

MINUTES OF

Budget and

Control Board

Meeting

August 10, 1978

MINUTES OF BUDGET AND CONTROL BOARD MEETING

AUGUST 10, 1978      9:40 A. M.

The Budget and Control Board met at 9:40 a.m. on August 10, 1978 in the Governor's Conference Room with the following members in attendance:

Governor James B. Edwards  
Mr. Grady L. Patterson, Jr.  
Mr. Earle E. Morris, Jr.  
Senator Rembert C. Dennis  
Representative Tom G. Mangum

Also attending were Board Secretary State Auditor William T. Putnam; Governor's Executive Assistant Walter R. Pettiss; and Board Staff Members P. C. Smith, Jesse A. Coles, Edgar A. Vaughn, E. C. Garvin, Jack S. Mullins, J. A. Crosscope, Donna K. Clark and William A. McInnis.

The following items of business were considered:

BOARD OF ECONOMIC ADVISORS - PRELIMINARY REVENUE ESTIMATES FOR

1979-80 - Board of Economic Advisors members Mr. Robert C. Wasson and Dr. Eugene A. Laurent, accompanied by Dr. Barbara A. Feinn of the Division of Research and Statistical Services, appeared before the Budget and Control Board to present that Board's preliminary estimates of General Fund revenues for 1979-80. In presenting the estimate of \$1.456 billion of regular tax source revenue and a total General Fund revenue estimate of \$1.514 billion (including other General Fund revenues), Dr. Laurent noted that these estimates are conservative but not ultra-conservative and expressed the view that they are adequate for planning purposes. Dr. Laurent also indicated that the Board of Economic Advisors would finalize its revenue estimates for 1979-80 in October.

Dr. Feinn expressed the view that the estimates presented by Dr. Laurent are very realistic but Mr. Wasson, while indicating agreement with the estimates presented, also expressed the view that he was less enthusiastic about the prospects for 1979-80 than other members of the Board. Mr. Wasson

expressed the view that the estimates presented are safe to begin basing the budget on but he reserved final judgment on the matter until the end of the first quarter of the current fiscal year.

(SECRETARY'S NOTE: Senator Dennis joined the meeting at this point.)

Mr. Putnam noted that revenue sharing, debt service transfers and waste treatment loan repayments are the major items comprising the \$58,000,000 of other revenues mentioned by Dr. Laurent which brought the total General Fund revenue estimate to the \$1.514 billion level. Mr. Putnam also noted that the reserve fund is now fully established at the 5% level and that the revenue estimates of the Board of Economic Advisors for the past fiscal year were remarkably close to the actual receipts.

In the ensuing discussion, Dr. Laurent noted that South Carolina now is in a middle growth category in terms of personal income rather than a fast growth category and Mr. Wasson noted that keener competition with other Southeastern states and the local property tax situation in South Carolina apparently has resulted in the loss of some industrial prospects. Dr. Feinn indicated that energy very likely also is a factor favoring Texas and Oklahoma and other Sunbelt States but that in the long-term view perhaps South Carolina's abundant water resources may favor this State. Governor Edwards observed that last year was the best in the State's history in terms of industrial development but Dr. Laurent pointed out that the impacts of these announcements on State revenues will not be felt for several years. Senator Dennis noted that it is extremely fortunate that some \$9,000,000 in lapsed appropriations are available to meet a known shortfall for the Department of Social Services in the current fiscal year.

With regard to federal revenue sharing funds, Mr. Putnam noted that the present law expires in September of 1979 and that the present administration does not look favorably upon continued state participation in the same manner as in the past and he pointed out that a strong possibility now exists that the form

of state participation in general revenue sharing may be changed.

Governor Edwards noted that the situation in South Carolina points up the need for continued industrial development, increased diversification of that development and additional emphasis on the development of nuclear energy. He observed that South Carolina is a leader in nuclear energy development but that leadership at the national level is needed in this area. In response to Senator Dennis' request for comments on the reserve fund constitutional amendment, Mr. Wasson strongly endorsed the concept of a reserve fund, especially at the time the State passed the \$1,000,000,000 budget level, and expressed the view that the 5% level is the correct amount.

PRELIMINARIES ON 1979-80 BUDGET - State Auditor Putnam distributed a handout presenting preliminary budget projections for 1979-80 which indicated the availability of about \$135,000,000 above the 1978-79 projected expenditure level (estimated General Fund revenue for 1979-80 of \$1.514 billion less anticipated 1978-79 expenditures of \$1.379 billion). Mr. Putnam then noted that about \$114.3 million of predetermined needs could be identified leaving a balance of \$20.6 million for other needs. The handout distributed by Mr. Putnam identified certain selected known needs amounting to about \$24.2 million or some \$3.6 million more than the balance of additional funds remaining after covering the predetermined needs. The handout also indicated this situation would exist without any consideration of base pay increases for State employees. Mr. Putnam concluded his introductory remarks by pointing out that because of built-in requirements essentially the same situation can be expected in 1980-81 and thereafter unless significant changes are made.

Mr. Putnam recommended that consideration be given to a blanket reduction of the allocation of funds to be made in the original "cut of the pie". Mr. Putnam emphasized that the reduction being proposed is unrelated to 1978-79 appropriations but is instead related to the allocation of funds for 1979-80. He also called attention to a listing of items suggested as exclusions from the allocation

reduction procedure being recommended. These preliminary exclusions amounted to about \$632 million and, if approved, these would leave some \$746.9 million against which allocation reductions might be made.

Mr. Putnam stated that the staff had agonized over this situation and noted the advantages of a blanket allocation reduction approach in that each agency would make the adjustments it believes are best. He also noted that the procedure would provide for agency requests above the allocations as in the past. Mr. Putnam noted that giving this much notice to the agencies of the prospective 1979-80 situation should facilitate the making of adjustments during 1978-79 in anticipation of 1979-80.

Mr. Putnam then called attention to information in the handout on the amounts which would be produced by various allocation reduction percentages and expressed the view that anything more than a 5% allocation reduction would be devastating but that anything less would probably be inadequate. He concluded by recommending that initial budget allocations for 1979-80 be based on a 5% reduction below the 1978-79 level with the understanding that numerous necessary adjustments would be presented to the Board.

Governor Edwards commended Mr. Putnam and his staff for the recommended approach and, upon a motion by Senator Dennis, seconded by Mr. Patterson, the Budget and Control Board adopted the recommendation by Mr. Putnam to base initial 1979-80 allocations on a level 5% below the anticipated 1978-79 expenditure level and encouraged the agencies to handle the reduction by focusing on personal service costs. The motion adopted by the Board envisioned that various exceptions would necessarily have to be made in this procedure.

The Budget and Control Board also agreed with Mr. Putnam's suggestion that the first portion of the regular Board meeting scheduled for August 17 be devoted to a meeting with agency heads to review the background of the allocation reduction procedure and to present the initial allocations to the agencies at that time.

Following a brief discussion of a suggestion by Senator Dennis that the Board present a proposed General Appropriation Bill to the General Assembly along with its usual budget recommendations, upon a motion by Senator Dennis, seconded by Mr. Patterson, the Budget and Control Board agreed to develop and present a proposed General Appropriation Bill to the General Assembly along with its budget recommendations for fiscal year 1979-80.

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

EXECUTIVE SESSION - Governor Edwards announced that a personnel matter had been proposed for consideration in Executive Session and, upon a motion by Senator Dennis, seconded by Mr. Morris, the Budget and Control Board agreed to consider the matter whereupon Governor Edwards declared the meeting to be in Executive Session.

RATIFICATION OF EXECUTIVE SESSION ACTIONS - Following the Board's consideration of the Executive Session items, the meeting was opened and the following actions taken by the Board in Executive Session were ratified without objection:

(1) Announced that State Auditor William T. Putnam had been named to the new position of Executive Director of the Budget and Control Board and that Assistant State Auditor Edgar A. Vaughn had been named State Auditor effective as of September 1, 1978.

(2) Approved the 1978-79 salary of Local Government Division head Woody Brooks recently transferred from the Governor's Office to the Budget and Control Board.

The meeting was adjourned at 11:50 a.m.

BUDGET PROJECTIONS

1979-80

EXHIBIT I  
8/10/78  
Exhibit I  
August 8, 1978

Revenue

Anticipated General Fund Revenue 1979-80	1,514,280,653
Less: Expenditures Anticipated per 1978-79	<u>1,379,287,243</u>
	134,993,410

Predetermined Needs

Public Education:

Education Finance Act	53,633,122	
State Aid For School Buildings	6,000,000	
Fringe Benefits - Public School Employees	7,500,000	
School Bus Drivers - Minimum Wage	<u>796,542</u>	

67,929,664  
11,500,000  
4,700,000

Aid to Sub-divisions

Debt Service - General Obligations

Personal Service - State Employees (Annualization)

Annualization Base Pay Increase of 1/1/79	9,075,000
Annualization of 1978-79 Merit Increments	4,760,000
Annualization of 1978-79 Longevity Increments	1,000,000
Fringe Benefit Increases	<u>3,400,000</u>

18,235,000  
12,000,000

Merit Increase for State Employees 1979-80

Sub-total of Predetermined Needs

114,364,664

Balance

20,628,746

Other Known Needs

Social Services	21,000,000
Department of Corrections - Agreement	880,000
U.S.C. - Medical School	1,746,173
Legislature - Annualization of Rent	250,000
Higher Education - SREB	80,500
SLED	<u>313,000</u>

24,269,673

DEFICIT

(3,640,927)

Base Pay Increase for State Employees:

(\$4,586,429 per 1%)

4% Increase

18,345,716

5% Increase

22,932,145

6% Increase

27,518,574

REDUCTION OF ALLOCATIONS

1979-80

Exhibit II  
August 8, 1978

General Appropriations 1978-79	\$1,379,287,243
Less: Exclusions per Exhibit III	<u>632,330,051</u>
Balance	<u>746,957,192</u>
Funds Produced By Reduction of 1979-80 Allocations:	
1% Reduction	<u>\$ 7,469,572</u>
3% Reduction	<u>\$ 22,408,715</u>
4% Reduction	<u>\$ 29,878,287</u>
5% Reduction	<u>\$ 37,347,859</u>

ITEMS TO BE EXCLUDED FROM BUDGET REDUCTIONS

1979-80

Exhibit III  
August 8, 1978

Legislature		
Salaries of Members		\$1,721,275
Judicial		
Salaries of Judges	\$1,733,188	
Pensions	258,152	
Judicial Commitment Act	426,727	
Defense of Indigents	<u>774,641</u>	
Total Judicial		3,192,708
Adjutant General's Office		
Pensions - Retired Guardsmen		129,845
Comptroller General		
County Auditors and Treasurers		723,488
Attorney General		
Solicitors		648,128
Budget and Control Board		
Employee Benefits		
S. C. Retirement System		
Supplements to Retirees	2,295,400	
Police Officers Retirement System		
Retired Police Officers P. T. & A.	140,000	
Health Insurance - Retirees State Employees	<u>615,060</u>	
Total Budget and Control Board		3,050,460
Commission on Higher Education		
Service Programs		812,620
Department of Education		
Education Finance Act	344,982,113	
Textbooks - Free Program	9,000,027	
School Building Aid	13,185,303	
School Bus Drivers	9,984,525	
County Superintendents of Education	512,532	
Attendance Supervisors	394,956	
School Lunch Program - Aid	526,000	
School Lunch Supervisors	394,956	
Liability Insurance	958,500	
Pupil Injury Insurance	235,000	
Child Development Program	84,966	
Day Care Centers	1,005,469	
Program for Gifted	333,349	
Drug Education Project	64,510	
Guidance Counseling & Testing	177,500	
School Bus Purchases	7,001,239	
Contract Drivers	500,000	
School Bus Service Vehicle Purchases	<u>325,000</u>	
Total Department of Education		389,665,945
State Library		
Allocation to Counties		1,296,554
Department of Health and Environmental Control		
Medical & Dental Scholarships	403,000	
Hospital Care	990,564	
Maternal and Child Care	<u>1,176,235</u>	
Total DHEC		2,569,799
Department of Social Services		
Aid to Families with Dependent Children	12,829,283	
General Assistance		
Regular Program	626,924	
Ineligible Spouse	54,000	
Boarding Home	1,638,912	
Medical Care	40,058,175	
Foster Home	3,323,672	
SSI Supplement	5,760	
Patients - Mental Hospital	2,432,977	
Patients - DHEC	57,260	
Medical Payments - Mental Handicapped Children	<u>12,500</u>	
Total Department of Social Services		61,039,463

ITEMS TO BE EXCLUDED FROM BUDGET REDUCTIONS

Page 2

1979-80

Exhibit III  
AUGUST 8, 1978

Vocational Rehabilitation		
General Rehabilitation - Case Services	\$2,618,779	
Education & Training - Case Services	320,360	
Alcoholic Centers - Case Services	<u>7,000</u>	
Total Vocational Rehabilitation		\$2,946,139
Commission For The Blind		
Prevention of Blindness Program	350,000	
Rehabilitation Services	202,445	
Special Services	<u>34,292</u>	
Total Commission For The Blind		586,737
Commission on Aging		
Aid to Other Entities		425,000
Department of Veterans Affairs		
Operation of County Offices		414,941
Debt Service		83,811,370
Aid to Sub-divisions		<u>78,892,579</u>
GRAND TOTAL		<u>\$631,927,051</u>