

THE PALMETTO
BUSINESS FORUM

Remarks by Governor James B.
Edwards, presented at the
University of South Carolina,
Columbia, South Carolina
November 1, 1976
(A Recorded Transcript)

PALMETTO BUSINESS FORUM

Speaker: I believe everyone has a seat. I am Hootie Johnson and on behalf of the Palmetto Businessmen's Forum, I want to welcome you here to a very interesting and informative program. I won't infringe on the Governor and his associates' time too much, but inasmuch as it is election eve, I think there is time for one more joke.

This is a Jimmy Carter joke...seems Jimmy got in a bridge game and the opening bidder said one diamond, and the next bidder said one spade, Jimmy said two...everything got kind of quiet...they said two what?...he said "trust me, trust me."
.....(applause and laughter).

Just one thing about the Palmetto Businessmen's Forum, it's composed of 25 chief executives of South Carolina headquartered in our state; industries, banks, insurance companies, etc., whose primary interest is in the preservation of the free market system and the preservation of individual freedom. We also have a keen interest in fiscal responsibility at all levels of government, and I'm sure you share that same concern or you would not be here today.

South Carolina has enjoyed for decades a reputation that it has earned for conservative financial handling of its affairs,

and under Governor Edwards' administration this reputation has been maintained. However, we do have pressing problems as more and more pressure is applied to spend, spend; tax, tax.

These gentlemen are primarily responsible for providing the leadership in the financial area. They need all of our support, and you will come away better informed as to how you can give your support to them.

With that, ladies and gentlemen, the Honorable James B. Edwards, Governor of South Carolina...(applause).

Governor

Edwards: Thank you all so very much. Hootie, I want to thank you and the Palmetto Business Forum for allowing me to come before you this evening and talk in an informal and general way about South Carolina government and what we are trying to do.

I think before we do that, there are men on this stage that have been most effective in keeping us on a stable keel. I would like to start with two men that tell you how much taxes you are going to have to pay each year; (Bob Watson, Chairman of the Tax Commission, was busy trying to figure out how to get more revenue to balance our budget, so he's not with us. A recent appointee, Mr. Charles Plowden - many of you know him (probably most of you) - banker-businessman-farmer who, I

think, adds an awful lot to the Tax Commission. My most recent appointment is Raymond Finch, a CPA of quite outstanding reputation in South Carolina. He used to be with Earnst and Earnst...Raymond certainly understands your problems if anyone does, and he can represent you in a fair and equitable manner. Over on my left is our new auditor, Mr. Bill Putnam, who has had extensive experience in state government. He is the man who has taken over the important job of State Auditor. On his right is a man that I have respected ever since I was in the Senate...Mr. Pat Smith. When I first came to the Senate in 1972, we were considering the budget. I couldn't get any answers from anybody until I saw this man seated by the Senate desk. I saw everyone going to him constantly. Being a dentist I didn't understand what his job was, but I soon realized he was probably the only man in the whole chamber who knew what he was talking about. I started depending on him in the Senate; he hasn't misguided me yet. Since I've been Governor, he has grown in stature in my opinion; in fact, probably if there's any one man that has kept us out of financial trouble over the years, it's Mr. Pat Smith. We recently promoted him to Auditor Emeritus so he could put a foot in the long range planning for South Carolina. I think this is so important in the years to come.

The next man, Earl Morris, needs no introduction to this group. Earl is the newest addition to the Budget and Control

Board. He took Henry Mills' position as Comptroller General. Earl, I welcome you before this group to the Budget and Control Board. On his left you all know our State Treasurer, Grady Patterson, who has done a fabulous job with handling the finances of state government since he's been in the Treasurer's Office.

Just as we are interested in business in South Carolina and improving the environment for you and the business community to make a profit, we want you to be interested in your government in South Carolina from a fiscal standpoint. We want to be partners in business and not adversaries in business.

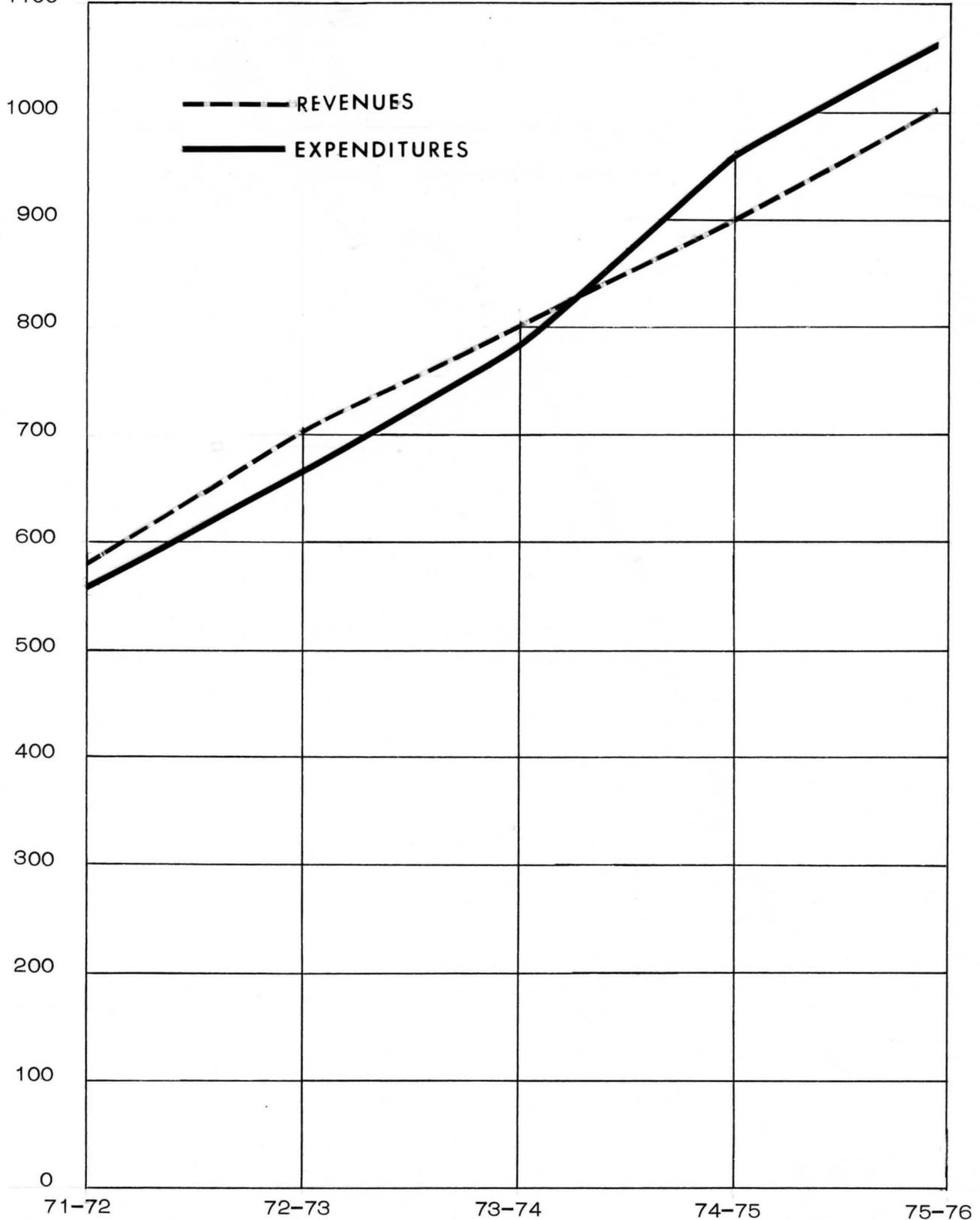
Hootie, once again I want to thank you for bringing this group here and allowing us to discuss the problems of state government.

ADDRESS

CHART I

I would like to review with you where we were when I became Governor. Just prior to my taking office, we had grown in revenues rather markedly. As you can see, the red line represents the state's expenditures, the blue line represents the revenues over the years starting from 71-72. You can see

MILLIONS
OF \$\$\$
1100



Sources: S. C. Div. of Research & Stat.
S. C. Auditor's Off.

the growth in revenues and the expenditures lag about a \$100 million. Just as we took office, as fate would have it (when the first mistake in 100 years took office) something happened; the expenditures started exceeding the revenues. Things haven't been going well for us Republicans these years. You see what happened when our expenditures starting exceeding the revenues and we were really in deficit financing. As you all know we are required by the State Constitution to balance our budget on an annual basis, and thank goodness we are. (I wish the federal government had that obligation too; we would be a lot better off.) Looking at this situation, I knew that we were in severe trouble so I asked the Budget and Control Board to help me in any way they could. Collectively, we did a great many things I think that were of great help to us. There are two men not here I would like to pay tribute to publicly; one is Captain LeaMond, who is Chairman of the Ways and Means Committee. He has a campaign going in Charleston so its obvious why he isn't here this evening. Senator Rembert Dennis has been a stalwart in protecting the fiscal integrity of South Carolina for many years. He has recently undergone surgery, and his physician advised him to get as much rest as possible. They were a great help along with the members of the Budget and Control Board and Mr. Smith and Mr. Putnam.

The first thing we did was to declare a hiring freeze so that any vacancies that occurred would not be filled without specific permission of the Budget and Control Board. We can

document that it saved the taxpayers about \$6.3 million the first six months of our administration.

The next thing we did was to go to the Ways and Means Committee and the Senate Finance Committee and request that they cut as much as they possibly could off the budget bill before it was enacted into law. As a result of our request they did the thing that was absolutely necessary. They cut \$31.7 million off the budget at that stage.

After the budget was approved, the revenues didn't seem to be coming back. Our expenditures were constant. At this point, we went back and did the so-called 8% across the Board cut. This was not a true 8% across the Board cut. Pat Smith and his group went into the agencies and selectively decided where these cuts should be made. The results amounted to a \$39.9 million cut of the Appropriations Bill at mid-year.

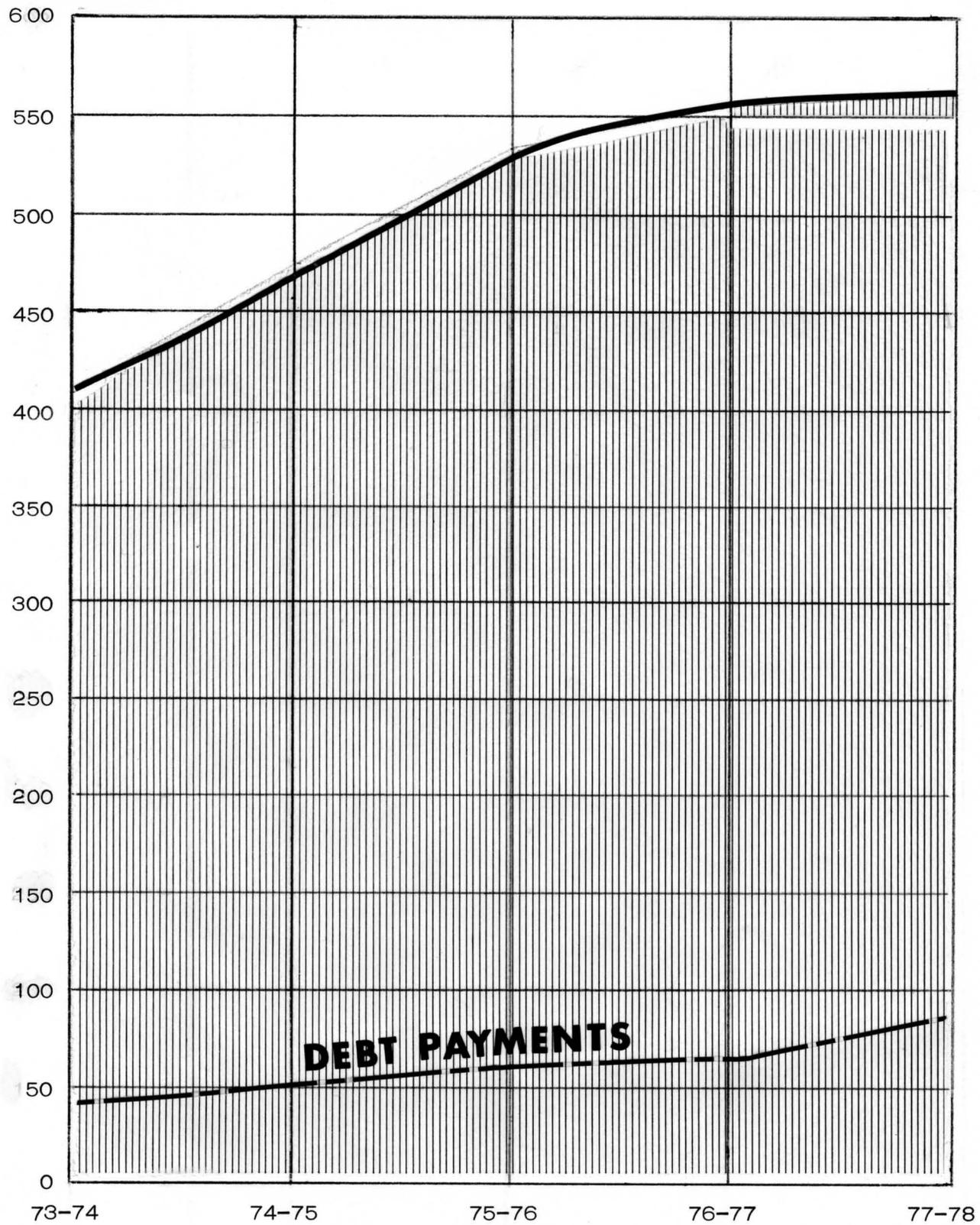
In addition to that, we cut \$11.2 million off the appropriation in capital outlays. Then the Housing Authority was ruled unconstitutional so we were able to reclaim \$10 million that we set aside for the Housing Authority program in South Carolina. The total reduction came to \$92.8 million. As you are aware, after everything was all accounted for in the year '75-76, we were still \$16 million over spent.

In my own life when I got into financial troubles, I always had a little reserve kitty to fall back on. When we got into this financial trouble statewide, I started looking for the reserve fund that I thought surely we would have in the state government. It wasn't anywhere to be found. We asked the legislature if they would pass a law requiring that in any years of future surplus, 25% of that surplus would be set aside. We have a reserve fund that is now equal to 5% of that year's annual appropriation. That law is now on the books so when we get back to normalcy and the first mistake has left office, the next Governor will have a little kitty to fall back on when he gets in trouble.

Later, under the leadership of Grady Patterson, we were looking at the bonded indebtedness...by the way, while we're talking about expenditures, let me show you how the breakdown occurs and where your dollars are spent. This is the expenditure and right here, 75-76, is where we are. You can't read this blue part but right here the little bright blue is legislative, judicial and administrative, that's the amount spent. You can see the growth of the budget, and the outstanding thing about this is that the priorities haven't changed much over the years. The proportion of each of these categories has just about remained proportional to the total

TOTAL DEBT

MILLIONS
OF DOLLARS



SOURCE: State Treasurer's Office

budget. This is higher education in the blue, the pink is public schools (both specialized and primary and secondary education), the green is health care, this pastel blue is social services, social rehabilitative services is forest green. Here is Corrections. The orange is conservation of natural resources. The next is regulatory, followed by debt service. We are beginning to climb a little bit here in the area of debt service. This remaining orange is aid to subdivisions. The little red portion is miscellaneous.

CHART II

To give you a little idea of what your expenditures are spent for, let's have the next slide, I think it shows you the bonded indebtedness. Grady, you back me up on this if you see any errors in this chart. You can see how our bonded indebtedness was growing, and at about this stage we decided to put the 5% limitation on it. When we put the 5% limitation, we passed a law that restricted the bonded indebtedness also. The debt service on bonds issued by the State of South Carolina are restricted to 5% of that year's general appropriation. Well, when they figured it all up, we had already exceeded the 5% mark on those bonds which were approved. It stopped all of our bonded financing in its tracks.

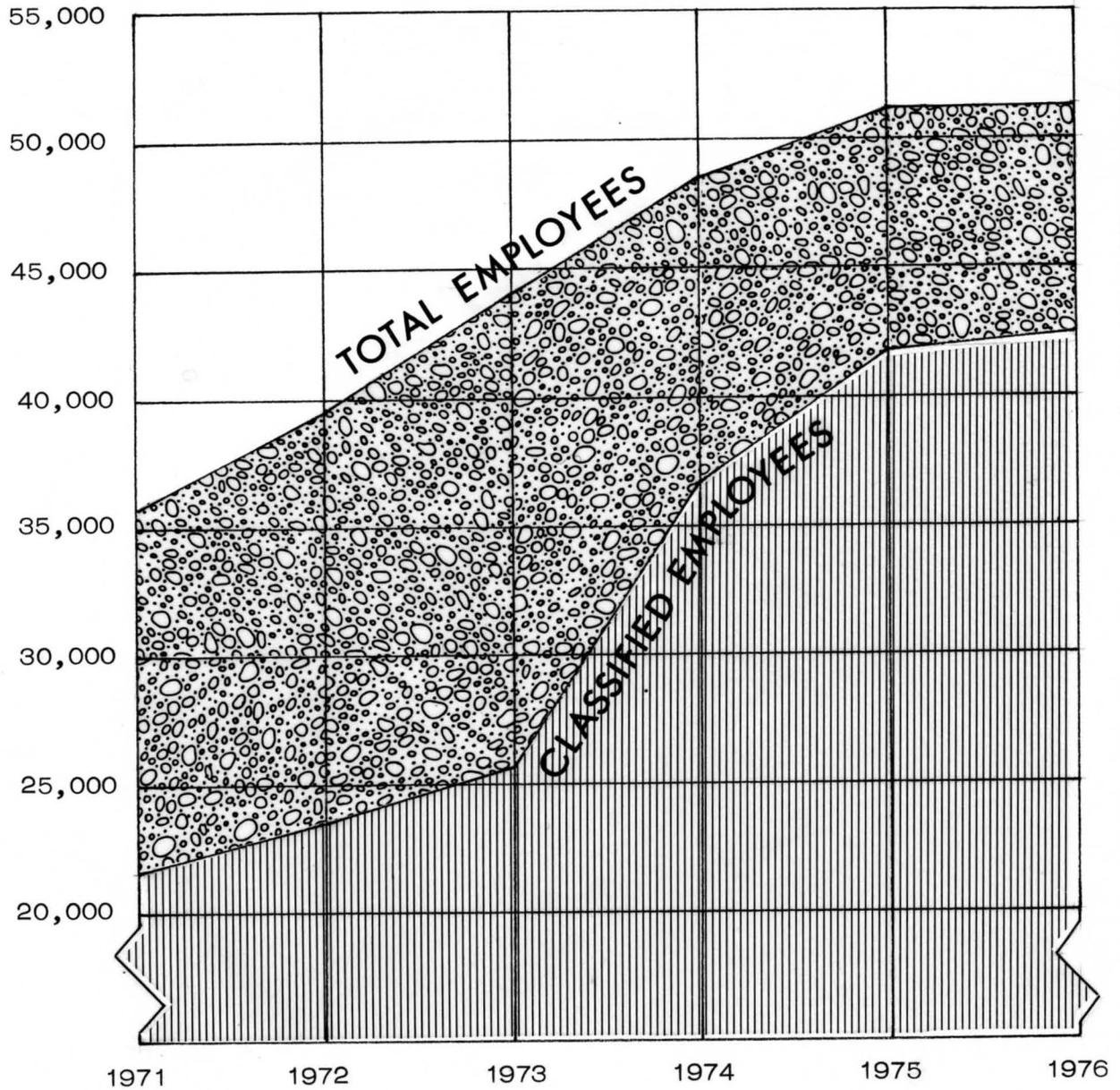
Hootie, do you remember the problem we had with the cranes which we had ordered from Japan for use at the State Ports Authority? We really hadn't signed the order for it but we did have a moral obligation to pay for these cranes. They were already being built to move into the State Ports Authority so it did produce some problems for us temporarily. It also focused our attention on how we could really get into trouble if we didn't put some controls on the bonded indebtedness.

You can see how the lines start leveling out here. Since that time under Article X (which by the way you are going to vote on tomorrow) it increases this limitation to 7% and builds it into the constitution...this is where it ought to be. When we put this 5% limitation on, we had issued some \$550 million worth of bonds, and we had approved \$248 million more.

CHART III

We go to the next chart which deals with personnel in state government. It doesn't take long even for a dentist to realize that the real problem in financing this operation that we call state government is in the proliferation of people on the payroll. We've done an analysis on it. We have found that 75% of the total operations money spent in state government goes to personnel or personnel-related costs. We have been growing like topsy. We have grown from 39,000 state employees

Average Salaries Number of Classified Employees and Total Employees



Average Salaries:

TOTAL EMPLOYEES	\$6,843	7,676	8,486	8,958	9,584	10,180
CLASSIFIED EMPLOYEES	\$6,231	6,750	7,457	8,079	8,685	9,240

SOURCE: Division of Research and Statistics

to some fifty thousand state employees. In this instance, you can see how our employees have grown and we are beginning to level off. We put the hiring freeze into practice and started clamping down on the number of people that we could employ in state government.

One of the things that I found rather remarkable was that I had a difficult time trying to find out exactly how many people worked for the State of South Carolina. I started looking for that number when I was sworn in, and it took me until September 29 to get a figure. Now we have a figure, and are in the process of instituting a payroll personnel plan where the payroll and personnel records are back-to-back. This program is computerized, and it doesn't take but one pay period until that little guy down the road who doesn't get his paycheck screams all the way back up to that computer tape. We soon know where his problems are and why he hasn't gotten his personnel records straight. When he gets his check, after he straightens out his personnel record, then we've got him recorded. We know exactly where he works and how much he gets paid.

CHART IV

We go to the next slide. Just out of curiosity, I asked the staff, "What does it cost, what obligation does the State of

Estimated Costs of One Additional State Employee Over a 30 Year Period

\$ MILLION

1.

.9

.8

.7

.6

.5

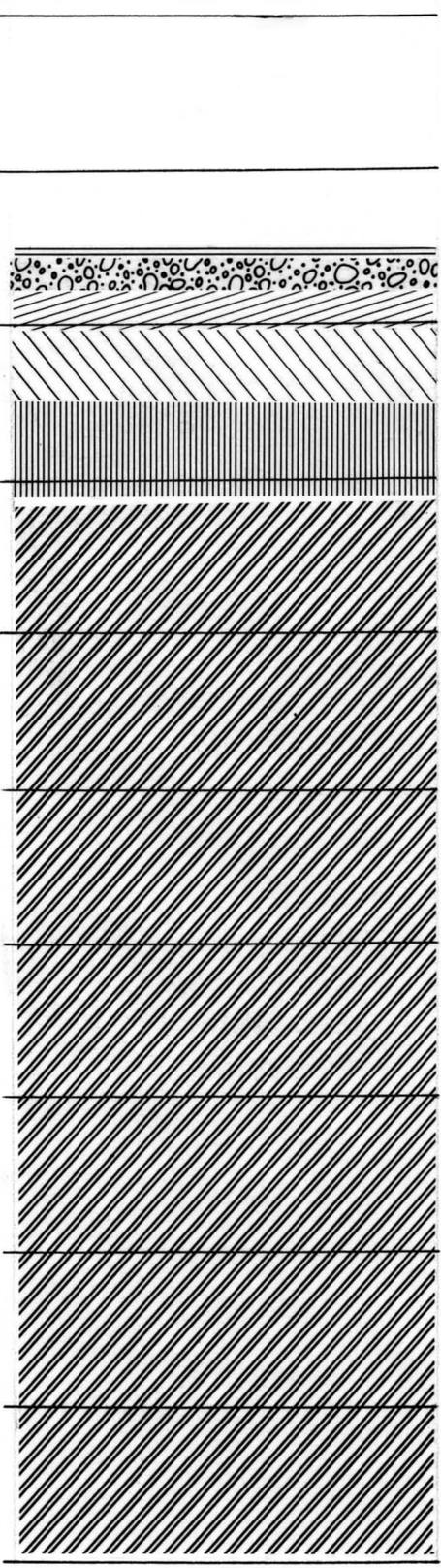
.4

.3

.2

.1

0



\$1,386 Workman's Compensation

\$20,766 Social Security

\$21,311 Hospitalization

\$47,116 Retirement & Group Insurance

\$63,949 Housing - Furnishings

\$693,115 Base Salary
(beginning at \$10,180)

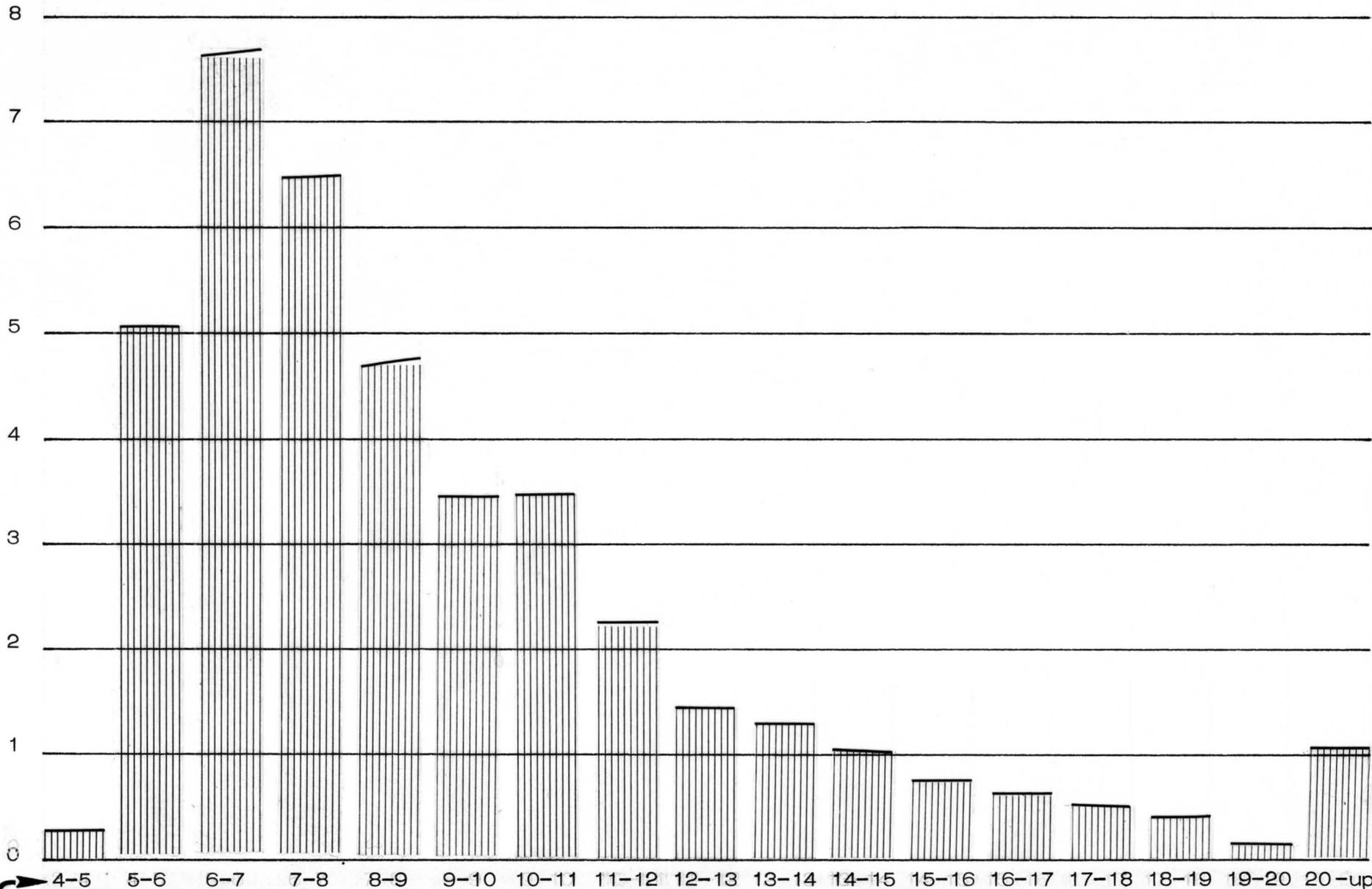
South Carolina incur when they add one person to the payroll to the State of South Carolina?"...and it is quite interesting. It comes to about \$844,000 when one person is added to the payroll. You run it out till they retire from state government. You can see here...this is the base salary. It comes to three hundred and ninety-three plus thousand dollars, the housing and furnishing come to \$63,000, retirement group insurance \$47,000, hospitalization \$21,000, social security \$20,000 and Workmen's Comp \$1,386. You can see that every time an agency comes in and says "All I want is two employees;" then you see what you're obligating the state to over the long haul.

CHART V

This is a chart that shows the salary range of our state employees. Here is \$6,000 to \$7,000. We found out that the average salary runs about \$10,000. Now that's what we base our average on when you're talking about the long range obligation of the state. I would like to point out that the majority of the people on the payroll fall here beneath the \$10,000 mark. As we run out here it's right interesting ...customarily, industry I understand would be a little bit smaller than the \$20,000 figure. In state government we have a little jump. I've been told, it is because we have so many different agencies and each agency head has to be an executive in his own right ...each has to get an executive salary. That's the reason for

Salary Ranges of Classified, Full-Time, Filled Positions in S.C. State Government - Sept. 30, 1976

THOUSANDS
OF PEOPLE



THOUSANDS OF DOLLARS

this abnormal distribution compared to that found in industry.

While we are doing these things we did take some steps to improve management generally in state government. For example, we were having trouble trying to find out how many automobiles we had...owned by the state. Since that time, the Budget and Control Board has instituted the Motor Vehicle Management Office which, in the two years it has been in operation has saved about \$2 million.

In the area of telephones we called in some help from private industry to get someone who knew something about telephones to take a look at the telephone configuration. We changed the way we were being billed and came up with about a \$2 million savings. It's really avoidance which you can categorize as a savings so far as I'm concerned.

In addition, we created a management team of five men to go into different agencies that were having trouble. As a result of that, we have been able to document about a \$2.8 million savings. In a way, I'm sorry to report...but in a way I'm very happy to report...these people on the management team were of such a caliber that as they went around to look into the different areas of government they were stolen away from us. We have no management team, they have all been hired and

placed in positions of honor in state government, but only good can come out of that for the taxpayers over the long haul.

We reorganized the Energy Office...saved about \$200,000... Disaster Preparedness - the Legislative Audit Council had recommended that we remove \$200,000 from that agency. When the Senate took a close look at the budget, they decided to remove \$374,000 from the Disaster Preparedness budget.

I would like to talk just a minute about the Legislative Audit Council because I think it's doing an outstanding job. It was created by the legislature in 1974; and if I remember correctly, I voted for it when I was in the Senate. It was actually initiated in 1975. It's composed of nine members, three members have to be businessmen from the business community and one must, by law, be a CPA. These three men are completely in charge of the audit and the director is on a no-cut, four-year contract. You can see the obvious advantage of that. They went into the Disaster Preparedness Agency as their first task.

They have also documented a lot of the so-called "slush" funds that have been laying around some of the agencies for a while. Pat Smith knew about these funds all along, and was aware that they were there. I'm delighted that we had them because

that's where we're getting a lot of our money to put things together this year to make up the deficiency we face. It's really not, but they call it a slush fund.

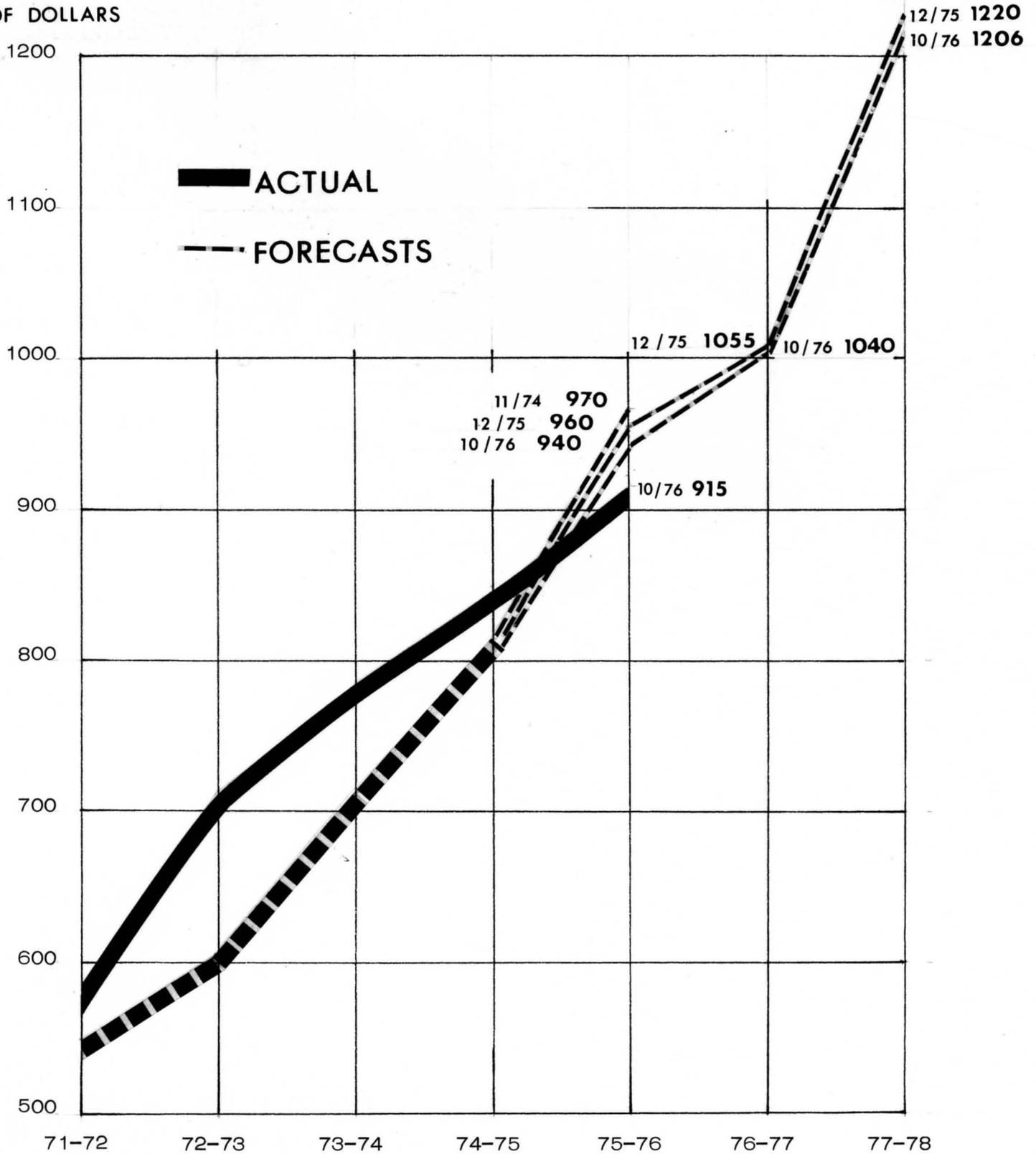
The different agencies in state government have been charged with administering federal grants, and we have been funding these agencies from an administrative standpoint; but in return for administering these federal grants, the federal government gives them a certain percentage, which varies sometimes, and can go up to the full cost, but is usually about 5% of the amount of the grant. These agencies have been taking these monies, depositing them and sometimes using them for things that really were not budgeted for under the law.

The Legislative Audit Council has been doing a good job of identifying these. In six agencies I believe about \$16 million of these funds have been located. They are there for our use to help make up the deficiency this year.

In the very near future, we'll get a report from them on their look into the Medicaid program that's about a \$130 million program in South Carolina. I'm anxious to take a look at that report. They are going into the Public Service Commission to take a look at that agency too. I think they are doing a lot of good to help us in the management of the funds in state government.

GENERAL FUND REVENUES

MILLIONS
OF DOLLARS



SOURCE: S.C. AUDITOR'S OFFICE

CHART VI

I would like to explain to you what we have done and why we had to make up \$34 million. This is a chart to show the general fund revenues. The red is our forecaster's estimates over the years and the blue is in actual revenues that were taken in. You can see in '71, '72, '73, the forecast was about \$100 million less than the actual revenues. The blue represents the actual funds. We had surpluses during these years. Right here (as the first mistake took office) you see what happened. Their estimate of November, 1974, indicated that we would have, in '75-76, \$970 million in revenues. They changed that forecast in December of 1975 to \$960 million. In November '76 they changed it to \$940 million. We actually took in \$915 million.

You can see where our deficiency occurred. In addition to that, they had estimated one billion, fifty-five million last December. Recently they readjusted that forecast down to one billion, forty million. That gave us our \$15 million deficit. In addition to that, we had deficiency appropriations of about \$3 million which brought us to the \$34 million.

Now, I would like to go to '77-78. I want all of the members of the Budget and Control Board to take a close look at this with me. They haven't seen this chart yet. I don't see how

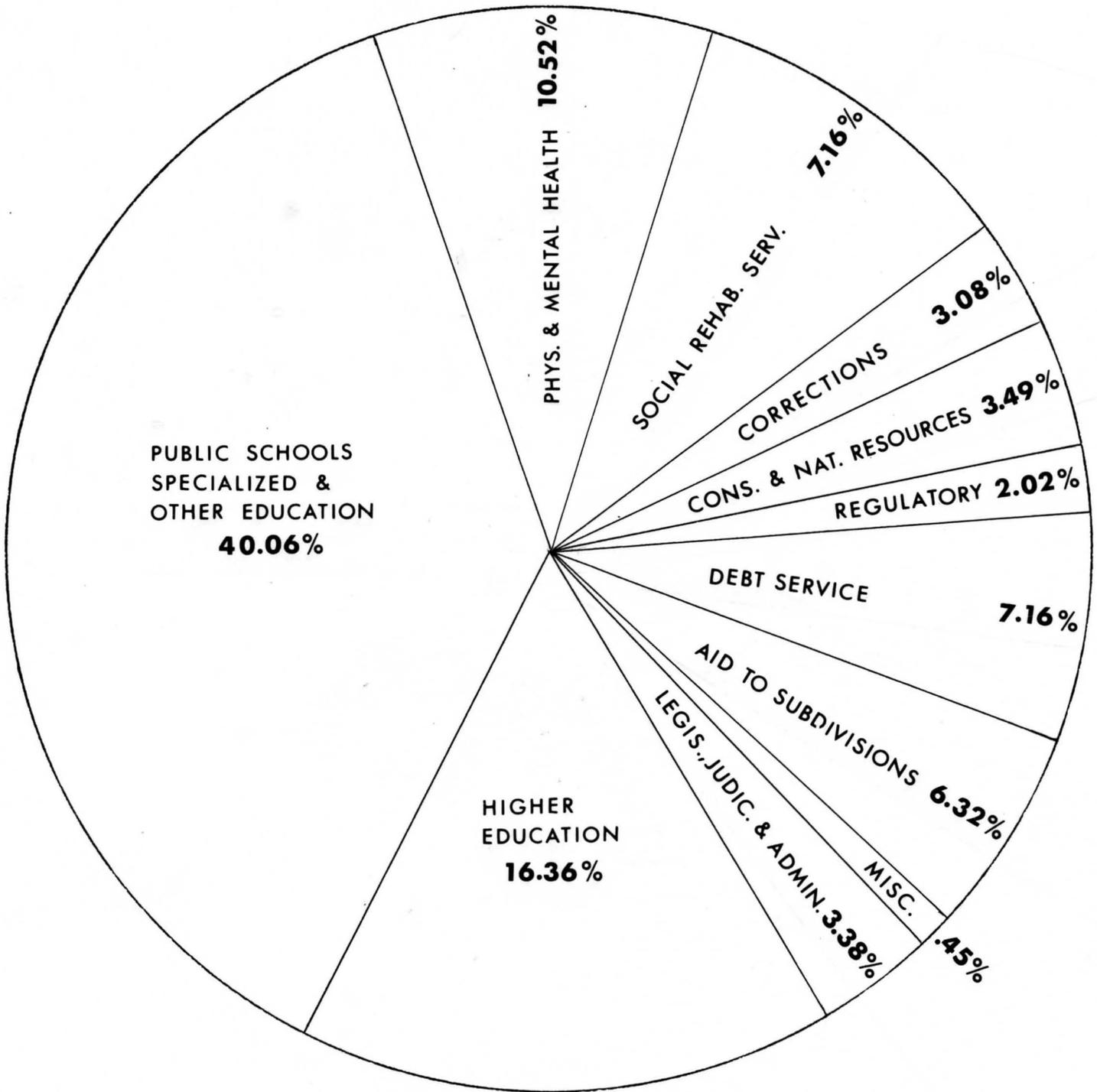
this blue line (estimated revenues) is going to take a skyrocket to this point in '77-78. It looks like it's going to come up to about this point...somewhere in this area. I don't want to question the forecaster's judgment, but I believe in these years they got a little overly optimistic and started forecasting a little bit more than we are actually going to receive.

This is our problem which brings me to another situation. I would like to explain to you how we've been creating our budget in past years. Basically our budget has been based on how much money we estimate we take in. One of the reasons I think that we have extended the length of the legislative session in recent years is because the legislature wants to hang around until they see exactly what the forecasts are so they can give those voters back home all the goodies they can before they have to go back home. This is one of the problems ...we have spent everything that has been forecast, right up to the dollar, without any reserve to fall back on. This is the problem that we are facing.

CHART VII

We've come up with a new concept to avoid this in the future. This is a picture of the budget. This is the proposal for '76-77. This is a breakdown of what we spent our monies on.

Percent of Budget by Categories 1976 - 1977



Source: S.C. Budget & Control Board

You can see once again, primary and secondary education is about 40%, higher education about 16%, 56-57% of the total budget goes into education. This is physical and mental health care...social rehabilitative services...corrections ...conservation, natural resources ...regulatory...debt services...aid to subdivision...miscellaneous. This is the legislative, judicial and administrative...3.38% is all that is spent on this entire grouping. We talk about the need for financing our judicial reform. Certainly, in South Carolina, we can expend enough when we're only spending 3.38% of all funds. We can expand that somewhat so that we can cover the cost of a decent judicial system for the State of South Carolina which is so important for crime control and many, many other things.

We decided that there should be some way to set a limit at the beginning of the year as to what the total pie would be. We tried to decide what we should base this total pie on. It is obvious that basing it on projected revenues has not worked too well because we're in trouble right now. That's testimony enough to show that it hasn't worked too well.

We wanted to have some flexibilities so government could grow as the State of South Carolina as the population grew. We could have based it on the gross national product or gross

state product of South Carolina. We finally decided that perhaps we ought to base it on what the working people of South Carolina could really afford. In past years the cost of government has grown 50% faster than the average personal income of the people of South Carolina. We conceived the idea to base our projections on a percentage of the average growth in personal income in South Carolina. We couldn't use a base figure from the preceding year. That would not have been a reasonable way to do it because last year we had a little recession...the personal income fell. To overcome short-term trends, we decided to use averages on a five-year basis. We had the University, and some other economists, do some research on this for us. We finally concluded we ought to do it on a five-year average using the three years previous to the budget, the year of the budget and the projected income of the following year. It came to about 10.3% in South Carolina in past years. The average personal income in South Carolina has grown faster than the rest of the nation. We initially proposed that we set the pie at 10.3%. We finally decided to round that off on the conservative side at 10%. It came to \$1 billion 220 million for '77-78. We looked at the revenue projections, and they were \$1 billion 224 million. Being the old conservative that I am, I decided we ought to round it off at \$1 billion 200 million. This is the figure we used for the total sum of the pie. Then we took the different areas and

set aside a percentage of the total \$1 billion 200 million for each of these areas of state government. This allowed the Budget and Control Board to really have some input in setting the wide range of priorities in South Carolina. For example, we felt that primary and secondary education needed a little more help. We also felt that they were having problems over in the Central Correctional Institution...overcrowded conditions. We decided they needed a little help so we put a little more financial emphasis on corrections. Higher education, in recent years, has grown pretty well... I'm not saying they didn't need that help...surely they needed that help; but in proportion to the amount of money that South Carolina could afford, we on the Budget and Control Board thought we ought to hold them as they were. The 10% we decided on should be divided between corrections and primary-secondary education.

We also did some shifting in school financing to give us some money back on our debt service.

Basically this new approach allowed us to set priorities. The second thing it does is to give the agency heads a fixed amount to plan toward. The agency heads were drifting around not knowing how much money they were going to have. Hoping they would have some money, they were going in the Senate and House lobbying every day. You could hardly get past them as

you went in the door of the Senate and the House. This concept gives them a fixed amount. They know how to plan. They have to work within a set amount. In addition to that, there's another advantage... If an agency felt that they had a great innovative idea to do something within their agency, we forced them to set the priorities down at the agency level where they should know where the priorities should be set. We, around the table of the Budget and Control Board, certainly don't have enough in-depth knowledge to say whether or not an agency should cut out a program. If they have innovative ideas, they have to find funds down in their agency somewhere, from a lower priority program, and cut that out to get the resources to add this new innovative program.

Another advantage I think that will grow out of this is the advantage of the legislature. They will have a set amount of money to work with. They will write their budget and hopefully go home by May 1. If there's any money left over...the following year when they come back, they will have the opportunity to take these surplus monies and use them any way they want to. We hope to recommend they use them for one-shot expenditures and to do away with some of the bonded indebtedness to cut the debt service down so we can use this money for programmatic things rather than paying interest needlessly.

So this is the concept that we have come up with... I hope it's going to work, and if any of you have any influence with legislators, I'll do a little lobbying right now to get you to help us convince them that this is the way to do it.

We do have a balanced budget concept in South Carolina. I want to thank you all for what you've done to bring about some interest in the balanced budget concept at the federal level. We in South Carolina need to build in our constitution a mechanism, not only to balance our budget, but also to avoid the pitfalls that we have just come through. Our treasurer has come up with one that; Grady, correct me now if I don't tell it the way you have recommended...it has been proposed that a reserve fund of 5% be set aside from each annual budget. When the reserve fund falls below that 5%, the following year only 95% of the estimated revenues could be programmed into that year's budget. In other words, we will save 5% of the estimated revenues to build up the 5% reserve fund that is required under the Constitution.

Another possibility is to set a percentage of the income from the working man that you can spend each year on government with the remaining monies going back to the taxpayers of the state. That's what the constitutional amendment in Michigan is all about this year, and you might watch that constitutional amendment with interest.

It's interesting to me that we proposed the pie chart at a 10.3% growth factor, we dropped to 10% and then we rounded it off at \$1 billion 200 million, which comes to an 8% growth in the budget. That's the same amount that the State of Michigan has recommended to restrict their state's expenditures to 8% of the working man's personal income.

We have a very optimistic outlook, although we have problems in South Carolina. We at present think we have a tremendous growth rate, but we still have been spending more than 13% of our revenues. The real answer to our problem in South Carolina is to bring about more growth in the economy of South Carolina ...more industrial development in the state... I want to add industry with more diversification and see a better distribution of our industries in South Carolina. This is why Bob Leeke has come up with his Great Town concept where you try to disperse these industries into the smaller rural areas of 15,000 or less. It will do several things: it will locate the jobs where the people are and where these jobs are needed in the rural areas. In addition, it will keep down the immigration into the cities that compounds the socio-economic problems of the city. It will help control the central city problems and will keep down the added expenses for us in state and municipal county level government for solving the problems of the over-congestion in the central cities. Bob did a great

job in North Carolina and Bob, where are you?... I'm expecting great things out of you in South Carolina. Gentlemen, I hope I haven't been too long in talking about some of the things that we face on a daily basis in South Carolina. I want to thank you for your attention.

At this time I want to turn the program back over to Hootie Johnson and thank you for your being so kind to me. (applause).

Hootie

Johnson: Now I would like to ask if there is anyone in this room that would like to ask questions of you and your associates up here with you today. Let me have my papers up here so if I can't answer anything that comes along I can refer to the papers. We've got the man here who makes the decisions as to how your tax money is spent. So you probably won't have another opportunity like this to have all these people in one room to answer the questions that any of you may have.

Governor, I have a question I'd like to ask now. I think you do have a very critical problem - you and the other members of the Budget and Control Board, State Auditors, Mr. Smith, Tax Commissioner, certainly, by your presentation you have shown that you are at the jugular but how can we as citizens, those of us in this room, be of assistance to you, either in a general or in a specific way?

Governor

Edwards: Well, many of you have already been of assistance to me... From time to time we can call on you for help. But what I would like to do, is to cultivate a climate in South Carolina where men of your caliber ... men and ladies I might add... would feel free to be a part of government and feel free to give us your suggestions, your criticisms, at any time. If we can create this atmosphere of a true partnership between government and business, business executives both individually and collectively, I think both business and government cannot help but gain from it.

Basically, I look at my own situation. I borrowed some people from private industry to help me. When you apply industry's management expertise to government, only good is going to come of it. My Administrative Assistants came from private industry. The man that I asked to come down and help us on our telephone reconfiguration was loaned to us from private industry. These are the types of things that I think help an awful lot.

When I took office, we wanted to do something innovative and something that could help us in years to come. I was very interested in the statewide emergency medical program. Of course, we got bogged down in the budget and things like that. You can't do much innovative thinking at a time like that, but one of the main things that you want from an emergency medical service program statewide is a good communications network. I asked what kind of communications network we had? Do we have a statewide network? I found out much to my chagrin that we didn't have one communication network but seventeen...seventeen different agencies in state government had their own communications network. The man we borrowed from private industry had done such a good job on the telephones, that we whistled for him to come back. He has been loaned to us very generously, again to look at our communications system. We are revamping our seventeen statewide communications systems into one good top quality communications system for all the agencies of state government to use. This is a specific example showing that we can use the private enterprise sector to help with our problems.

I think that if we can just develop the rapport we have going right now...that's the biggest thing!!!

Hootie

Johnson: Climate and awareness?

Governor

Edwards: Climate and awareness, that describes it all I guess in two words. Anybody else have any questions?

Mr. Rone: Recently we had several lay-offs in the upper part of the state, particularly in the textile business. Are these layoffs an indication of things to come?

Governor

Edwards: Well, any time we have layoffs in the state, certainly this is of serious economic concern to me and I think that... Grady would you like to field that question? (laughter). I tell you what, we've got to come up with 23,000 new jobs a year in South Carolina to meet the job market. When you start looking at 23,000 new jobs, remember, last year during the economic decline we only came up with 6,000 new jobs. You can see how we are falling behind from that standpoint. Certainly any time that our industry has a problem, it's a great concern to me. When we are trying to balance the budget and have just found a way to balance it and get us out of the red right now, naturally we are concerned when you perceive a downturn. We have to develop a better economic foundation for the state if we are going to continue to deliver the goods and services that government or the people demand (shall I say at least the politicians feel that they are demanding it). Anyway, I'm not

convinced that they are demanding quite as much as they claim.
Would you like to respond to that Earl or Grady?

Grady

Patterson: Well, I think that any time you have a plant closing, it's of serious concern to all of our citizens. Hopefully, this thing that you speak of is a temporary lull in the economy in South Carolina. I would anticipate that this would be a passing interlude and that the economy will come back. From what the textile people here tell me, we expect the textile industries to do quite well after the election, irrespective of who wins... So I think that we will see an upturn in the textile business after the election, hopefully.

Earl

Morris: Governor, I think the point you made in mentioning Bob Leeke's aggressive, renewed effort to continue to attract industrial investment and expansion here is essential. I think we've got to recognize the fact that the days of easy or no competition with our northeastern neighbors are over. I was reading in "State Government," a publication that I am sure you might have seen, that in a ten-year period, the State of New Jersey lost 180,000 industrial jobs in 1964-74. South Carolina gained 200,000. New York is having out-migration of industrial workers, no new plants, no new industry, and I can understand why. Governor Carey of New York has said, "What we are doing wrong in New York we are going to correct." They set up a commission in the State of New Jersey to see what benefits can be offered to keep industry and to attract it. The days of

the north meeting us at an economic Appomattox are far from near. I believe that all of us together in the government, politics, and industry have got to revitalize and reinvigorate our efforts at selling this state as one of the best, if not the best, area for expansion. What I'm saying is, and I think we've got to realize, that these states losing jobs aren't going to take it lying down. One other thing Governor, if I might speak for Grady Patterson and me...you asked how these men can help in keeping the sound fiscal footings that we have enunciated in this state, and Grady and I are saying you can re-elect us and hope you will. (laughter and applause).

Governor

Edwards: I am sure glad they said that because I can make my pitch for tomorrow now. (laughter and applause).

Hootie

Johnson: Does someone have a question?

Dick

Beau: I was very interested in your comment and have heard of the Great Towns program. It seems to run counter to a strong current running in the federal government these days which I think is more in terms of highways...subways and that sort of thing. Is an organized effort being made on the part of the state to defend our position, not transportation ... will getting our share of these monies directly affect our highway program...there is an awareness within our state government...

Governor

Edwards: I think one of the reasons is because once again the great metropolitan areas are wanting to get these funds to solve their problem which cannot be solved the same way our problem can be solved. They are two completely different problems and it's the same old fight that has gone on for years, and we are certainly aware of it. We are going to do everything we can to defend our position where we need highways rather than the other types of transportation. It's right interesting. I think sometimes we, the great planners in government, want to do things that are contrary to the desires of the people...for example...we are talking about mass transit into the rural areas, and it is very difficult to develop a mass transit system when people are tied to the great American automobile. In spite of the cost of operation they are going to drive their car until we are completely out of fuel I guess, and then they'll find other means of transportation. The great planner is trying to force this too often I think. We are aware of the problem. I can't give you any specific action that we have taken on it, but we certainly are aware of it. We are going to maintain the funds coming to us to help us solve our problem the way we want to solve it.

Raymon

Finch: Governor, there is another movement underway in Washington now, and it's attracting a lot of interest. Transportation versus regulation that I am sure you are aware of. At first brush it is a beautiful piece of motherhood and apple pie. I imagine a

lot of people in this room would be in favor of it, but I do feel like we would have to look awfully hard from a point of view of the underdeveloped states as to the competitive effects this could have with a northeast corridor for example. I think most of the pressure is coming from there to look at transportation verses regulation. We are certainly going to have to study this. I think there is a study on the way in one of our universities now as to what effect this might have on, say, increasing our transportation rates and decreasing our service. Those competitive areas that Earl mentioned are really hitting back at us now. Unfortunately, they tend to use the first weapon at hand which is the federal government. I feel the federal government should be neutral on these things. Those people have an excellent opportunity to get themselves shaped up and get competitive, but as far as using the federal government as a weapon to make us less competitive and infect us with their diseases - I think we have to be on the alert for this.

Governor

Edwards: I wish Mr. Finch was running for office, I'd vote for him tomorrow ... (laughter) ..

Raymon

Finch: You can write me in....(laughter)...

Governor

Edwards: Don't you dare waste that vote. (Laughter and applause).

Hootie

Johnson: If there was a change I would vote for him too...Bill Workman, back in the back?

Bill

Workman: Do our present fiscal difficulties afford any real threat to our bonded rating?

Governor

Edwards: I'm going to give that to a very capable man, our Treasurer, Grady Patterson, and let him answer.

Grady

Patterson: Thank you Governor. Bill, as you know, we have received a letter from Standard and Poors. That's one of the rating services, the other one is Moody's... Calling to our attention the fact that we have over-appropriated and run deficits for two years prior to the year that just ended with the \$16 million deficit. For example in '73-74 we spent \$77 million more than the tax base generated. In '74-75 we spent \$57 million more than the tax base generated. In the year just ended, June 30, 1976, we spent about \$16 million more than the tax base generated. This is what Standard and Poors has called to our attention, the fact that we are spending more money than the tax base is generating. Now, fortunately for those two prior years we had reserve funds or, surplus funds I should say, to cover those deficits. This past year we did not have sufficient funds to cover those debts. As you know, we have a constitutional provision which requires that we operate with a balanced budget so the technicality of the \$16 million deficit was that we took the first revenue that came

in this fiscal year and paid off the \$16 million deficit. The result of that is that we had sixteen million fewer dollars to spend in the fiscal year that we are now in. That's the action the Budget and Control Board took last week to ensure that we ended this fiscal year in the black. The rating services told us, Standard and Poors, that our credit rating would be in jeopardy if we didn't get our financial house in order and end this fiscal year in the black. So that's as close as I can come to answering that question.

John

Folsom: Several years ago during the Governor West administration before the state turned, many of us in this room and many of the organizations funded a study...I wonder what happened to that study?

Governor

Edwards: That's a Management Review Commission report and that report has been, contrary to what you may think, studied much more than you might imagine. It hasn't gotten too much publicity but I think it did an awful lot of good, and we use it frequently to refer to as we try to solve the problems facing South Carolina. I don't believe your efforts were in vain, those who served on it. It shows how we can save \$100 million a year I believe, generally speaking. We use it often and we probably should give it more credit than we have in the past. It was a very useful study.

I might point out one thing that I'm looking at very closely...the need for some reorganization in state government. One of the things that I have found is that when we tell the agencies to

do certain things we don't have the response that we should have. Now if the Budget and Control Board tells an agency to freeze the jobs, don't fill any jobs without our permission, I feel like that should be it. They just don't quite seem to respond as they go ahead and fill some jobs anyway. Without us knowing how many people work for the state, we couldn't definitely say that they were going contrary to our orders. I'm going to work on this in the last two years of my administration in an effort to reorganize state government a little bit. Right now we have about 100 different agencies, if you can think of an organization chart, each with a Board or Commission that's elected by various ways, and each of them run their agency. From that point up, there's no coordination by anyone above that. The Budget and Control Board doesn't control them. The Governor doesn't control them. You have heard it said that this is a legislative state and indeed it is a legislative state. That worked fine when the budget was \$455 million dollars; you had 12, 14, 16, 19,000 employees.

Today we are running a \$2.5 billion corporation. Counting the school teachers 100,000-106,000 employees. We really need some executive authority. Now where we place that executive authority I'm not sure. I haven't made that decision yet, but I think that we have got to have some Captain of the Ship that when he gives orders, they are carried out. The agencies along the way must understand that they need to be carried out. We are trying to create some thoughts on that, and I'm relying strongly on Pat Smith to help me come up with some reorganization plans. I think when we reorganize, we can

implement some of the things that you have said, if you have executive authority to do it. For example, we have one agency...you all can probably guess which one it is...that spends almost a half billion dollars of taxpayers' money. I can't get down there to bring the proper management to the agency that's obviously needed. I can't get there because six people that are elected in various ways run the agency, the Governor doesn't have anything to do with it. Yet, the people elect the Governor, and they expect him to go in and change things because they elected him. They voted for him to do that. When he can't do that, he can't be responsive to the voters. When you have government that's not responsive to the voters, you really need to do something about it and correct it...So you can have some form of voter recourse if you don't like what's going on. So that it...I'm getting a little off the subject, therefore, let's drop it right there... Any other questions?

Bill

Leverds: Governor, I think one of the other reasons was the freeze on the amount of money given to the cities so that they could... What is the thrust of that freeze?..Does that mean taxes are likely to rise much faster for the average person because the cities will have to increase revenues by themselves without any added contribution for this increase in state revenues...

Governor

Edwards: What you're referring to is the kickback to counties I believe.

In recent years, since we have been in economic trouble, we have frozen that at the existing level. Along about that same time, we have been taking over more of the responsibilities that should belong to the counties. At the same time, the counties and municipalities were getting revenue sharing from Washington to help with their problems. I guess it's a situation where we were solving our problems, and we are sympathetic with yours. I think with the revenue sharing and with us at the state level picking up more of the responsibility...for example, in judicial reform we are going to pick up the cost of the courts that you have been fronting heretofore. With the advent of local government, that's one of the things that you are going to have to live with. I would predict that there will be no increases in the percentage of kickbacks to counties. Gentlemen, would you agree with me. I see no way that we are going to be able to do it with the economic strains we're in.

John

McAlister: The up-states are dominated primarily by textile-related industries. Would you like to see the government boards in the future work on ways to diversify the industry...bring larger, newer, different industries...

Governor

Edwards: The question was that the textile industry dominates the Piedmont and would I, working with the Development Board, like to see other diversified industries come into that area.

Fortunately, or unfortunately, depending on which side of the fence you are on, these industries are coming into that area they are diversifying. I would like to get some of those big textile industries located in Williamsburg County and Jasper County and places like that to get some diversification from there. We really do need better distribution and more diversification across South Carolina. We need the diversification because when one industry...40% of our entire economy is dependent on textiles and textile-related industries...and when that particular industry gets a little sick we are really in bad trouble. That's one of the things that happened here that brought this about. I certainly want more diversification and better distribution at the statewide level, but I don't want to insist that new industries come into the Piedmont and compete with an already overloaded labor market in that area. Prior to the recession they had a negative unemployment problem while we had a 4, 5, 6% unemployment problem in the Low Country. It doesn't make sense to bring our industries where there is no unemployment problem. I would like to remind everybody that we have to come up with 23,000 new jobs each year to keep up with the demand. I don't see where we are going to have any problems getting people to work in any industries really.

Speaker
Greenville

News: (can't make out what speaker is saying)...

Governor

Edwards: Really, can we have the revenue chart again? I want to point out that we don't have a decline in revenues in South Carolina. This is what most people think. Right now for example we are growing at the rate of 13% in revenues. This shows that we are growing economically in the state... Here you can see the increase since 1971. This is the actual growth in revenues and most people talk about recession. We didn't have any recession. We had a slow-down in growth. We fell from 20%, 16-20% growth rate prior to my coming to office to a 4.55% when I took office. Now we are back up to a 13% growth rate. We are really in an inflationary economy when you look at it from that standpoint. Did that answer your question?

Speaker: (can't make out what speaker is saying at this point).

Governor

Edwards: I think what he is referring to is the projections. The projections that year were projected at about 15 1/2 or 16%. The actual growth rate for the first quarter was about 13%. That accounts for the difference in the revenues for the first quarter. We had to make adjustments anticipating that some of this would carry on through the fiscal year. That's the reason we had to adjust. The economic forecast had to be adjusted down \$15 million on the expected revenue for this year.

Any other questions? I'll tell you you won't get another chance like this in a long time. I want to thank you for being so kind and patient with us and once again, be sure to vote tomorrow. By the way, I want to put in a pitch for all the constitutional amendments, particularly, Article X which requires, among other things, that county and local government must balance their budget on an annual basis. It is one of great responsibility so make sure that you vote for all the amendments. So often we go to the polls and we think "Well, those constitutional amendments don't mean anything anyway" but this year they really mean a lot. If you could vote in favor of all three of them...I support them very strongly. I would like to thank you all very much for attending.

Charles

Plowden: I would like to point out one thing. Having served in the General Assembly in '73 and '74, this money, because it is deficit, has not been wasted. For instance, two items alone that had we not sent the money back home or used for debt service, you would have had a surplus. You wouldn't have had deficit. One of them was the per pupil rate of contribution to go back to the local school districts. Three or four years ago it was \$17.50, it was raised to \$25.00, then to \$35.00, and in the past year was raised again contingent upon revenue. Now that money went back per capita to every school. Inflation was eating them up. If we didn't give it back, you would have been taxed back home directly in your school district. The

other was a carry-over of a debt service of bonds issued earlier and the debt service began in this later time. Now I just wanted to point those things out. They both serve good causes.

Governor

Edwards: What you are saying is that we haven't been wasting their money. The funds were needed. That is also one of the things that we have added to the county level that helps you. At the same time, it looks as though we're not giving sufficient money back. (applause).

Hootie

Johnson: Governor I would like to call to your attention and the members of the Budget and Control Board, that these men have come from all over the state in groups, some of them in buses...some of them from as far away as Charleston in the south and Spartanburg in the north. I think that does demonstrate a climate of interest in state government. I'd also like to say Governor, based on your presentation and that of the Budget and Control Board, even if you do bid "two," we'll trust you. (laughter).

Is Jim Cain anywhere in the auditorium? I'm sorry that he's not here. I know that he would hate to miss the opportunity to speak to over 300 businessmen around South Carolina. We are, of course, at the School of Business, guests here today at the University House. It's next door. It depends on which door you go out.

Again, thank you very much on behalf of the Palmetto Business Forum for being with us today, and Governor, again thank you and the members of the Budget and Control Board for being with us. The meeting is adjourned. (applause).