

MINUTES OF
BUDGET AND CONTROL BOARD
MEETING

September 19, 1986

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MINUTES OF STATE BUDGET AND CONTROL BOARD MEETING

SEPTEMBER 19, 1986

9:00 A. M.

The Budget and Control Board met at 9:00 a.m. on Friday, September 19, 1986, in Room 148-149, Dennis Office Building, with the following members in attendance:

Governor Richard W. Riley, Chairman;
Mr. Grady L. Patterson, Jr., State Treasurer;
Mr. Earle E. Morris, Jr., Comptroller General;
Representative Tom G. Mangum, Chairman, House Ways and Means Committee.

Senator Rembert C. Dennis, Chairman, Senate Finance Committee, was absent. He was represented by Vice Chairman James M. Waddell, Jr.

Also attending were:

Jesse A. Coles, Jr., Ph.D.	Executive Director
Katherine M. Hepfer	Governor's Executive Assistant
Other Board staff	

1987-88 Budget: Federal Funds, Personnel Issues, Local Government Issues

An overview on federal funds was presented by Deputy Director Elmer Whitten of the Governor's Office Finance and Grants Management Office.

Human Resource Management Division Director Phyllis Mayes, accompanied by a panel which included ETV Commission Director Henry Cauthen, Youth Services Commissioner Harry Davis, Jr., and Arts Commission Executive Director Scott Sanders, discussed various personnel issues, emphasizing proposals involving little or no additional funding.

Senior Assistant Michael Horton of the Comptroller General's Office reviewed the status of the merchants inventory tax.

Mr. M. William Youngblood, representing the Advisory Commission on Intergovernmental Relations, called attention to the great additional financial burdens being placed on local governments as a result of federal and State mandates and as a result of cutbacks in federal funding. He urged that the State pay locals for what the State requires them to do and that the State give locals as much financial flexibility as possible.

Budget Division: Budget Overview

Budget Division Director Baron Holmes observed as he began his presentation that ten years had passed since he, as a member of the House Ways and Means Committee staff, last sat through budget hearings. He expressed the view that positive things have happened in that time, noting that agency

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presentations reflect clearer senses of missions which he attributed in part to agency head performance appraisals. He observed that strategies presented by agencies now are far better thought out than was the case a decade ago. He also noted a greater sense of frustration then as compared with today and he said that he was gratified that agency plans now have a sense of purpose and that real pride among the agencies is evident which he did not remember being there ten years ago.

Dr. Holmes said that the State has some ambitious plans and that the economic situation appears to be such that we will end up with a growth pause which he felt not to be unhealthy from time to time.

Dr. Holmes then reviewed the major commitments identified by the Budget Division. He cautioned that the statements being presented are not at all final. The list presented by Dr. Holmes covered a total of \$196.5 million. It included \$12.9 million for the Department of Corrections; \$9.9 million for Mental Health; \$14 million for the Capital Expenditure Fund; \$25 million each for the inventory tax and to replenish the reserve fund; \$10.7 million for debt service; \$3.6 million for homestead exemption; \$37.8 million for the Education Finance Act; \$9.1 million for aid to subdivisions; \$20 million for employer contributions (health/dental); and \$28.5 million for a pay increase for employees.

With regard to the Capital Expenditure Fund, Dr. Holmes said that it will move from 1% to 1½% of the prior year's revenue or from a \$28 million requirement to one for \$42 million. Mr. Patterson said that he did not see how the State can afford this Fund in the face of all of the pressing needs. Mr. Morris stated that we need a reserve fund but we don't need two. Governor Riley noted that the general reserve fund could be reduced if the Capital Expenditure Fund in any year were not needed to cover a shortfall. Mr. Patterson and Mr. Morris expressed the view that Governor Riley's idea is a great theory but that it won't work.

With regard to the \$10.7 million included for debt service, Dr. Holmes said it assumed an issue of \$85 million in the spring of 1987 at an estimated interest rate of 9%. Governor Riley indicated his intention to be very cautious regarding new capital projects. Mr. Mangum was advised that the debt service figure did not include the costs of lease purchase agreements and Mr.

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Patterson noted that he had asked Dr. Coles to list those costs. Governor Riley asked Dr. Holmes to list both debt service and lease purchase obligations.

The Board was advised by analyst Charles Case that the Education Finance Act figure provides \$6.6 million to cover a 7,000 student increase and for a \$3.5 million increase for liability insurance. Mr. Case also said that the inflation factor used will go to 4.8% from the current-year 5%.

Dr. Holmes said that the \$9.1 million for aid to subdivisions will keep this appropriation at the 91.3% level. He advised that \$23.5 million would be required to go to the 100% level. He also estimated that going to the 100% level would cover only about one-third of the amount local governments are expected to lose as a result of the demise of general revenue sharing.

Dr. Holmes noted that he was shocked at the requirement for \$20 million additional for employer contributions (health/dental). He expressed particular concern about the status of the health program reserves which he said are down to about the equivalent of three weeks. Budget Analyst Case noted that the reserve got down to about ten days at June 30.

With regard to the 3% employee pay increase included, Dr. Holmes observed that Human Resource Management had not made a recommendation and that this figure is a purely arbitrary one.

Dr. Holmes also called attention to a listing of some \$15.7 million of "other unavoidable costs."

Dr. Holmes reported that he had discussed the revenue forecast with Dr. Morris who had advised him that no national consensus exists on the question of where the economy is headed. He said that the Board of Economic Advisors will give its official forecast November 1. He called the Board's attention to illustrative revenue growth rates of 5% (which would make \$48 million in new funds available); 6% (which would make \$101 million additional available); and 7% (which would make \$155 million additional available) and contrasted those amounts with the \$196.5 million "major commitments" list and with the \$15.7 million shown for "other unavoidable costs."

Dr. Holmes concluded his overview by expressing appreciation to the Board members for their participation in the hearings.

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

The meeting was adjourned at about 11:00 a.m.

[Secretary's Note: In compliance with Code §30-4-80, public notice of this meeting was given to news media representatives on numerous occasions during June, July and August as a part of the future meeting item included in the agenda of regular Board meetings.]

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