

MINUTES OF

Budget and

Control Board

Meeting

April 7, 1982

EXHIBIT

APR 7 1982 NO. 1

STATE BUDGET & CONTROL BOARD

STATE BUDGET AND CONTROL BOARD ACTIONS

April 7, 1982

1. Equipment - Freeze all equipment purchases from State funds unless commitments have already been made or extreme urgency can be shown.
2. Vacancies - Freeze all hiring for which there is no legal or moral commitment for the balance of the fiscal year, unless one of the following conditions exist:
 - a. No State money is involved;
 - b. Unless the employment is entirely seasonal in nature;
 - c. Extreme urgency can be shown.
3. Supplies - Freeze supply purchases from State funds unless an urgent need can be established. (A statement of urgency to be filed with and approved by the Comptroller General.)
4. Transfers - Only those transfers which can be shown to be an emergency will be approved by the Budget and Control Board.
5. Other Funds - When practical, enforce the requirements of Part I, Section 124 of the 1981-82 General Appropriations Act, which reads in part as follows:

"...All departments, institutions and agencies of the State having revenue funds other than State appropriated funds available for operations shall use such revenue before appropriations from the State's general fund are expended or requisitioned."

NOTE: Questions pertaining to the above items may be addressed to the following:

Equipment - General Services Division (Tony Ellis, 758-6060)
Vacancies - State Personnel Division (Joyce Hedgecock, 758-8710)
Supplies - Office of Comptroller General (J. C. Shealy, 758-2094)
Transfers - State Auditor's Office (Preston Cantrell, 758-7415)
Other Funds - Office of Comptroller General (Don Lovett, 758-0312)

Questions of a general nature may be addressed to either Edgar A. Vaughn, Jr., (758-3106) or to W. T. Putnam (758-5606).

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State of South Carolina

State Budget and Control Board

RICHARD W. RILEY, CHAIRMAN
GOVERNOR
GRADY L. PATTERSON, JR.
STATE TREASURER
EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

Box 12444
Columbia
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REMBERT C. DENNIS
CHAIRMAN, SENATE FINANCE COMMITTEE
TOM G. MANGUM
CHAIRMAN, WAYS AND MEANS COMMITTEE

WILLIAM T. PUTNAM
EXECUTIVE DIRECTOR

April 8, 1982

MEMORANDUM

TO: Heads of All State Agencies and Institutions

FROM: William A. McInnis *WAM*

SUBJECT: Budget and Control Board Action in Response to Projected Additional
\$20,000,000 State General Fund Revenue Shortfall in Fiscal Year 1981-82

At an emergency meeting held yesterday, the Budget and Control Board was advised by the Board of Economic Advisors that the shortfall in state general fund revenue for the current fiscal year 1981-82 in all probability will be \$20,000,000 greater than previously expected. Thus, the projected shortfall in these revenues in the current year is \$60,000,000.

You, of course, know well that the Budget and Control Board earlier directed a 2.19% budget reduction applicable to most agencies in response to the forecast of a \$40,000,000 revenue shortfall by the Board of Economic Advisors.

In response to this later information and in an effort to minimize the deficit which will result from the additional \$20,000,000 shortfall projected, the Board yesterday took the several actions summarized on the back of this memorandum and made them effective immediately.

Your usual fine spirit of cooperation will be appreciated as we work through these difficult times.

WAM:dw

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MINUTES OF BUDGET AND CONTROL BOARD MEETING

APRIL 7, 1982 9:30 A. M.

The Budget and Control Board held an emergency meeting at 9:30 A. M. on Wednesday, April 7, 1982, in the Governor's conference room with the following members in attendance:

Governor Richard W. Riley
Mr. Grady L. Patterson, Jr.
Senator Rembert C. Dennis
Representative Tom G. Mangum

Mr. Earle E. Morris, Jr., was absent.

Also attending were Executive Director W. T. Putnam, Board Secretary William A. McInnis; Governor's Executive Assistant Katherine M. Clarke; and other staff members.

Governor Riley opened the meeting with a statement indicating that he had received information yesterday from the Board of Economic Advisors relating to the revenue forecasts for the current fiscal year and for next fiscal year of a nature which he deemed sufficiently important to ask the Board to meet quickly in an emergency sense to respond to that information. Governor Riley then asked Chairman James A. Morris of the Board of Economic Advisors to present his report.

Dr. Morris was accompanied by Tax Commission Chairman Robert Wasson, Research and Statistical Services Division Director E. A. Laurent, and Chief Economist Barbara Feinn, other members of the Board of Economic Advisors.

Dr. Morris stated at the outset that he had nothing but bad news to present to the Board with regard to the revenue situation in the current

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fiscal year and next fiscal year. He stated that his Board had met a couple of times during this week to review the data which are not at all attractive and had agreed to revise downward the revenue estimates for the current fiscal year and for the next.

On the question of the timing of this report, Dr. Morris noted that the Board of Economic Advisors previously had expressed concerns about these forecasts but that it could not be sure about the trends until the March figures became available. He described the behavior of the sales tax collections as the crushing blow in the situation. Dr. Morris then noted that the expected pickup in the economy has not yet materialized and noted that interest rates are three to four points above where they reasonably should be expected to be and commented that the large deficits in the federal budget being discussed cause financial markets to be fearful.

Dr. Morris noted that there are signs of life in the South Carolina economy and indicated his expectation that by the third quarter it will be moving with reasonable vigor out of the recession into maturity in the fourth quarter. He did note that income tax refunds next year will be out of sight reaching into the range of perhaps \$233,000,000. He also expressed the view that there is every reason that South Carolina consumers ought to be spending faster than they are and thus generating sales tax revenues in view of the fact that personal income is up some ten to twelve percent while sales tax revenues have increased in the five to six percent range. He noted that success in controlling inflation has removed an incentive to buy now because prices are not increasing as rapidly as they did.

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Dr. Morris then indicated that the consensus of the Board of Economic Advisors is to reduce the revenue forecast for the current year by an additional \$20,000,000 to bring the total shortfall forecasted for the current year to \$60,000,000. He also stated that the revenue forecast for 1982-83 should be adjusted downward by \$30,000,000.

Dr. Morris noted that restraint in spending must be exercised in this fiscal year and the possibility of tapping the reserve fund to meet the current situation. With regard to 1982-83, he called the Board's attention to the several actions of the General Assembly which have the effect of reducing the rate of increase in tax revenues, including the indexing of income tax rates and the gradual removal of the sales tax on utilities.

Chairman Wasson of the Tax Commission expressed his agreement with Dr. Morris' analysis of the situation but he also indicated that he did not agree with Dr. Morris' bottom line figures. Mr. Wasson stated that he expects that revenues collected by the Tax Commission to be off by \$39,000,000 which he expects would be offset by an increase of \$9,000,000 from other sources leaving an additional shortfall in the current year of \$30,000,000 as opposed to the \$20,000,000 presented by Dr. Morris. Mr. Wasson also stated his expectation that the adjustment to the 1982-83 forecast should be \$65,000,000 rather than \$30,000,000 as presented by Dr. Morris.

Dr. Feinn indicated her agreement with the presentation by Dr. Morris.

Dr. Laurent declined to make any comment.

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Mr. Patterson indicated that he is more optimistic now than in the past and expressed the view that the South Carolina economy is on the verge of an up tick. He noted that he had testified recently before the U. S. House of Representatives Ways and Means Committee relating to tax exempt bonds and expressed the view that there has to be some movement on the stalemate over the national budget before economic activity will begin moving again.

Governor Riley noted that in January the reports on the December revenue figures were very good and that some informal indications then were that the State might end up better than had been expected. Dr. Morris, in response, stated that that euphoric view from December was not shared by the Board of Economic Advisors as a whole and that his Board felt that the December experience was no basis for changing the \$40,000,000 shortfall then forecasted and was also no basis for feeling good about revenues for 1982-83.

Mr. Wasson noted that a drastic downturn in sales tax revenues occurred after January and pointed out that numerous small businesses had made an extra effort in order to get through the December season. He reported that some 200 retail licenses were given up during February.

Governor Riley noted that there is a powerful market and a powerful production system out there and that somehow the two need to be gotten together. He expressed concern that interest rates continue to stay up under these circumstances. Governor Riley also took the position that the State is going to have to be very careful and that the Board must take strong action in response to the report of the Board of Economic Advisors. He urged that Board to keep careful tab on the situation and to stay in close communication with the Budget and Control Board on this matter.

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Following this discussion, upon a motion by Mr. Patterson, seconded by Representative Mangum, the Board received and accepted the advice of the Board of Economic Advisors and reduced its estimate of State general fund revenue for fiscal year 1982-83 by \$30,000,000.

Governor Riley apologized to Representative Mangum and to the House of Representatives for this situation which he recognized causes serious complications to the efforts of that body to act on the budget bill.

With regard to the additional \$20,000,000 shortfall expected in the current fiscal year, Governor Riley noted that the Board has the authority and the responsibility to take certain actions in this situation and he asked Executive Director Putnam for his recommendations for dealing with the additional shortfall.

Mr. Putnam apologized for not having copies of his recommendations for distribution but pointed out that staff had been considering these matters until just prior to meeting time. He reported that the Board staff feels that it is too late in the fiscal year to do any across-the-board cuts or to terminate programs in that commitments have been made to people and to programs.

Mr. Putnam then expressed the view that the same types of actions as were taken last year would be appropriate and then listed them as follows: (1) freeze all equipment purchases from State funds unless commitments have already been made or extreme urgency can be shown; (2) freeze all hiring for which there is no legal or moral commitment for the balance of the fiscal year unless no State money is involved or unless the employment is entirely

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seasonal in nature or unless extreme urgency can be shown; (3) freeze supply purchases from State funds unless an urgent need can be established; (4) approve only those transfers of funds which can be shown to be an emergency; and (5) when practical, enforce the requirement that other revenues be used before appropriations from the general fund are expended or requisitioned.

Mr. Putnam expressed the view that these sorts of actions worked last year with varying degrees of efficiency.

Senator Dennis observed that the language in the Appropriation Act directs the Board to take these sorts of actions under circumstances such as those now existing. He emphasized that it is the Board's responsibility and that the statute directs and mandates that the Board take actions to forestall a deficit and expressed the view that it is not the Board's privilege to simply turn to the reserve fund for a solution.

Following this discussion, upon a motion by Representative Mangum, seconded by Mr. Patterson, the Board adopted the recommendations presented by Mr. Putnam involving freezing equipment purchases, hiring and supply purchases involving State funds under the conditions stated by Mr. Putnam and indicating the Board's intention to approve only those transfers of an emergency nature and its intention to enforce, when practical, the requirements of the General Appropriations Act relating to the use of other funds before using State funds.

Governor Riley urged that the General Assembly be notified today of the Board's action which is effective immediately.

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Governor Riley then asked that Mr. Putnam and the Board of Economic Advisors present any further thoughts on dealing with the current year's shortfall at the meeting scheduled for Tuesday, April 13, and to make whatever recommendations may be appropriate on the amendment of the Board's recommendations to the General Assembly for 1982-83 in light of the \$30,000,000 shortfall in revenues now being forecasted by the Board of Economic Advisors.

In making that request, Governor Riley urged that the depletion of the revenue side of this situation should be considered. He urged that careful looks be taken at a sales tax on the casual sales of automobiles and at deferring the indexing of income taxes. He also asked that consideration be given to freezing the further removal of sales taxes on utilities and asked staff to look especially at carry-forward provisions which impact on the situation and at items funded by formula.

Information relating to this matter has been retained in these files and is identified as Exhibit 1.

Following these actions, upon a motion by Mr. Patterson, seconded by Representative Mangum, the Board agreed to adjourn this emergency meeting at 10:20 A. M.

[Secretary's Note: As noted, this was an emergency meeting of the Budget and Control Board. Thus the notice requirement in the Freedom of Information Act for meetings could not be met. Representatives of the media were advised during the afternoon of April 6, 1982 of the Board's intention to hold this emergency meeting which was attended by an extraordinary number of media representatives.]

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THE END

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