

Charleston Post-Courier, August 14, 2008

Budget deficit equal to tax cuts: Shortfall a 'perfect storm,' state's top economist says

By Yvonne Wenger

COLUMBIA — The state's top budget forecaster would not say Wednesday that South Carolina's economic woes were self-inflicted, but John Rainey did call the mix of tax cuts and a slowdown a "perfect storm."

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A day after state agencies were ordered to make immediate 3 percent budget cuts, the Board of Economic Advisors reported that revenue collections were down by \$222 million for the fiscal year that just ended.

That's almost the exact deficit created by the elimination of the grocery sales tax and the \$67-per person cut in income taxes, both effective last year. The reduction in the food tax left coffers with \$135 million less combined with an \$86-million hole from the income tax cut.

That sets the foundation for the current fiscal year 2008-09, which has revenues already forecast to be 5 percent lower than originally expected, between revisions by the Board of Economic Advisors and Tuesday's call for cutbacks by the state Budget and Control Board.

The message that Rainey, chairman of the state's economic advisors, wanted to send is: "We were wrong." But he did send a letter to Gov. Mark Sanford in June 2007 that warned of a worsening economic situation.

Sanford, who as a member of the Budget and Control Board opposed the decision to order agency cuts, called again for the Legislature to target budget

cuts rather than order uniform ones that don't differentiate between core government functions such as education and law enforcement.

State Superintendent of Education Jim Rex warned of the consequences. The Education Department will lose \$73 million, money that will almost entirely have to come from local schools.

By comparison

The S.C. Board of Economic Advisors surveyed states to find out whether revenue was in excess or short of budget estimates for the fiscal year that just ended, 2007-08.

Here's a look at the results for some Southeastern states:

State	Percent Change
Alabama	-2.3
Arkansas	+4.2
Florida	-12
Georgia	-8.8
Louisiana	+3.3
North Carolina	-4.5
South Carolina	-2.9
Tennessee	-2.4
Virginia	-3.2

"It's likely that there will be serious cutbacks to important programs and services," Rex said in a statement. "This is just the latest illustration of why we need comprehensive tax and funding reform, and why we need it now."

College of Charleston economist Frank Hefner said Wednesday that this downturn is different from others in the past, which have typically followed an identifiable tipping point. Another big unknown is how this will permeate local governments.

“What we’re seeing now is turning out to be stranger than anyone could have forecast,” he said. “Whether you call it a recession or not, this is unprecedented.”

What is clear is that South Carolina is not alone in its struggles. On Aug. 1, Georgia ordered 6 percent cuts for state agencies, said Bert Brantley, press secretary for Gov. Sonny Perdue. The state learned that its revenue collections are projected to be \$1.6 billion less than originally forecast.

Brantley said Georgia must also take other measures to accommodate the projections, including possibly deferring the 2.5 percent salary increase scheduled for state employees in January and withholding homeowners’ tax relief that gets sent to local government for credits on tax bills.

North Carolina has not called for any agency budget cuts, but Florida Gov. Charlie Crist ordered that the 20-plus agencies that report to him will lose 4 percent to help make up a \$6 billion deficit.

A report released in May by the Rockefeller Institute of Government analyzed budgets and revenue per state, and found that states are handling lower tax collections by tapping reserve

funds, ordering mid-year budget cuts and raising taxes.

Overall, revenue is weak, employment is thinning and costs are rising.

Sales tax revenue for the nation is down by 0.1 percent, the first drop since early 2002. The Southeast, which relies more heavily on sales tax collections than elsewhere in the country, is taking the hit especially hard with a 3.8 percent decline.

Perhaps most alarming for South Carolina is its ranking as one of nine of the “most troubled states,” according to the report, because of declines in corporate and personal income as well as sales tax. The other states are Arizona, Montana, Florida, Rhode Island, Oklahoma, Utah, Georgia and North Carolina.

Still, South Carolina did not make it on the list of states suffering a recession. Arizona, California, Florida, Michigan, Nevada, Ohio, Rhode Island, Tennessee and Wisconsin are, according to the report that cited Moody’s Investors Service, a financial research and analysis company.

In South Carolina, the Board of Economic Advisors did not alter the projection further on Wednesday.

Katy Stech contributed to this report.