

MEMORANDUM FOR RECORD

SUBJECT: Report by State Treasurer Patterson, State Auditor Putnam and Bond Counsel Sinkler on results of recent visit to New York offices of Moody's and Standard & Poor's rating services at a luncheon held at the Governor's Mansion on March 28, 1977 attended by members of the Budget and Control Board and others.

Attending were Governor James B. Edwards, Mr. Grady L. Patterson, Jr., Mr. Earle E. Morris, Jr., Rep. Tom G. Mangum, Messrs. P. C. Smith, W. T. Putnam, Huger Sinkler, W. A. McInnis, James Meredith and Armand E. Reiser.

Messrs. Patterson, Sinkler and Putnam reported that their visits with the two rating services were markedly different. At Moody's, persons with whom the State has conducted business for years and who were very familiar with the State's financial affairs were visited. In contrast, at S&P's virtually an entire new (and relatively youthful) staff was visited. These staff posed tough and probing questions and, generally, indicated that a new and much more rigorous approach to the rating of the State's bonds could be expected. Mr. Patterson noted that numerous items of information were to be supplied to Standard & Poor's including copies of pending legislation on limiting annual appropriations, on funding of the State Retirement System, Article X of the Constitution, along with information on the State's energy situation, the Development Board's Industrial Directory, Employment Security Commission reports on the employment situation and various other items.

The report by Messrs. Patterson, Sinkler and Putnam stressed the critical importance of the State operations being "in the black" in the current fiscal year and in the future and with no budgetary gimmickery. They also indicated that, insofar as Standard & Poor's is concerned, the situation may be such that, no matter what the State does, the long-held

AAA bond rating may be in jeopardy.

All present agreed that numerous very positive steps had been taken and are in process to improve the State's management of its affairs and that every effort must be taken to protect the State's reputation for fiscal integrity and prudence.

William A. McInnis
3/29/77

E N D