (NPs), as was done for Physicians Assistants (PAs).** The General Assembly expanded Scope of Practice just this past year when it passed S.132 (now Act 32) covering Physicians Assistants (PAs).⁴⁷ Some states have passed similar legislation or adopted regulations with the same effect for Nurse Practitioners (NPs). Steps like this allow medical professionals to practice at the top of their education and training by removing barriers that artificially limit medical practice. Removing these restrictions would be

Eliminate Certificates of Need(CON) to increase supply and generate competition among medical providers. That means better quality and lower prices. There's no other way to explain it.

a godsend to rural and other areas facing shortages of medical professionals.

✓ **COVID Lesson Learned! Make certain COVID-19 Executive Actions Permanent.** Governor Henry McMaster and his cabinet agency heads took a number of steps in the first few weeks of COVID-19 to make practicing medicine and seeing a doctor easier. These included speeding up the process of honoring **Out of State Medical Licenses**, clearing the way for more **Access to Telemedicine** and speeding up the process for renewing **Professional Licenses**.

✓ **COVID Lesson Learned! Make Agency and Licensing Board actions permanent.** Actions taken during the early stage of the pandemic that **set aside regulations for a number of professions** should also be made permanent. These professions include: Pharmacy (Strep testing), Marriage & Family Therapy, Optometry, Speech Pathology, and Dentistry. Last session, a bipartisan bill was introduced into the S.C. House that would allow close contact providers regulated by the Department of Labor, Licensing and Regulation to be “exempt from renewal fees and continuing education requirements for their continued licensure until a period of one year after the date on which they are allowed to return to work by the Governor...” Only providers licensed before COVID would qualify. Such a move would take one more worry off the backs of workers still reeling from COVID.

✓ **COVID Lesson Learned! Enact COVID-19 responses from neighboring states.** There were at least three initiatives that several states enacted that are not too late to pass here in South Carolina. They include:

- Fast track inactive physicians & nurses and medical student licenses to cover shortages.
- Provide Continuing Medical Education (CME) credit for COVID-related service.

- Pass the Uniform Emergency Volunteer Health Practitioner Act to allow physicians from other states full reciprocity.

INNOVATION

Protect Direct Primary Care (DPC) to keep it growing. Direct Primary Care is nothing more than good old-fashioned *cash for care*. A growing number of medical practices in South Carolina are built on a model that offers their patients 24/7/365 treatment in return for a reasonable monthly subscription fee. This could be a game-changer for uninsured, underinsured, or government insured patients who need access to care.

Don't regulate Christian Healthcare Sharing—a more affordable way for some families to cover major medical expenses—as insurance. Instead of insurance, which pools risk, members of a healthcare sharing ministry simply pay each other's medical bills. Government should stay out of their ministries.

PRICE & COMPETITION

Enact a Price Transparency/Surprise Billing law (following Oklahoma's example) so that patients can know the good faith cost of a service before it is performed. South Carolinians are frustrated that they can't get a straight answer in advance on what their medical procedure will cost. One patient reported to the PPI office that a large provider told her that she could not be provided this information until the day before the procedure. Oklahoma has pioneered legislation to put an end to this, and a groundswell is breaking out nationwide. Recent polling shows that an incredible 87% of citizens favor legislation to ban surprise medical bills.⁴⁸

Oppose insurance coverage mandates. One of the most egregious flaws of Obamacare (ACA) was the attempt by Washington to determine whether a health insurance policy were good or

adequate. Federal or state governments should not load up insurance policies with mandated coverages that people don't want and certainly don't wish to pay for.

Allow patients the right to price shop for health-care procedures, with both the shopper and the insurance carrier sharing in the potential savings.

Seek a Section 1332 Waiver. Also known as ACA Innovation waivers, if approved, a waiver would loosen some of the Federal Affordable Care Act (Obamacare) strings and allow South Carolina to test certain innovations. Since 2017, 15 states have had waivers approved and 6 more states have enacted legislation authorizing waiver submission. One state, Georgia, is awaiting federal approval on their submission. In 2018, the Trump Administration issued new guidance that relaxed some of the stricter guidance issued by the Obama Administration in 2015. The new guidance is welcome relief to those Americans who have had to deal with high premiums and limited choice as a result of Obamacare. It may be more challenging to obtain a waiver under a Biden Administration, but South Carolina should still seek it to address this broken program.

Among the “waiver concepts” that the HHS indi-

cated would be approved, South Carolina should consider including the following:

New plan options. South Carolinians who are eligible for subsidies would then be able to buy the coverage of their choice.

Risk Stabilization Program to lower premiums. This program would direct public resources to those with the greatest needs by creating a separate pool for those consumers, providing relief to healthier individuals. 7 states have

already enacted similar programs and seen premiums decrease as a result.

Send subsidies to individuals. This waiver concept would allow for the disbursement of subsidies directly to individuals instead of to insurance companies.

South Carolina should seize this opportunity to lower costs and increase choices for patients under 1332.

One of the most egregious flaws of Obamacare (ACA) was the attempt by Washington to determine whether a health insurance policy were good or adequate. Federal or state governments should not load up insurance policies with mandated coverages that people don't want and certainly don't wish to pay for.



ELIGIBLE RECEIVER

A quarterback may have six or more players that are “eligible” to catch a pass according to the rules, not just one. A patient should not be required to use just one specific provider for a medical service at a higher than necessary price. In medicine as in football, it isn't a winning strategy. And South Carolina is forever enshrined in football history with Clemson alumnus Dwight Clark making “the Catch” to send the 49ers to their 1st Super Bowl in 1982.

ENERGY



ENERGY

INTRODUCTION

South Carolinians pay the highest electricity bills in the country, and some of the highest rates. Most of the plays we propose to run were not difficult to draw up. The reason? These plays have worked in other places. Maintaining competitive energy costs are vital for every household and every business. Energy is always on the table in economic development activity, with small businesses alone spending \$60 billion per year on energy according to the US Small Business Administration.⁴⁹ Cost is a critical factor for both expansion of existing industries and attracting new businesses and jobs to the Palmetto State. If families, businesses and industries are to “hum,” as Governor McMaster expressed as his desire, South Carolina must have an energy policy that is pro-consumer and pro-business.

COVID CONTEXT

COVID-19 suppressed the economy, squeezing home and business budgets. Only this degree of crisis has the power to push back against the army of lobbyists at the Statehouse defending the energy status quo.

RECOMMENDATIONS

FISCAL RESPONSIBILITY TO PROTECT RATEPAYERS

Sell the State-Owned Utility by driving a harder bargain and investing the funds. Clearly the first item on the near-term agenda should be selling the South Carolina Public Service Authority (Santee Cooper) to a utility with a proven record of success. When the expansion of the nuclear station known as V.C. Summer failed in 2017, that left the two partners in the project with massive self-inflicted debt. Partner #1, the investor-owned utility SCE&G turned to its shareholders but was ultimately purchased by Dominion (Virginia). Partner #2, Santee Cooper, is a state agency that has no shareholders to turn to, only ratepayers. NextEra (Florida) has an offer to the State of South Carolina for the utility. As stated in H.5335 from the last legislative session, the state should continue to negotiate with NextEra and reach an acceptable deal with that entity or any other willing buyer. Dump the debt to save ratepayers and take the cash to invest in South Carolina's future.⁵⁰

Enact Energy Bill Transparency (“Let Me See the Fees”) so ratepayers can know what they are paying for. Utility accounting is unlike like that of any other business. Government agencies, not free markets, set rates customers must pay. A large portion of those rates are based on the “regulatory assets” held by the utility (costs for capital assets like power plants). Other charges that make their way to a home's power bill are due to politics, where governments require utilities to charge fees or pay rates

for political purposes. With energy bill transparency, utilities will be forced (or allowed) to tell us the basis of their charges, including if the charges are due to a political agenda.

Keep Nuclear (where possible): Don't abandon nuclear plants for political reasons. The fact is nuclear energy is cheaper than hydro, coal, natural gas, solar, and wind. But capital costs are nearly unbearable. Nuclear plants can be decommissioned but should not be taken offline for purely political reasons. With capital costs nearly fully written down, the electricity produced by a nuclear reactor is nearly free.

For energy prices to be truly competitive, more than one provider should be available to all ratepayers—residential, retail, and industrial.

COMPETITION TO LOWER COSTS

Liberate large load purchasers: Purchasers of large volumes of energy should have a choice of provider. Century Aluminum, known to many as Alcoa-Mt. Holly, is an aluminum smelter near Goose Creek. At its peak, Century's process uses the same 50 MW of electricity as required by 20,000 homes. To make a profit, Century must find a power source with a competitive price. Century's strategy for doing that going forward was to leave Santee Cooper and join a new municipal electric company being set up by the Town of Goose Creek, but a court said no. Century is an prime example of the need for a free market for large load purchasers. A power buyer should be allowed to contract with any entity willing to deliver the product to their door without interference from competitors or state regulators.

Join a Regional Transmission Organization (RTO) to buy and sell electricity in real time. In much of the United States, independent energy companies band together to create separate non-profits called RTOs. These organizations manage the power grid by allowing high-voltage energy to be bought and sold among members in bulk, nearly in real time. The power providers in every region east of the Rockies are part of an RTO except for the Southeast. The nearest RTO to South Carolina is PJM, an RTO consisting of parts or all of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. We should join PJM. A new legislative study committee recently empaneled could help make this happen if it has the courage to buck current providers.

Open up full retail energy competition: Allow any willing seller to sell to any willing buyer. For energy prices to be truly competitive, more than one provider should be available to all ratepayers—residential, retail, and industrial. Northeastern and Midwestern states have competitive energy markets, as does Texas. In each case, *retail sale* of electricity is separated from the *generation* of electricity. That is an option for South Carolina, but here at Palmetto Promise, we have developed another option to add to the mix. With the PPI plan,⁵¹ a simple change to state law that would allow *any willing buyer* to purchase electricity from *any willing seller*. Sellers would include municipals ("munis"), electric co-ops, and IOUs (investor-owned utilities) who would compete for customers based on price and service.



NOT A "HAIL MARY"

The "Hail Mary" is a long pass play usually called at the end of a game by a team that is behind by more than three points and has nothing to lose by having the pass intercepted. The most memorable "Hail Mary" was thrown by Boston College Quarterback Doug Flutie. Looking to competition may have seemed like a "Hail Mary" in the past, but the post-COVID economy has put it on the table as just plain common sense.

WORK, JUSTICE, & QUALITY OF LIFE





WORK, JUSTICE, & QUALITY OF LIFE

INTRODUCTION

Some policy issues that should be of concern to all South Carolinians never get up to bat because the constituency most affected has been historically marginalized or systematically overlooked, diminishing their political power—or as they say around the Statehouse: “juice.” Justice—or fairness for all—has motivated Palmetto Promise Institute’s work from the beginning, and as proud South Carolinians, we also count quality of life issues as a part of our wheelhouse.

COVID CONTEXT

COVID-19 has forced us all to focus on what is really important. A good quality of life for all South Carolinians, that values work and breaks down barriers to opportunity for anyone who wants to work should rise to the top of our state’s collective agenda.

RECOMMENDATIONS

CRIMINAL JUSTICE & QUALITY OF LIFE

In a special opinion commentary to *The Greenville News* published over the summer, Palmetto Promise Institute raised a number of issues⁵² that must be met head-on if we are to provide a just and free South Carolina for all people. Here is that list with a few new ones:

Reform South Carolina’s unjust municipal court fines and procedures which disproportionately impact the poor.

According to the conservative Institute for Justice’s analysis, only three states soak the poor more than South Carolina with fines and fees.⁵³

Take a hard look at how we select judges, particularly Summary Court Judges (Magistrates).

Investigative reporting in recent years has raised significant questions about the qualifications of Magistrates. This is important, because as a practical matter, the Summary Courts are those in which most South Carolinians come seeking justice. A review (and possible reform) of South Carolina’s judicial selection process, and even of the governing procedures and practices of the courts themselves, are warranted to truly ensure “equal justice under law” for every citizen in our state.

COVID-19 has forced us all to focus on what is really important. A good quality of life for all South Carolinians, that values work and breaks down barriers to opportunity

Overcome the barriers to civil asset forfeiture reform that arose in the last legislative session and send a bill to the Governor’s desk immediately. In too many cases, law enforcement can take



QUIS SEPARABIT?

It is difficult to decide which Latin phrase on our beautiful state seal is the most meaningful. We referred to the two most well-known in the Introduction to this Playbook. But there is another much beloved phrase also found there. It reads simply **“QUIS SEPARABIT?”** **QUIS SEPARABIT** is taken from the Latin translation of St. Paul’s letter to the Romans Chapter 8, verse 35: **“Quis ergo nōs sēparābit ā cārītātē Christī...”** (“Who shall separate us from the love of Christ?”). A slight variation is **“quis nobis separabit?”** (“Who shall separate us?”), as in “from each other.” The meaning of those words in the launching of South Carolina as a state in a War for Independence isn’t hard to decipher. We were at war with ourselves, split between Loyalists and Patriots. **QUIS SEPARABIT?** was a call for love, loyalty and unity—a pledge not to let our enemies divide us as South Carolinians. No words could be more fitting for the end of the year 2020 and the year 2021.

property without its owner being convicted of any crime. It is known as “policing for profit,” and we should not incentivize it or force a resort to it, but rather fund law enforcement straight up in the state budget.

Embark on a “Round 2” of payday loan industry reforms to prevent predatory practices. The payday loan industry met with some sorely needed reforms a decade ago, including the institution of a database that would prevent borrowers from taking out overlapping loans at competing lenders all over town. But more needs to be done to control fees to prevent borrowing from becoming a trap.

Think hard about the customers versus the beneficiaries of the South Carolina Education Lottery. Study after study has found that those who play the lottery, and provide the profits to fund education programs, seldom receive benefit from it. In a “reverse Robin Hood,” the poor play the lottery to send middle-class kids to college....and colleges are tempted to raise tu-

ition knowing lottery funds are available to cover the increase.

There are others outside of those we addressed in *The Greenville News*...

We can continue our role as a leader in **stopping overcriminalization** as we make our way down the road to broader criminal justice reform.

We should not detain juveniles in adult jails or try them in adult courts for juvenile offenses.

Speaker Jay Lucas has appointed a House Equitable Justice System and Law Enforcement Reform Committee headed by Reps. Gary Simrill and Todd Rutherford. We look forward to their findings.

Removing barriers to hiring can be a de facto civil rights issue as well. “Barriers to Hiring” is a policy area deserves its own section because of the depth and breadth of its implications...

BARRIERS TO HIRING

Adopt a Small Business Regulatory Flexibility Act modeled on statutes from other states to see that small businesses are not overly burdened by state regulations.

Protect Right to Work. Under a Biden Administration, South Carolina may have to once again fight to protect our right to work law from National Labor Relations Board (NLRB) intervention. It would be worth the fight to prevent a federal regulatory board from redefining its role in such a way as to allow it to unfairly take the side of labor unions against worker freedom.

Prevent excessive Workers’ Compensation contributions/rates. One-time federal funds should be used to replenish the trust fund and keep rates low. South Carolina was one of the worst states to start (or *bring* or *expand*) a business in terms of Workers’ Comp expenses just a short time ago, but thanks to independent analysis from economists like Dr. Rebecca Gunnlaugsson, our system has improved dramatically. The most recent ranking (2018)⁵⁴ shows South Carolina now in the next to lowest rate category. We must continue to be vigilant.

Finish reforming the business license system by implementing new legislation according to the intent of the Business License Tax Standardization Act. The bumper of a contractor's truck is a testament to the maze of licenses required to operate in a reasonable geographic area....and please, no more municipalities roughing up kids mowing lawns to get a business license.

✓ **COVID Lesson Learned! The Department of Labor, Licensing and Regulation (LLR) should study existing licensing barriers to work and the legislature should eliminate job-killing and unnecessary hoops.** The fast tracking of military spouses for **occupational licensing** reciprocity was a great win for the state and for all those who want to work. In the last session of the General Assembly, the House passed a bill opening up the market by allowing mobile barbershop permits. But it died in the Senate. That was unfortunate. Why must hair be cut in a shop? Arizona has put people back to work with the Breaking Down Barriers to Work Act which broadly recognizes out-of-state occupational licenses. Twenty states have introduced similar bills and many have passed it.

✓ **COVID Lesson Learned! COVID has also forced many South Carolinians to work from home or to start home-based businesses which deserve protection.** The Home-Based Business Fairness Act would require that home businesses operate safely, but would provide protection against harassment or lengthy permitting processes for certain kinds of home businesses.

South Carolina has a law for cottage food industries, the Home-Based Food Production statute, but it has many unnecessary restrictions that could be removed to open up the home-based economy.

Another boost to start-up businesses is **business crowdfunding**, a law that allows small businesses a new mechanism to allow individuals to invest in businesses without triggering federal or state securities regulations and laws.

Renting a room in your home is also a home-based business! Local ordinances vary, but Charleston has been singled out for targeting short-term rentals. Formerly banned in The Holy City, short-term rentals are now “only” strictly regulated. The state may need to bolster private property rights with a Home-Sharing Act that would focus on bad actors not responsible homeowners. (A version of the Act was introduced in the most recent session of the General Assembly.)

✓ **COVID Lesson Learned! Pass meaningful tort reform and COVID-19 liability protections for suffering small businesses.** To-date, the South Carolina General Assembly has taken no action to protect businesses from aggressive trial lawyers seeking to cash in on COVID-19. South Carolina is one of only three southern states that has not passed some type of COVID-19 liability protection.

✓ **COVID Lesson Learned! Publish clear guidelines for future regulatory takings, such as the COVID shut-down, so that businesses can be compensated for government-ordered economic suppression.**



CHOP BLOCK

A “Chop Block” is when one offensive player blocks a defensive player below the knees while another offensive player blocks him above the waist. Making it a foul to hit a player who is already engaged with another is to protect ankles and knees. The political “chop block” is to pile unnecessary license requirements on citizens who are already “engaged” by poverty and poor education preparation. The greatest legal block with a South Carolina connection had to be the Gamecocks’ Jadaveon Clowney versus the University of Michigan in the 2013 Outback Bowl.

ACKNOWLEDGEMENTS

In launching Palmetto Promise Institute, the founding Board of Directors embraced a bold vision: an “idea machine” laser-focused on common ground, best practices, and policy entrepreneurship. This Playbook is our most ambitious effort dedicated to making that vision reality.

Such an undertaking could not have been possible without the support of the Board and the investments of the friends of Palmetto Promise Institute. But PPI has also been blessed with relationships with some of the top public policy minds in the country.



TAX & BUDGET

Dr. Rebecca Gunnlauggson



EDUCATION

Jonathan Butcher, Dr. Cara Candal, and Dr. Marty Lueken



HEALTHCARE

Dr. Marcelo Hochman and Dr. Jerome Aya-Ay



ENERGY

Dr. Katie Grace, Dr. Mike Maloney, Dr. Jerry Ellig, and Jim Clarkson



WORK, JUSTICE, & QUALITY OF LIFE

Randy Hicks and Lee McGrath

Palmetto Promise is also indebted to a number of organizations that have led the way in these policy areas with dependable research: Acuitas Economics, American Federation for Children, American Enterprise Institute, American Legislative Exchange Council, Americans for Tax Reform, Americans for Tort Reform, Atlas Network, Beacon Center of Tennessee, EdChoice, Foundation for Excellence in Education, Foundation for Governmental Accountability, Foundation for Individual Rights in Education, Goldwater Institute, Institute for Justice, James G. Martin Center, John Locke Foundation, Mercatus Center at George Mason University, Oklahoma Council of Public Affairs, Reason Foundation, Truth in Accounting, Tax Foundation, and State Policy Network.

PPI also relied on data published by a number of state agencies and the investigative reporting of several news organizations which are cited in the end notes. Please note however that conclusions are entirely our own and not necessarily those of these organizations, agencies and news outlets.

ENDNOTES

¹ We cannot answer either of these questions fully in the Playbook. For taxation, we recommend our publication *Funding South Carolina's Future: A Practical Plan for Tax Reform that Creates Fairness, Stability and Growth*. A fuller analysis of state spending is forthcoming.

² "How SC's Leaders Have Failed South Carolinians," Cassie Cope, Sammy Fretwell, and Jamie Self, *The State*, May 28, 2016. Updated May 31, 2016. <https://www.thestate.com/news/politics-government/politics-columns-blogs/the-buzz/article80631387.html>

³ "Historical Analyses," South Carolina Revenue & Fiscal Affairs Office, Revised March 8, 2019. [http://rfa.sc.gov/files/Historical%20Analyses%20through%20December%2031,%202018%20\(Updated%203-8-19\)%20FINAL.pdf](http://rfa.sc.gov/files/Historical%20Analyses%20through%20December%2031,%202018%20(Updated%203-8-19)%20FINAL.pdf)

⁴ Ibid.

⁵ State Appropriations 2000-2017 (Per Capita Real 2016 US Dollars), Acuitas Economics. <https://iq.acuitasecon.com/v/a6YoXANoXPYH>

⁶ Population, Population Change, and Estimated Components of Population Change 2010-2019, U.S. Census Bureau. <https://www.census.gov/data/tables/time-series/demo/popest/2010s-state-total.html>; United Van Lines' National Movers Study, 2019. <https://www.unitedvanlines.com/newsroom/movers-study-2019>

⁷ We recommend the highly informative resource *How Money Walks: How \$2 Trillion Moved Between the States, and Why It Matters*, Travis H. Brown, 2013 and the accompanying website that provides annual updates.

⁸ "Percent Change in Real GDP by State, 2018-2019," Bureau of Economic Analysis, U.S. Department of Commerce, April 7, 2020. <https://www.bea.gov/news/2020/gross-domestic-product-state-4th-quarter-and-annual-2019> Our definition of "South" is the traditional one used by historians and political scientists. See Earl Black and Merle Black, *Politics and Society in the South* (Harvard University Press, 1987). The Professors Black define the Deep South as MS, SC, LA, GA and LA and the Peripheral (or Rim) South as NC, VA, AR, TN, FL and TX. Together they form "the South."

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¹⁰ "SC Legislators Have \$861 Million More Available to Spend or Save for Potential Downturn," Seanna Adcox, *The Post & Courier*, August 31, 2020. https://www.postandcourier.com/politics/sc-legislators-have-861-million-more-available-to-spend-or-save-for-potential-downturn/article_5d70c04e-eb9b-11ea-907b-6ba56ca92495.html

¹¹ "Tax Reforms Have NC Poised to Better Weather Economic Storm," Brian Balfour, *The Fayetteville Observer*, May 12, 2020.

¹² "Audit Says Richland Road Taxes Improperly Paid for Coffee, Cars, Computers," Bristow Marchant, *The State*, December 11, 2019. Updated December 12, 2019. <https://www.thestate.com/news/local/article238268463.html#:~:text=In%202018%2C%20the%20state%20Supreme, costs%20for%20transportation%2Drelated%20projects.>

¹³ Numerous attempts to pass local option taxes in Greenville have failed. The tax in Georgetown County expired and could be brought back. Others are expiring and will require referenda to be renewed. The trend used to be defeat. The trend is now passage. “Greenville’s a Rare Exception as Local Sales Taxes Have Spread to Most SC Counties, David Slade, *Post & Courier*. August 17, 2019. https://www.postandcourier.com/news/greenvilles-a-rare-exception-as-local-sales-taxes-have-spread-to-most-sc-counties/article_77f262c6-bada-11e9-a345-2f7ea73f70c3.html#:~:text=Today%2C%20South%20Carolina%20counties%20have,cities%20collect%20on%20hotel%20stays.

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¹⁶ “Pass-Through Businesses: Data & Policy,” Scott Greenberg, The Tax Foundation, January 2017. <https://files.taxfoundation.org/20170124162950/Tax-Foundation-FF5361.pdf>

¹⁷ “New Research Examines State-By-State Growth In Per Capita State Spending,” Jack Fencil, , Americans for Tax Reform, August 11, 2020.

¹⁸ “South Carolina State & Local Debt, 1999-2013,” Acuitas Economics, January 24, 2016. <http://acuitasecon.com/econlab/government/scdebt/>

¹⁹ Ranking the States by Fiscal Condition, 2018 Edition, Eileen Norcross and Olivia Gonzalez, Mercatus Institute, 2018. <https://www.mercatus.org/system/files/norcross-fiscal-rankings-2018-mercatus-research-v1.pdf>

²⁰ “Is Your State in Financial Trouble? Here’s How All 50 Stack Up,,” Leslie P. Norton, *Barron’s*, August 31, 2020.

²¹ It is a great source of amusement to those who monitor higher education spending that entirely different buildings on entirely different campuses can generate requests for renovation funds of exactly the same amount. This is a hint as to how the game is played.

²² State of South Carolina Surplus Properties, CBRE. <http://properties.cbre.us/sc-surplus-properties/1401---1429-senate-st.html>

²³ The MAP final report is full of worthy recommendations that will be referenced in our Playbook. This was one of them.

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- ³⁶ Please note that the data in the US Census Bureau’s Public School Spending by State table is calculated differently from the next graphic, Total Inflation-Adjusted Revenue Per Student.
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- ³⁹ “Open Enrollment Provides Substantial Benefits to Students and Families,” Aaron Garth Smith, *Reason Foundation*, January 28, 2020. <https://reason.org/commentary/open-enrollment-provides-substantial-benefits-to-students-and-families/>
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⁴⁹ Energy STAR ratings, U.S. Small Business Administration.

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