

MINUTES OF BUDGET AND CONTROL BOARD MEETING

OCTOBER 27, 1976

The Budget and Control Board met at 10:30 a. m. on October 27, 1976, in the Alcoholic Beverage Control Commission Hearing Room in the Edgar A. Brown State Office Building with the following members in attendance:

Governor James B. Edwards
Mr. Grady L. Patterson, Jr.
Mr. Earle E. Morris, Jr.
Senator Rembert C. Dennis
Mr. F. Julian LeaMond

Also attending were W. T. Putnam, P. C. Smith and W. A. McInnis.

1977-78 BUDGET HEARINGS - The Budget and Control Board heard budget requests for fiscal year 1977-78 from the following agencies:

Colleges and Universities;
Commission on Higher Education; and
The Judicial Department.

BOARD OF ECONOMIC ADVISORS - REVISION OF 1976-77 REVENUE ESTIMATE AND ESTIMATE OF 1977-78 REVENUE - Dr. James A. Morris, Mr. Robert C. Wasson and Dr. Eugene A. Laurent, members of the Board of Economic Advisors, accompanied by Dr. Barbara Feinn, of the Division of Research and Statistical Services, appeared before the Budget and Control Board to review the economic and revenue outlooks for fiscal years 1976-77 and 1977-78. In summary, the Board of Economic Advisors reported that the economies of the nation and of South Carolina continue their recovery from the 1973-75 recession although the pace of improvement has slowed temporarily over the past few months and that, while general fund revenues have risen favorably during 1976-77, they are somewhat below the expected level.

As a result of the slower-paced recovery, the Board of Economic Advisors revised its estimate of general fund revenue for fiscal year 1976-77 from \$1,055,000,000 to \$1,040,000,000, a reduction of \$15,000,000.

The Board of Economic Advisors also presented its new estimate

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of general fund revenue for fiscal year 1977-78 at a level between \$1,150,000,000 and \$1,160,000,000.

Information pertaining to this matter has been retained in these files and is identified as Exhibit I.

BUDGET AND CONTROL BOARD - RESOLUTION DIRECTING ACTIONS TO FORESTALL DEFICIT IN FISCAL YEAR 1976-77 - Following the presentation by the Board of Economic Advisors, State Auditor W. T. Putnam distributed materials which summarized the impact of the \$15,000,000 reduction in estimated general fund revenue on the 1976-77 General Appropriation Act and which indicated an impending deficit in 1976-77 of approximately \$33.9 million. The analysis distributed by Mr. Putnam showed that the \$33.9 million deficit anticipated in 1976-77 is comprised of the following items:

Fiscal year 1976-77 general fund revenue reduction	\$ 15.0 million
Deficit at end of fiscal year 1975-76	16.3 million
Estimated deficiencies, fiscal year 1976-77	3.7 million
Less: Increase in Revenue Sharing Funds	<u>1.1 million</u>
Total Impending Deficit, 1976-77	<u><u>33.9 million</u></u>

Following State Auditor Putnam's review of the impending deficit, Governor Edwards read and proposed that the Budget and Control Board adopt a Resolution directing that a series of actions be taken as soon as practicable to adjust the 1976-77 budget in order to forestall the impending deficit of \$33.9 million. Following a brief discussion of the proposed Resolution, the Budget and Control Board, upon a motion by Mr. Patterson, seconded by Mr. LeaMond, unanimously adopted the proposed Resolution, a copy of which has been retained in these files.

In the ensuing discussion, Governor Edwards called upon the members of the General Assembly who were present to convey to other members of the General Assembly a need to adopt a new approach to budgeting which would prevent deficit situations such as this from recurring. Mr. Patterson

observed that the same sort of discipline as is proposed for inclusion in the Constitution to limit capital expenditures may have to be added to cover expenditures for operating purposes. Senator Dennis expressed the belief that the State is in this situation because of the use of surplus funds for recurring purposes and requested that the Board of Economic Advisors recommend alternatives to the present practice of appropriating operating funds on the basis of revenue estimates. Mr. Morris called for longer range planning so as to avoid approving long-term, expensive programs which the State's economic growth will not sustain. Senator Dennis indicated that this action by the Budget and Control Board does not vitiate the gentlemen's agreement made by the Senate with State employees and school teachers, but he also indicated that the State absolutely cannot experience a deficit during the current fiscal year and that he would take whatever action may be necessary to avoid that circumstance.

Information pertaining to this matter has been retained in these files and is identified collectively as Exhibit II.

1977-78 BUDGET HEARINGS - After adjourning at 1:15 p. m. and reconvening at 3:30 p. m., the Budget and Control Board heard 1977-78 budget requests from the following agencies:

Clemson University, Public Service Activities
Higher Education Tuition Grants Committee
Children's Bureau
Palmetto State Teachers Association
Nursing Home Administrators Examining Board
State Ethics Commission



South Carolina Department of Archives and History
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CERTIFICATE OF CORRECTION

In order to correct an error in, or improve the quality
of the original microfilm, it was necessary to photograph and
splice in the following update of this record:

Exhibit I and Exhibit II 10/27/76

March 2, 1982
Date

Jane D. Bayl
Camera Operator

EXHIBIT I
10/27/76

Economic and Revenue Outlook
Fiscal Years 1977-78

The national and state economies continue the recovery from the 1973-75 recession although the pace of improvement has slowed temporarily over the past few months. The uncertainty felt by consumers and investors as reflected in the stock market has been expressed in easing of increases in consumption and an unanticipated slow pace of investment in new plant and equipment. Contributing factors have been pre-election jitters and continuing high levels of inflation and unemployment, as well as several costly strikes. The South Carolina economy has experienced these same tendencies with effects on textile activity, employment and farm income. General Fund Revenues have risen favorably but somewhat below expectation.

The pattern of the economic recovery is still positive, however, starting with rises in consumer spending, inventory accumulation and then expansion in the critical investment sector, to include housing and plant and equipment expenditures. Causative factors in the economic lull have been lower than projected government spending and the delay in increased spending for plant and equipment. It should be noted, however, that Real Gross National Product has expanded at annual rates of 9.2, 4.5, and 4.0 percent during the first three quarters of the year and that the projected increase for the year will be above 6 percent at the same time inflation rises are lower than anticipated and unemployment is declining, although somewhat slower than anticipated. The point is that the economy is recovering and that most economists anticipate continued improvement in output and employment through 1977. To the extent that we expand gradually in GNP at real rates of 5-6 percent, which is significantly higher than average post-war rates but below existing capacity, then the danger of another inflationary spiral is reduced. The dilemma is, however, that unemployment is not thereby

reduced to "normal" rates of 4-4.5 percent as rapidly as is desirable from both social and economic standpoints.

Given these considerations the outlook is for a faster rate of growth this quarter than last and a rise in real GNP of about 5-5.5 percent during 1977. Price increases of 5.5-6 percent during the year are anticipated so that GNP in current dollars should rise by about 11 percent. Plant and equipment spending should expand by about 15 percent, profits should continue to increase at a slower pace than in 1976 and unemployment should decline to a 6.5 percent rate by the end of 1977.

The economy of South Carolina should move with that of the national economy during 1977, with personal income expanding in current dollar terms by 10-11 percent. As plant and equipment spending rises, the tempo of industrial development should pick up, the textile industry should be prosperous as consumer spending rises and housing expands. The thrust provided in the late 1960's and early 1970's by a surge of industrial development and an expanding textile sector is not as evident and the agricultural sector is bothered by adverse cost-price relationships but it is also true that tourism has produced enlarged income results. On balance the state's economy can be expected to advance at national rates or somewhat higher.

General Fund Revenues should increase at favorable rates in line with the detailed data attached. Sales tax returns should rise in line with disposable income while income taxes will expand at faster rates because of rising employment, income and profits. All other taxes likely will not increase with income because of a host of factors to include reduced earnings on investment and smaller returns from taxes on energy generation, alcoholic beverages and soft drinks. The revised estimate for fiscal year 1977 General Fund Revenues is \$1040 million and the new estimate for fiscal year 1978 is \$1150-1160 million.

In essence, then, income and revenues for the state are increasing at reasonably high rates but economic growth does not quite match the rising expectations for a greater quantity and quality of services by state government. This is a time for careful evaluation of the appropriate relationships between personal income, state revenues and expenditures.

Board of Economic
Advisors

October 27, 1976

JAM/sg

GENERAL FUND REVENUES AND PERSONAL INCOME
(Amounts in Millions)

	Fiscal 1976		Fiscal 1977		Fiscal 1978	
	Actual	% Change	Projected*	% Change	Projected	% Change
General Fund Revenues	915.6	8.4	1040	13.5	1155	11.0
Sales Tax	372.6	10.3	425	14.1	469	10.4
Income Tax	322.4	11.0	385	19.4	438	13.8
All Other	220.6	2.0	230	4.1	248	7.8
Personal Income	13,520	10.1	15,080	11.5	17,140	13.7

* Revised Projection

EXHIBIT II

10/27/76

FISCAL YEAR 1976-77Revenue Estimate

Per Appropriation Bill

\$1 118 265 212

Less: Reduction by Board of Economic
Advisors15 000 000 \$1 103 265 212Add: Increase in Revenue Sharing1 143 012

Total - Revised Estimate

\$1 104 408 224

Appropriations

General Appropriation Act

\$1 118 223 981

Add: Estimated Deficiencies:Department of Education

Additional Teachers

\$2 500 000

State Aid for School Facilities

1 055 960

Attorney General's OfficeSalaries and Operating Expenses
for Solicitors and Secretaries
due to Judicial Reform Act227 7763 783 736

Total - Revised Appropriations

\$1 122 007 717

Balance - Estimated Operating Loss 1976-77

(17 599 493)

Add: Deficit at End of 1975-76(16 309 443)

Total Additional Funds Required*

\$ (33 908 936)

*Does not include salary increases
for teachers or State employees.

FISCAL YEAR 1977-78

Revenue Estimates by Board of
Economic Advisors (Revised)

\$ 1 155 000 000

Add: Other Revenue

Debt Service Transfers

\$ 23 500 000

Waste Treatment Loan Repayment

500 000

Revenue Sharing Funds

31 143 012

55 143 012

Total - Estimated Revenue

1 210 143 012

Appropriations:

Preliminary Budget Allocations

1 224 767 950

Estimated Deficit

(14 624 938)

RESOLUTION

WHEREAS, the State of South Carolina ended the fiscal year 1975-76 with a General Fund deficit of \$16,309,443.00; and

WHEREAS, the Board of Economic Advisors has revised its estimate of General Fund revenues which are anticipated for the fiscal year 1976-77 so as to reduce its previous estimate by \$15,000,000.00; and

WHEREAS, other anticipated adjustments to the General Fund for the fiscal year 1976-77 will have the net effect of a \$2,640,724.00 increase in expenditures; and

WHEREAS, Act No. 709, Part I, Section 135 (General Appropriation Act) provides that the Budget and Control Board is "authorized and directed to make such reductions of appropriations as may be necessary to prevent a deficit."

NOW, THEREFORE, BE IT RESOLVED that in order to forestall an impending deficit of \$33,908,936.00 in the general operating budget of the State of South Carolina for the fiscal year 1976-77, the Budget and Control Board authorizes and directs that, as soon as is practicable, the following actions be taken:

	<u>Estimated Effect On Budget</u>
1. Debt service for actual bond issues will require \$9,062,274 less than was appropriated, occasioned by extending the actual bond issue beyond the fiscal year because of market conditions.	\$ 9,062,274
2. That legislation be drafted and recommended to the General Assembly which will authorize the transfer of \$1,250,000 from the Escheat Fund to the General Fund.	1,250,000
3. That the appropriated funds entitled "State Employees - Base Pay Increases" shown in Sec. 13, Item VII of the General Appropriation Act for the fiscal year 1976-77, as amended, be reduced from \$2,803,170 to \$103,170.	2,700,000
4. That the 1976-77 appropriation for the Department of Social Services be reduced by \$6,727,868, so as to utilize in the current fiscal year appropriated funds which that agency indicates it will not need until 1977-78.	6,727,868
5. That a study be made of all special operating funds that have been accumulated, from whatever source derived, to determine which of these funds may be utilized in current operations of the various agencies. A reduction of a corresponding amount of appropriated funds will then be effected.	10,000,000 to 12,000,000
6. Except for a few selected categories of positions all hiring will be "frozen" and reductions will be made in the appropriated funds of the various agencies to acquire the necessary monies to complete the balancing of the budget for the fiscal year 1976-77.	2,168,794 to <u>4,168,794</u>
	<u>\$33,908,936</u>

Adopted by Budget and Control Board October 27, 1976

The State of South Carolina



Office of the Attorney General

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DEPUTY ATTORNEYS GENERAL

October 18, 1976

The Honorable James B. Edwards
Governor
State House
Columbia, South Carolina 29211

Dear Governor Edwards:

You have requested an opinion of this Office as to whether the Budget and Control Board has the authority to reduce appropriations in the absence of a deficit. It appears, however, that the only provision for such a reduction is in the event that a deficit is anticipated; this provision has been included in the appropriations act each year for several years and is found in Section 134 of the current (1976-77) appropriations act. The Budget and Control Board is a creature of statute and as such possesses only those powers granted it by the Legislature; it has no inherent powers. See, e.g., Southern Ry. Co. v. South Carolina State Highway Department, 237 SC 75, 115 SE2d 685 (1960). As a result, the Board's power to reduce appropriations is limited to situations provided for by law, that is, situations in which a deficit exists or is anticipated.

Sincerely yours,

A handwritten signature in cursive script that reads "Kenneth P. Woodington".

Kenneth P. Woodington
Assistant Attorney General

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