

CONTRAST

a presentation to the South Carolina School Boards Association

December 4, 2021

Charleston, S.C.

Mike Shealy, Senate Finance Committee staff

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The Pandemic Era has been a Time of Contrast

“It was the best of times, it was the worst of times,
it was the age of wisdom, it was the age of foolishness,
it was the epoch of belief, it was the epoch of incredulity,
it was the season of light, it was the season of darkness,
it was the spring of hope, it was the winter of despair.”

Charles Dickens, A Tale of Two Cities

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Washington Post Headline: “The pandemic marks another grim milestone: 1 in 500 Americans have died of covid-19”

By Dan Keating, Akilah Johnson and Monica Ulmanu
Published Sept. 15, 2021

DHEC reports 13,670 deaths in South Carolina from COVID-19 — 11,819 confirmed and 1,851 probable deaths as of October 23, 2021.

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“How COVID-19 vaccines were made so quickly without cutting corners”

by Rachel Lance, Science News, June 29, 2021

Unlocking the coronavirus' secrets

“To back up a bit first, designing the vaccines began far earlier than the jabs-in-arms stage. It began with deciphering the exact genetic makeup of SARS-CoV-2, the virus that causes COVID-19 (SN: 12/11/20). By early **January 2020**, that genetic blueprint was in hand and the first vaccines to test were ready just a few weeks later.

For some perspective, researchers first deciphered, or sequenced, the entire human genome over a span of almost 13 years, starting in 1990 and wrapping up in 2003 (SN: 1/17/03). Because of **advances in computers**, the same task now can take only hours.

Most crucially, researchers now had the genetic instructions for making the spike proteins that the virus uses to break into cells — a key ingredient for making the vaccines. Jutting out from the virus' surface, these spike proteins make an easy target for the immune system to recognize. **Researchers knew to zero in on those proteins thanks to decades of work studying coronaviruses, including two that have caused other outbreaks of human diseases — SARS and MERS.** That work also identified the best form of the protein to use: a stable form just before the virus fuses with a cell it's about to infect.”

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STEP 1

Cascade changes in habit
Start by drilling down from a big behavioral shift to identify specific products or business opportunities that are likely to grow or contract as a result of the pandemic.

Key: ● Potential Increase ● Potential decrease

Harvard Business Review

“Adapt Your Business to the New Reality”

Start by understanding how habits have changed.

by Michael G. Jacobides and Martin Reeves
(September–October 2020)

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STEP 2

Identify type and duration of new trends
Categorize behavioral shifts according to whether they are likely to be short- or long-term and whether they existed before the pandemic or are new since it began. Entertainment, for instance, shows opportunities in each of the four quadrants.

Harvard Business Review

“Adapt Your Business to the New Reality”

Start by understanding how habits have changed.

by Michael G. Jacobides and Martin Reeves
(September–October 2020)

Source: BCG Henderson Institute

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Adaptation

New Trend



Structural Change



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Reflections on BC – Before Covid

Budget Status
as of March
2020:
A Beautiful
Horizon



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FY 2020-21 General Fund Outlook (February 2020)

(PRELIMINARY - Dollars in Millions)

BEA Revenue Estimate (11/8/2019)	\$10,229
- Tax Relief Trust Fund	(\$629)
- FY 19-20 Appropriation Act	(\$8,737)
Estimated "New" General Fund Revenue	\$863
Reserve Fund Contributions	
- Incremental General Reserve Fund (5%)	(\$34)
- Incremental Capital Reserve Fund (2%)	(\$14)
Estimated "New" General Fund Revenue Available for Appropriation (less Reserve Fund Contributions)	\$815

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FY 2020-21 Budget Outlook (February 2020)

(PRELIMINARY - Dollars in Millions)

	Recurring	Non-Recurring
FY 2019-20 Capital Reserve Fund		\$162
FY 2018-19 Contingency Reserve Fund		\$350
Projected FY 2019-20 Surplus (11/8/2019)		\$507
Total		\$1,019
FY 2019-20 HEX Fund Surplus/(Shortfall)		\$8
FY 2020-21 HEX Fund Surplus/(Shortfall)	\$17	
FY 2019-20 EIA Surplus/(Shortfall)		\$31
FY 2020-21 "New" EIA Revenue	\$69	
FY 2019-20 Lottery Surplus		\$7
FY 2020-21 "New" Lottery Revenue	\$7	

* FY 2019-20 surplus figures presented are for appropriated to cover anticipated in LRP, ROP, and Public Safety Reserve Shortfalls, as this surplus may not be available for appropriation.
 * Lottery revenue is appropriated by statute as a non-recurring fund. It is listed as recurring to show the net year to year estimate for the surplus, including payoffs.

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Exogenous Shock (Economic Term)

- An exogenous shock is an unexpected or unpredictable event that occurs outside an industry or country, but can have a dramatic effect on the performance or markets within an industry or country.

- Source: UN Economic and Social Commission

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Exogenous
Shock:
The bottom
fell out.



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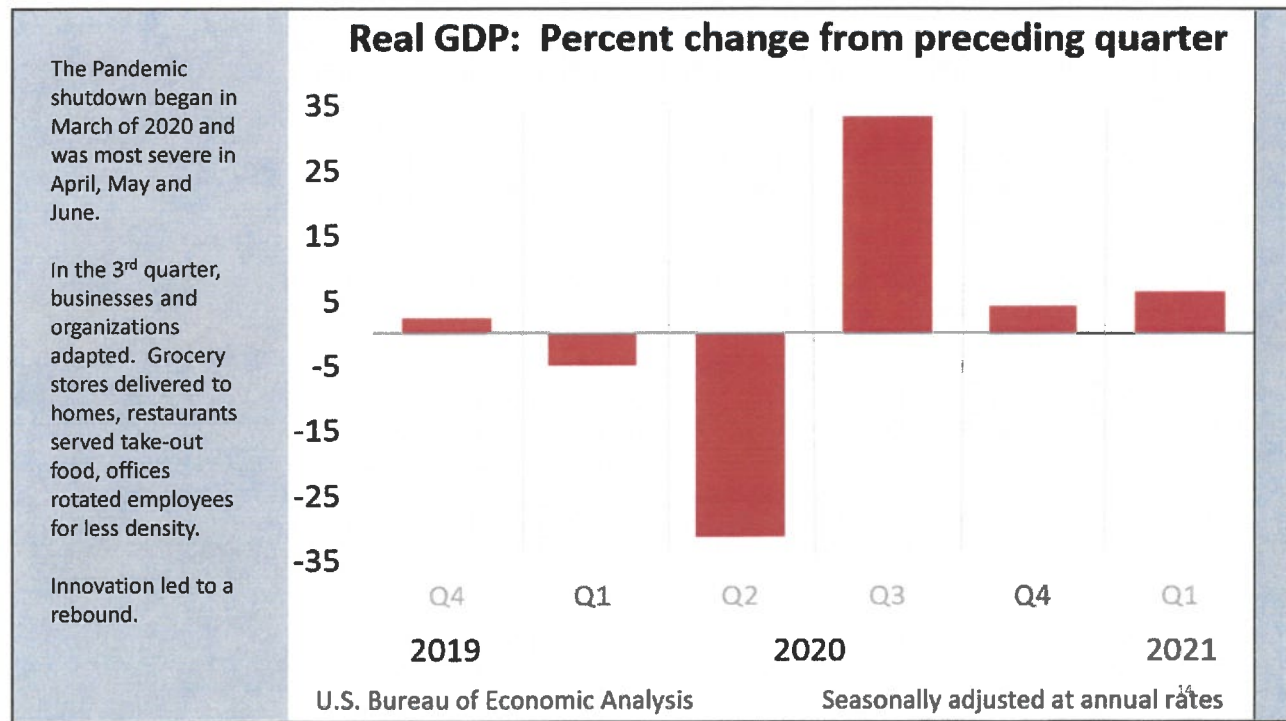
“A Medically Induced Economic Coma”

Council on Foreign Relations

April 8 2020

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The reaction of South Carolina State Government

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THE CONTINUOUS BUDGET PROCESS DURING THE PANDEMIC - 2020

- H4014 - \$45M for DHEC immediate needs. Passed **March 17th**.
- **H3411 – Continuing Resolution** – Continued the FY19-20 budget into FY20-21. In addition, \$155M was appropriated from the Contingency Reserve Fund to the COVID-19 Response Reserve Account for specific COVID-19 related expenses. Passed **May 19th**.
- H5202 – Authorization to spend federal CARES Act funds - \$1.2B allocated and \$668M left for Phase 2. Passed **June 25th**.
- H3210 – Authorization to spend federal CARES Act funds from Phase 2. Passed **September 25th**.

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The Reaction of the Federal Government to the Pandemic ...

New Terms:

- CARES
- Rescue
- ESSER
- Traunch



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Coronavirus Aid, Relief and Economic Security Act

March 27, 2020

Note: Represents about half of all federal spending on an annual basis.

CARES Act	\$2.0 Trillion
Individuals	\$560 Billion
Large Corporations	\$500 Billion
Small Businesses	\$377 Billion
State & Local Government	\$340 Billion
Public Health	\$154 Billion
Safety Net	\$ 26 Billion
Student Loans / Other	\$ 43 Billion

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2021 - Additional State Appropriation Bills

• H3707

- A joint resolution to appropriate funds for addressing the pandemic.
- One-time amounts of \$63 Million for DHEC and \$45 Million for MUSC were appropriated for vaccine delivery infrastructure.
- In addition, \$100 Million was appropriated to a COVID-19 Vaccine Reserve Account with \$75 Million for hospitals and \$25 Million for other partners for vaccine delivery.
- Effective 2/19/21

• H3609

- A joint resolution to restore teacher step increases that were frozen due to the pandemic.
- A one-time amount of \$50 Million was appropriated for this purpose.
- Effective 3/11/21

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H4100 – General Appropriations Bill (Spring of 2021)

- Total Recurring General Fund Appropriations of \$9.2 Billion.
- Non-Recurring Appropriations of \$1.3 Billion.
- Total Recurring Budget size (with fed and other \$) of \$31 Billion.
- Total Personal Income in SC (size of our economy) is \$285 Billion (11%).
- Due to the passage of a Continuing Resolution in FY20-21, H4100 was essentially a biennial budget.
- Most importantly, by keeping spending at current levels during the worst days of the Pandemic helped SC avoid budget cuts which would have been devastating during the COVID – 19 response.

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American Rescue Plan Act March 11, 2021

• Total \$1.9 Trillion

Among the appropriations are:

• State and Local Funds	\$362 Billion
• Direct Financial Assistance	\$656 Billion
• Individual and Family Assistance	\$ 56 Billion
• Education and Child Care	\$212 Billion
• Transportation	\$ 40 Billion
• Other	\$ 61 Billion

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American Rescue Plan Act Funding Components for SC

State/Local Gov't
\$4.313 billion

Education
\$2.74 billion

Housing Assistance
\$481 million

Total
\$8.9 billion

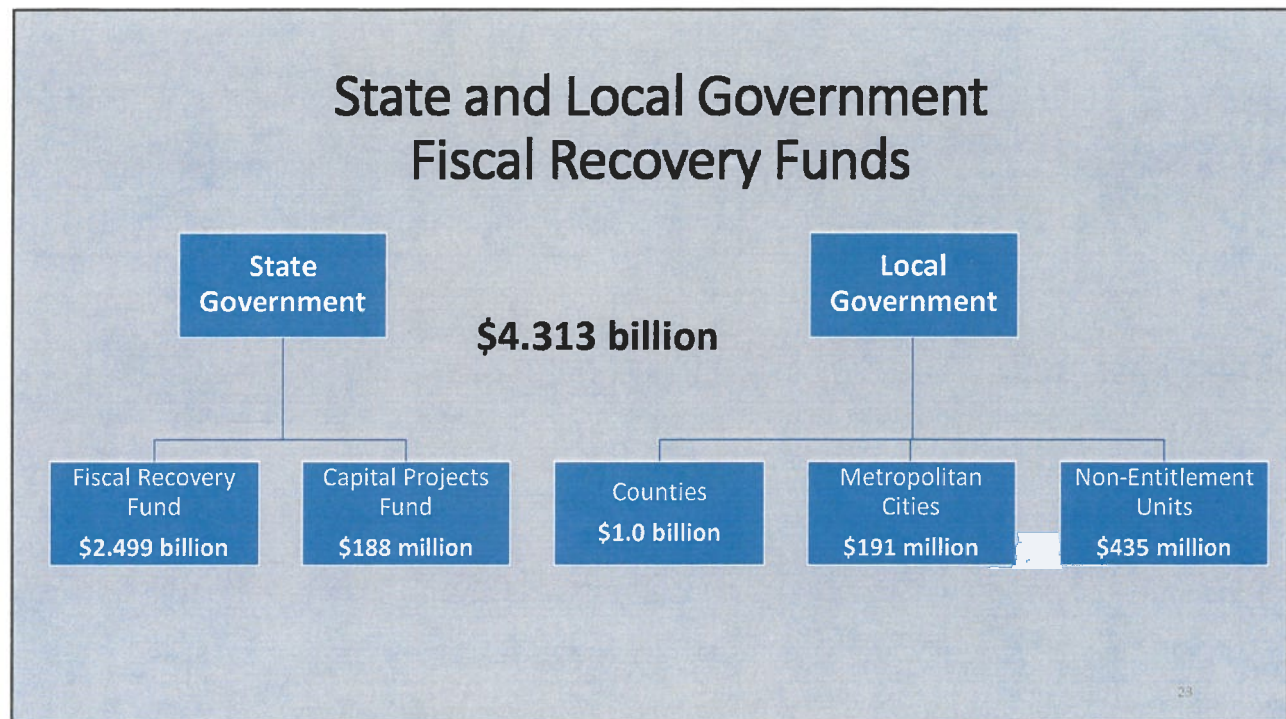
Childcare
\$709 million

Public Health
\$391 million

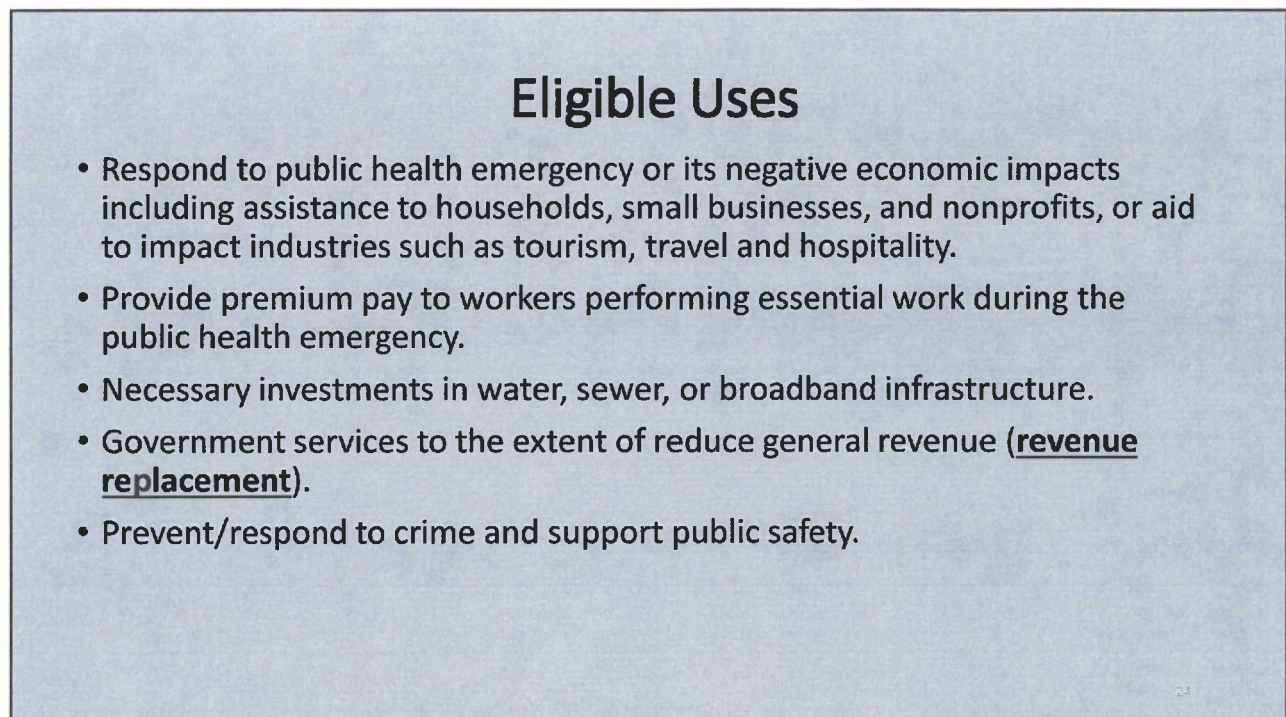
Public Assistance
\$125 million

Other Programs
\$118 million

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Prohibited Uses

- Deposits to pension funds.
- Offsetting reductions in net tax revenue resulting from change in law, regulation, or interpretation during the covered period (March 3, 2021 until December 31, 2024/2026).

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Legislative Subcommittees assigned to develop a blueprint for spending ARPA and SRS Funds

State Senate

- Senator Thomas Alexander (chair)
- Senator Nikki Setzler
- Senator Kevin Johnson
- Senator Ross Turner
- Senator Mike Gambrell

House of Representatives

- Rep. Bruce Bannister (chair)
- Rep. Gilda Cobb Hunter
- Rep. Bill Clyburn
- Rep. Gary Simrill
- Rep. Bill Herbkersman
- Rep. Lonnie Hosey
- Rep. Nathan Ballentine
- Rep. Leon Stavrinakis
- Rep. Todd Rutherford
- Rep. Heather Crawford
- Rep. Lee Hewitt

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Legislative Priorities

Broadband

Water and Wastewater

Reimbursements for Lost Revenue

General Fund (approximately \$300M)

Gas Tax (approximately \$150M)

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Magnitude of the Federal Stimulus in 16 months

\$22 Trillion is the size of the
US economy (GDP).

In a 12 month period of time,
the federal government has
injected the economy with
roughly \$4 Trillion (12 zeroes)
in tax cuts or spending
stimulus.

That's 18% of annual GDP.



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“When it rains, it pours.” (colloquialism)

Its origin comes from a fairly unlikely place: the Morton Salt Company. Yep, that's right. That expression which you use at least a handful of times a month was developed by ad execs in the early 1900s to sell salt. It's still, to this day, one of the most successful and lasting ideas to originate in those early days of advertising.

The Morton Salt Company was looking for a way to promote its new product, a free-flowing table salt. The product it was selling then looks nearly the same today, a blue cylindrical tube of free-running table salt with a handy pouring spout (a patent of the company's) seen in almost all kitchens across the country.



Source: Huffington Post, 8/31/12

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Savannah River Systems Settlement

Augusta Chronicle, September 3, 2020, by Jonathan Vickery

SRS lawsuit ends in \$600 million settlement

Single largest settlement in South Carolina's history could benefit Barnwell County

“Years of litigation over plutonium waste at the Savannah River Site (SRS) has ended in a \$600 million settlement.

The settlement between the State of South Carolina and the United States government ends six years of litigation related to the remaining 9.5 metric tons of weapons-grade plutonium relocated to SRS in the early 2000s. Under the terms of the settlement, the United States will pay South Carolina \$600 million immediately. Also, the Department of Energy (DOE) remains obligated to remove the plutonium by 2037 or else monetary penalties will be reinstated and the DOE will be subject to additional litigation.”

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Fiscal Year 2020-21 Year End Close of Books

Comptroller General - Budgetary General Fund Highlights

August 12, 2021

Undesignated/Unreserved General Fund Balance as of June 30, 2021

\$1,023,777,259

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FY 2022-23 Budget Outlook (Millions of Dollars)

Net New Recurring General Fund Revenue	\$897.6
<small>(less Tax Relief Trust Fund and Reserve Fund Contributions)</small>	
Non-recurring Revenue	
FY 2020-21 Contingency Reserve Fund <small>(Prior year surplus)</small>	\$1,023.8
FY 2021-22 Capital Reserve Fund	\$183.6
Projected FY 2021-22 General Fund Surplus	<u>\$986.7</u>
Total Non-recurring Revenue	<u>\$2,194.0</u>
Estimated Additional Revenue for Appropriation	<u>\$3,091.6</u>

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Post-Pandemic Euphoria?



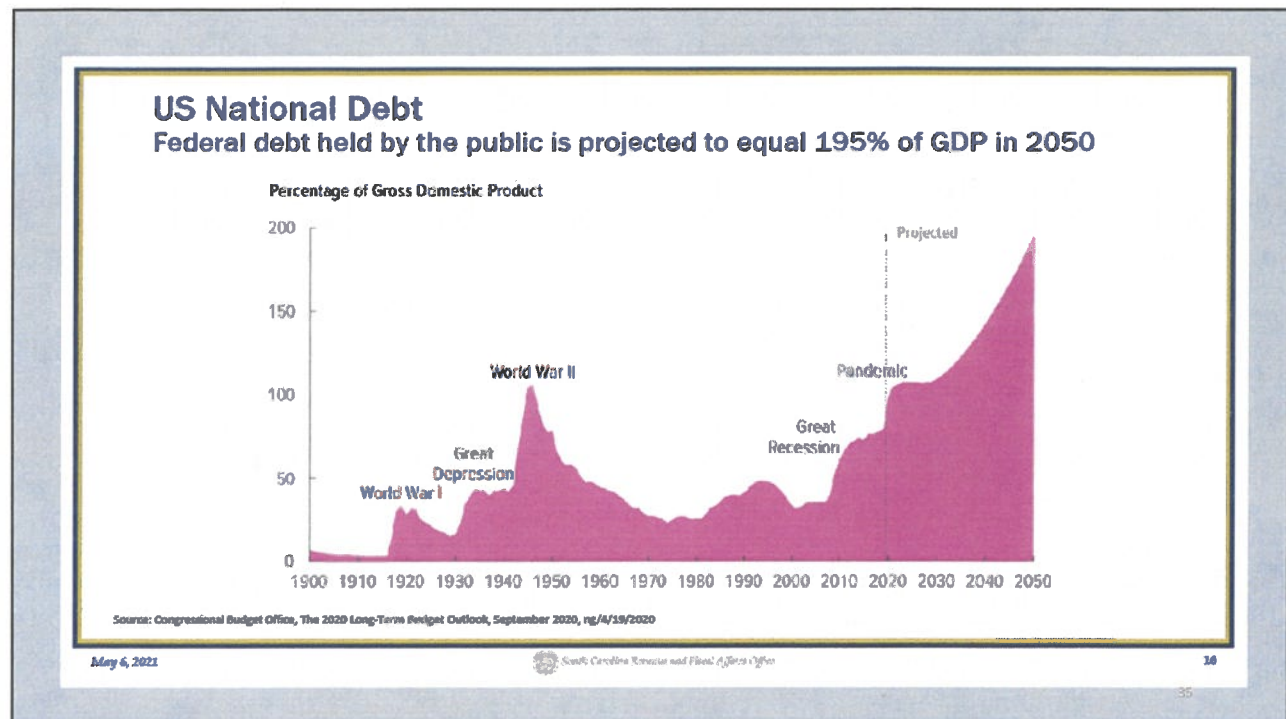
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“All good things must
come to an end”

- The idea contained in the expression “all good things must come to an end” originated with Geoffrey Chaucer (1342-1400), the English poet who also wrote the Canterbury Tales.

Source: Grammerist

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Famous Presidential Words that have not aged well during the time of COVID – 19.

President Reagan's News Conference, August 12, 1986

- "The nine most terrifying words in the English language are: I'm from the Government, and I'm here to help. "

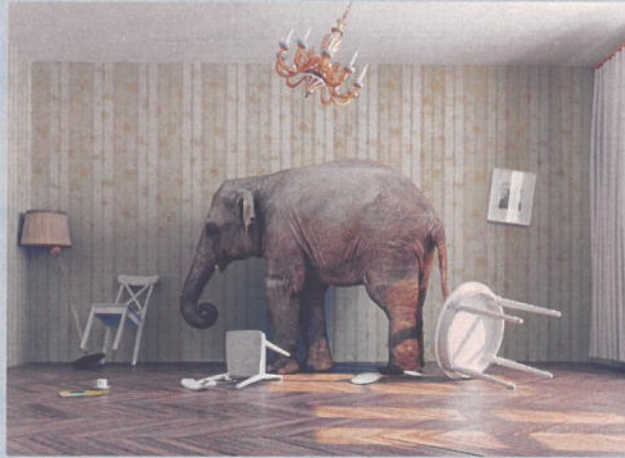
President Clinton's State of the Union Address, January 23, 1996

- "The era of big government is over."

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Now ... to Address the Elephant in the Room



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Mask Mandates — This budget proviso was added to H4100, the General Appropriations Bill, on June 9th when [the House amended the Appropriations Bill to the 3rd degree](#).

- **1.108. (SDE: Mask Mandate Prohibition)** No school district, or any of its schools, may use any funds appropriated or authorized pursuant to this act to require that its students and/or employees wear a facemask at any of its education facilities. This prohibition extends to the announcement or enforcement of any such policy.

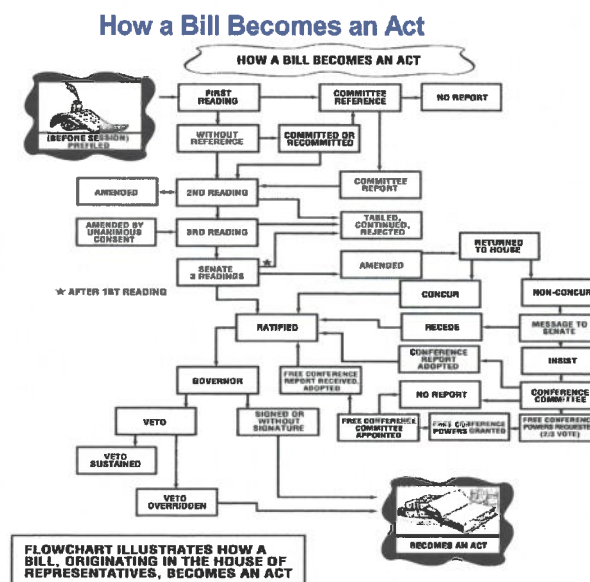
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3 Aspects to Understanding this Budget Proviso Beyond the Policy:

- Legislative Process
- Issue of Trust
- Culture

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Legislative Process



The annual budget usually originates in the House. After passage, it is sent to the Senate. After Senate passage, it is sent back to the House. At that stage, the House may amend the budget one last time according to the Parliamentary rules used by the House and Senate.

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Legislative Process

“How SC Gets Stuck With Bad Laws Most Legislators Had No Interest in Passing”

by Cindi Ross Scoppe, Charleston Post and Courier, Saturday, August 28, 2021

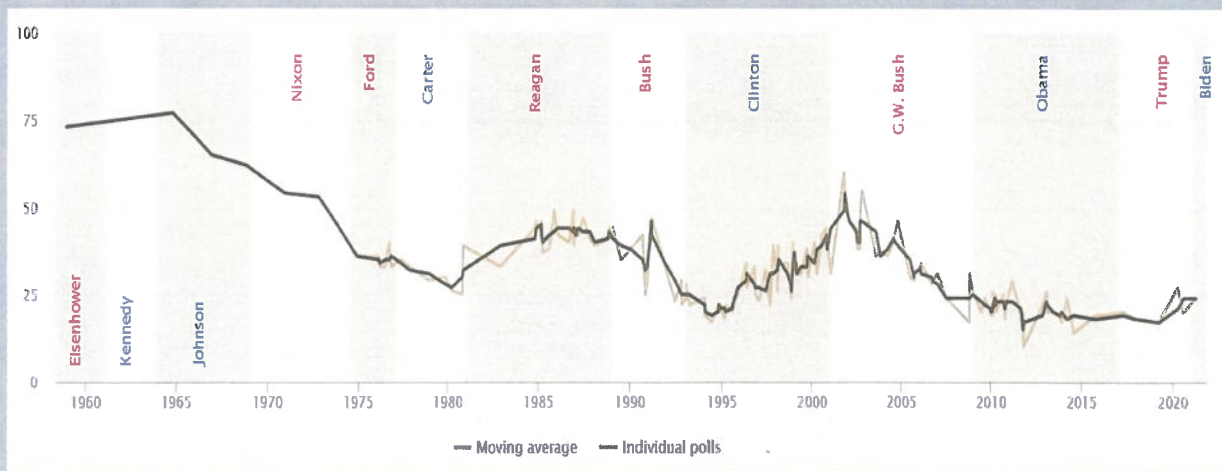
- But whether the proviso stands or falls, it’s important to understand that using provisos to write state law allows at best narrow minorities and at worst extremists to hijack the legislative process and give us laws that don’t reflect the will of the majority of legislators, let alone the public.
- There’s nothing new or unusual about getting stuck with bad laws that aren’t broadly supported because they were slipped in through budget provisos. Lawmakers used to pass a second category of provisos that became permanent law rather than lasting just the year the budget was in effect, and that’s how the Legislature opened up our state to the nation’s nuclear waste. And hazardous waste. And medical waste. It’s how the Legislature passed a bribery-tainted retroactive tax break. It’s how the Legislature legalized video gambling — in that case passing a proviso that was written so deceptively that no one even realized it was there, much less what a devastating effect it would have on our state.

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Pew Research Center Poll: Public Trust in Government: 1958-2021

May 17, 2021

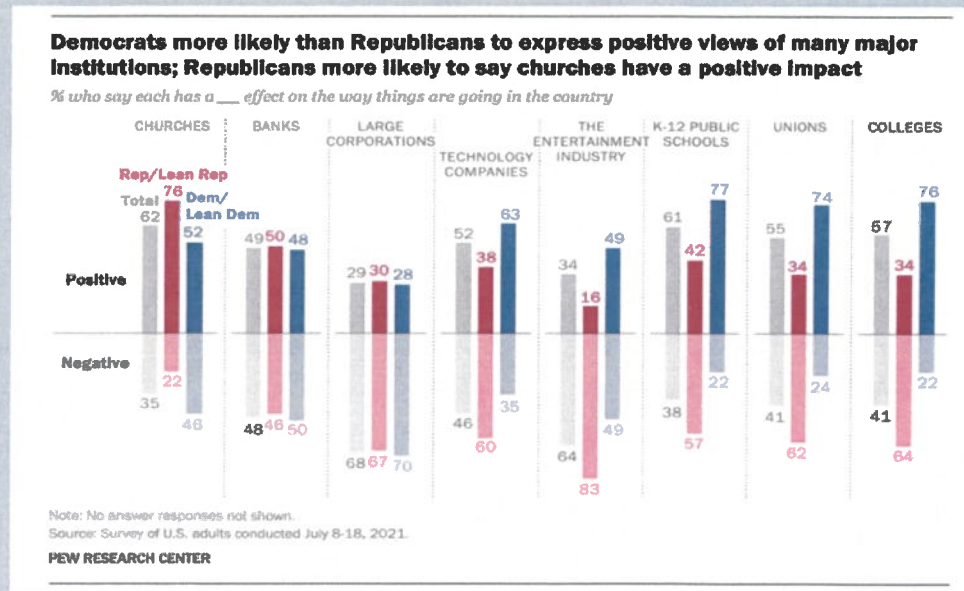


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Issue of Trust

Pew Research Center Poll



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Pew Research Center:

“Young Americans are less trusting of other people – and key institutions – than their elders.”

August 6, 2019 by John Gramlich

Issue of Trust

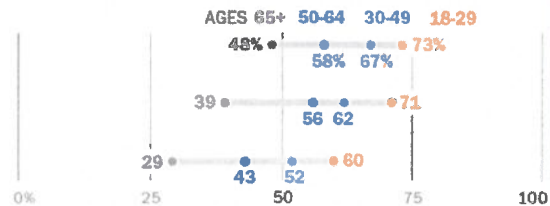
Most young adults in U.S. see others as selfish, exploitative, untrustworthy

% of U.S. adults in each age group who say ...

Most of the time, people just look out for themselves

Most people would try to take advantage of you if they got a chance

Most people can't be trusted



Source: Survey conducted Nov. 27-Dec. 10, 2018.
“Trust and Distrust in America”

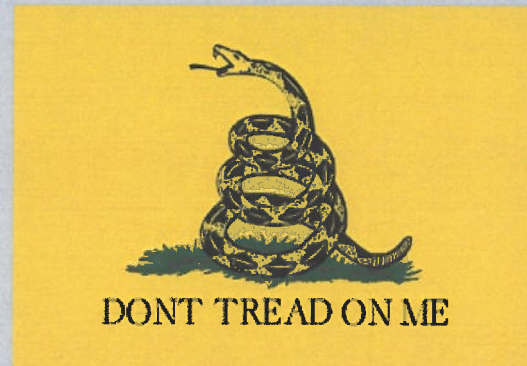
PEW RESEARCH CENTER

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CULTURE

In South Carolina we are particularly sensitive to tyranny

- ✓ "G" is for the Gadsden Flag, a bright yellow banner with a gray, coiled rattlesnake at its center with the words "Don't Tread on Me" inscribed beneath. The rattlesnake in a variety of poses was used to reflect colonial anger and defiance. As a member of the congressional committee on Naval Affairs, Gadsden presented the banner to the commander-in-chief of the Continental Navy who used it as the country's first naval jack. Gadsden also presented "an elegant standard" to the state's Provincial Congress in February 1776 and it was displayed behind the Speaker's Desk. The Gadsden flag is a visible symbol of South Carolina's long tradition of defying external authority.



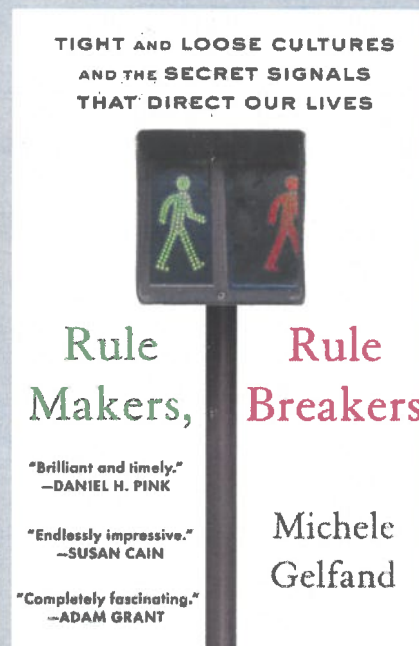
Walter Edgar

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CULTURE

"Tight cultures have strong social norms and little tolerance for deviance, while loose cultures have weak social norms and are highly permissive. The former are rule makers and the latter are rule breakers."

"Tightness-looseness is also distinct from previous ways that scholars have compared cultures, such as whether they are collectivist or individualist (collectivist cultures emphasize family ties; individualist cultures stress self-reliance). There are plenty of nations in each of the four quadrants: collectivist and tight (Japan and Singapore), collectivist and loose (Brazil and Spain), **individualist and loose (the United States and New Zealand)** and individualist and tight (Austria and Germany)."

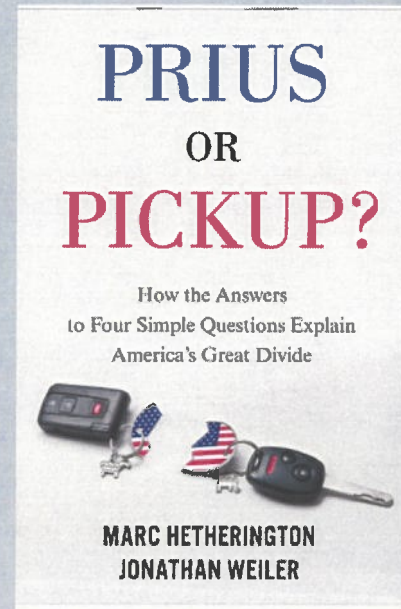


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CULTURE

Fixed and Fluid

"The term "fixed" describes people who are warier of social and cultural change and hence more set in their ways, more suspicious of outsiders, and more comfortable with the familiar and predictable. People we call "fluid," on the other hand, support changing social and cultural norms, are excited by things that are new and novel, and are open to, and welcoming of, people who look and sound different."



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Culture

4 Simple Questions from Prius or Pickup

Although there are a number of qualities that people feel children should have, every person thinks that some are more important than others. I am going to read you pairs of desirable qualities. Please tell me which one you think is more important for a child to have.

1. *Independence versus respect for elders*
2. *Obedience versus self-reliance*
3. *Curiosity versus good manners*
4. *Being considerate versus being well behaved*

Note: you will have to read the book to determine your tendencies (fixed or fluid).

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Take Away

- The past 18 months of the Pandemic have been a roller coaster.
- Revenue did not perform as poorly as expected during the Pandemic.
- Luckily, SC had cash on hand from March 2020 and beyond to deploy for COVID related expenses. Implementing a “Continuing Resolution” was key.
- Federal stimulus funds are plentiful, and the deployment of these funds can be transformative for SC.

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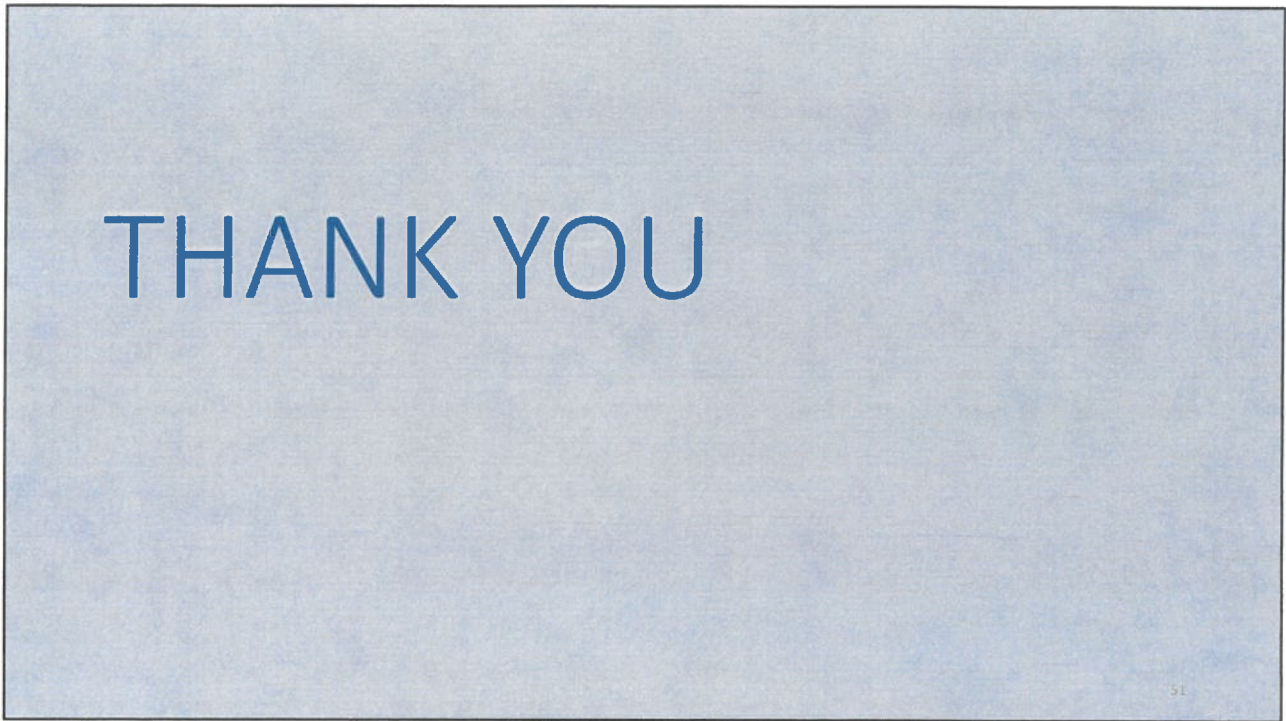
“The biggest communication problem is we do not listen to understand. We listen to reply.”

— Stephen R. Covey

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