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South Carolina; General Obligation

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Credit Profile		
US$55.0 mil GO st cap imp rfdg bnds ser 2012A dtd 05/01/2012 due 01/01/2019		
Long Term Rating	AA+/Stable	New
US$42.0 mil GO st econ dev rfdg bnds ser 2012A dtd 05/01/2012 due 08/01/2029		
Long Term Rating	AA+/Stable	New
US$42.0 mil GO st institution rfdg bnds (University Of South Carolina) ser 2012A dtd 05/01/2012 due 04/01/2023		
Long Term Rating	AA+/Stable	New
US$36.0 mil GO st sch facs rfdg bnds ser 2012A dtd 05/01/2012 due 07/01/2017		
Long Term Rating	AA+/Stable	New
US$35.0 mil GO st transp infrastructure rfdg bnds ser 2012A dtd 05/01/2012 due 04/01/2025		
Long Term Rating	AA+/Stable	New
US$24. mil GO st institution rfdg bnds (Clemson Univ) ser 2012C dtd 05/01/2012 due 04/01/2018		
Long Term Rating	AA+/Stable	New
US$22.0 mil GO st institution rfdg bnds (Winthrop Univ) ser 2012D dtd 05/01/2012 due 04/01/2025		
Long Term Rating	AA+/Stable	New
US$15.0 mil GO st institution rfdg bnds (Medical Univ) ser 2012B dtd 05/01/2012 due 04/01/2023		
Long Term Rating	AA+/Stable	New
US$2.6 mil GO st institution bnds (Winthrop Univ) ser 2012E dtd 05/01/2012 due 04/01/2023		
Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating, and stable outlook, to South Carolina's series 2012A general obligation (GO) state institution refunding bonds, state school facilities refunding bonds, state economic development refunding bonds, state transportation infrastructure refunding bonds, and state capital improvement refunding bonds; its series 2012B-D GO state institution refunding bonds; and its 2012E GO state institution bonds.

At the same time, Standard & Poor's affirmed its 'AA+' long-term rating, with a stable outlook, on the state's parity debt outstanding.

The ratings reflect what we view as:

- An economy that, while it is fundamentally sound and has recorded some recent gains, is similar to the rest of the nation, which struggled through a deep, prolonged recession;
- Proactive actions that had to be taken to offset declining revenues in the past several years;
- Positive financial operations in fiscal 2011 and projected for fiscal 2012;
- Maintenance of required budgetary reserves; and
- Low debt levels.

In the past several years, South Carolina's economy has experienced job losses with the largest declines occurring from 2008 to 2010. From 2005 to 2010, the state's total non-agricultural employment decreased by 3.9%. While the construction, manufacturing, and natural resources and mining sectors declined significantly, the educational and health services, professional and business services, leisure and hospitality, and government sectors increased over this period. Total manufacturing and construction declined 18.6% and 33.4%, respectively, in this time frame, while education and health services increased 13.1%, professional and business services rose 4.4%, and leisure and hospitality gained 2.5% of employment. South Carolina's employment growth has been positive since July 2010, putting it among the ranks of the fastest-recovering states. Employment gains have been fairly steady, if modest, since then, dipping a bit in mid-2011 but recovering to stronger growth through the third quarter. Overall, the state experienced a 1.2% gain in total employment in 2011. South Carolina's total labor force increased at a higher rate of growth between 2005 and 2010 than the U.S. average, thereby putting pressure on the unemployment rate. The state's unemployment rates were higher than the nation, increasing to 10.9% in 2010 from 8.6% in 2008.

IHS Global Insight Inc.'s recent forecast (March 2012) is that 2012 employment will increase 1.4% and accelerate to 1.9% in 2013 and 2.1 % in both 2014 and 2015. Unemployment is projected to decline steadily in this period reaching a low of 7.6% by 2015.

The general fund closed fiscal 2011 with a $375.8 million operating surplus bringing the total general fund balance to nearly $1.5 billion. The assigned general fund balance was $350 million while the unassigned balance stood at $478.8 million or 6% of expenditures. The general state reserve was fully funded to $166.3 million. Earlier this year, the Board of Economic Advisors (BEA) revised its estimate of budgetary general fund revenue to $6.29 billion, an increase of $273.7 million, and a 4.5% increase to its original fiscal 2012 estimate. Through Feb. 29, 2012, total general fund revenue collections were under the fiscal 2012 revised revenue plan estimate by $71.8 million or 1.8%, but exceeded previous year collections for the same period by $75.3 million or 2.0%. Both the general reserve fund and the capital reserve fund are fully funded at $183.4 million (3.5%) and $104.8 million (2.0%), respectively. The fiscal 2013 budget is in development in the legislature. Total general fund revenues for fiscal 2013, based on a revised revenue estimate by the BEA, reflect total recurring revenues of $6.53 billion, an increase of $244 million (3.9%) from the revised revenue estimates for fiscal 2012. Total recurring revenues net of monies provided for the tax relief trust fund, along with nonrecurring revenues of about $483 million, bring total revenues available for appropriation to nearly $6.48 billion. Nonrecurring revenues include $122.3 million from the fiscal 2011 general fund surplus, the estimated fiscal 2012 surplus of $255 million, and $104.8 million from the capital reserve fund. South Carolina has budgeted $98.2 million to replenish the general reserve fund and $112.7 million to restore the capital reserve to 5% and 2% of general fund revenue, respectively, for the latest completed fiscal year. Full funding of the general fund reserve from the previous 3% level is two fiscal years above legislative intentions. On the spending side, fiscal 2013 general fund recurring appropriations are budgeted to rise above fiscal 2012 appropriations by $533.5 million to $6.0 billion, a nearly 9.8% increase.

South Carolina's GO debt supported by taxes is about $2.1 billion, approximately the same recorded at the close of fiscal 2005. In our view, the tax-supported debt burden is low by all measures at $497 per capita and 1.5% of personal income. Overall tax-supported debt is amortized rapidly, with about 80% of principal retired in the next 10 years. In our view, the state's liquidity position is stable, and no short-term borrowing for general fund cash flow has been required.

Standard & Poor's deems South Carolina's financial management practices "good" under its Financial Management Assessment (FMA) methodology. An FMA of good indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

Based on the analytical factors we evaluate for South Carolina, on a scale of '1.0' as the strongest to '4.0' as the weakest, we have assigned a composite score of '1.6' to the state.

Outlook

The stable outlook reflects what we consider South Carolina's proactive management, which has contributed to improved financial performance in recent years. While the recession affected the state's economy, which is experiencing high unemployment and lower revenues, we believe South Carolina has been actively making the necessary budget adjustments to maintain balance. We also view positively the state's adopted long-term financial planning and forecasting strategies and low debt levels.

Government Framework

South Carolina's constitution requires the state to approve balanced budgets each fiscal year and that its budgets remain in balance. To help manage its budget and maintain adequate fund balances despite revenue drops, the State Budget and Control Board as well as the director of the Office of State Budget are empowered by statute to adjust spending as needed within a short period of any reduction in revenues the BEA projects. Such adjustments might only be made after first providing adequate provision for the payment of the principal and interest on bonds and notes of the state according to their terms. South Carolina has considerable revenue-raising ability and can raise its income and sales tax rates and approve new revenues without the need for voter approval or supermajority votes in the legislature. It also has a fair amount of budgetary flexibility with regard to its expenditures. When needed, it has adjusted agency spending including high need agencies such as prisons, Medicaid, and public education. Education aid is South Carolina's largest expenditure item, and accounts for about 38% of general fund expenditures in 2012.

Standard & Poor's has assigned a score of `1.0' South Carolina's government framework, where `1.0' is the strongest score and `4.0' the weakest.

Financial Management Assessment: 'Good'

Standard & Poor's deems South Carolina's financial management practices "good" under its FMA methodology, which is designed to measure the policies and procedures used by the state's management as it oversees day-to-day operations. In our framework, an FMA of good indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

Management's practices include:

- Revenue assumptions done by an independent forecast through BEA.
- Supplemental appropriations, which may only be done after Sept. 1; the comptroller general determines upon closing South Carolina's books that there is no generally accepted accounting principles (GAAP) deficit.
- The general assembly is required to present a balanced budget, which is updated quarterly. The state has a history of making midyear adjustments, and reducing appropriations in times of recession.

South Carolina has a formal three-year financial forecast such that for each agency, department, institution, or entity receiving in aggregate more than 1% of the state's general fund appropriation, that entity will present a three-year forecast to the Office of State Budget. This data, in conjunction with the BEA's long-term revenue estimate, must be updated annually and presented to the State Budget and Control Board, the speaker of the House of Representatives, and the president pro tempore of the Senate in the second quarter of each fiscal year. The BEA prepares a 10-year revenue forecast that is updated annually.

The state has a five-year capital improvement plan. The first year has funding in place while the projects for years two to five are identified, and funding is anticipated, or will be requested from, the general assembly.

South Carolina has a well-defined investment policy. There is biweekly review of general fund assets and other nonretirement state funds, while retirement assets are reported quarterly to the State Budget and Control Board, Speaker of the House, president pro tempore of Senate, and other appropriate officials.

In terms of debt management policy, there is a constitutional debt limit of 5% with an increase of 1% by the state legislature for economic development purposes. South Carolina's philosophy is to have debt retire in 15 years and, while derivatives and variable-rate debt is permitted, to avoid such transactions in favor of fixed-rate debt.

In terms of liquidity and reserve policies, South Carolina's policies are set by the constitution. The general fund reserve is required within the next two fiscal years to be funded at 5% of general fund revenue for the latest completed fiscal year. This was raised from 3% at the fiscal 2012 budget session. It might be drawn upon for operating deficits, but it must be replenished within three fiscal years. There is also a capital reserve fund, which must equal 2% of the previous year's general fund revenues.

Once the budget is approved, the state monitors both revenue and expenditure performance on a regular basis and reports results in addition to an economic update. Budget adjustments have historically been implemented regularly on a timely basis. The State Budget and Control Board as well as the director of the Office of State Budget have the authority to make adjustments to the budget and a track record of doing so. Deficits may be carried forward into the next fiscal year but must be fully addressed in the next budget.

On a scale ranging from '1.0' (strongest) to '4.0' (weakest), Standard & Poor's has assigned a '1.5' score to South Carolina's financial management.

Economy

While the recession has limited growth in employment, South Carolina's population, which stands at 4.6 million, has continued to grow at a higher rate than the national average. State population increased 15.3% from 2000-2010, higher than the 9.7% increase for the U.S. in that period. The level of net migration into the state between 2004 and 2009 was equal to 13.2% of the 2004 population, higher than the 3.4% rate of the U.S.'s 2004 population as a whole. Charleston, Columbia, and Greenville remain major centers of economic activity with metropolitan statistical area populations of more than 600,000. Growth in other economic indicators tends to lag U.S. averages. Gross state product (GSP) for South Carolina increased 2.2% between 2005 and 2010, while the national GSP rose 4.3%; the state GSP is 75% of the national average. From 2005-2010, state per capita income increased at a slower rate than the nation and was 81% of the U.S. average in 2010. The age dependency ratio is in line with U.S. averages.

In 2010, the South Carolina Department of Commerce worked successfully to recruit nearly 20,500 jobs and more than $4.1 billion of capital investment to the state. The South Carolina level of job recruitment was higher in 2010 than that of other states in the southeastern region. Significant investments during the year included AQT Solar Inc.

($460 million), ZF Group ($350 million), GE Energy ($170 million), South Carolina Tissue LLC ($140 million), and Robert Bosch LLC ($125 million). During 2010, the South Carolina Department of Commerce recruited 44.02 jobs per 10,000 residents, compared with the southeastern average of 27.04 jobs per 10,000 residents. Foreign investment comprised 26% of total capital investment and 29% of total jobs recruited in 2010. Of the projects recruited in 2010, 20.0% of the jobs and 32.0% of the projects were located in rural areas of the state, where 17.6% of the labor force resides. South Carolina ranked first among states for the percent of private industry manufacturing employment in foreign affiliated companies. The South Carolina Department of Commerce continues to develop economic programs and work with companies to attract new business to the state.

The long-term outlook for economic growth is positive and employment levels began to increase in 2011 increasing 1.2%.

On a scale ranging from '1.0' (strongest) to '4.0' (weakest), Standard & Poor's has assigned a score of '2.1' to South Carolina's economy.

Budgetary Performance

In our view, South Carolina has consistently had well-defined financial management policies and a commitment to reserves despite budget challenges. The state ended fiscal 2008 with a general fund GAAP balance of $331 million, including $95 million in the general reserve fund. However, the unreserved balance was a negative $10 million. In fiscal 2009, South Carolina faced what we consider significant revenue declines that negatively affected its general fund GAAP balances. The audited fiscal 2009 general fund closed with an operating deficit of nearly $226.5 million, bringing the total fund balance to $105 million, with a negative unreserved balance of nearly $126 million and no funds available in the general reserve fund. This was the first time in the past six fiscal years that South Carolina closed its financial books without any level of funds within the general reserve fund. The state took significant actions in fiscal 2010 to reverse the negative trend of the past two fiscal years. Its general fund closed fiscal 2010 with a positive change in the fund balance of $43.1 million, increasing the total ending fund balance to $148.3 million and reducing the unreserved ending fund balance deficit to $36.2 million. The general state reserve was funded to $110.8 million, about 2% of revenues. Under Government Accounting Standards Board 54, South Carolina restated its fiscal 2010 opening balance to $1.12 billion. The general fund closed fiscal 2011 with a $375.8 million operating surplus bringing the total general fund balance to nearly $1.5 billion. The assigned general fund balance was recorded at $350 million while the unassigned balance stood at $478.8 million or 6.0% of expenditures. The general state reserve was fully funded to $166.3 million.

The original revenue estimate adopted by the BEA for the state's general fund for the fiscal year ending June 30, 2012, was $6.0 billion, a decline of 1.1% from fiscal 2011. After primarily providing for property tax relief, available revenues were $5.46 billion. General fund appropriations were set at $5.5 billion. The individual income tax was budgeted to fall 2.8% against prior-year actual collections to about $2.8 billion, while the sales tax was budgeted to rise 0.3% to $2.23 billion. Education, the leading spending category, was budgeted to rise 6.9% from fiscal 2011 with spending for health increasing 5.9% to $1.44 billion. Total spending was up 5.5%. Earlier this year, the BEA revised its estimate of budgetary general fund revenue to $6.29 billion, an increase of $273.7 million, and a 4.5% increase to its original fiscal 2012 estimate. Through Feb. 29, 2012, total general fund revenue collections were under the fiscal 2012 revised revenue plan estimate by $71.8 million or 1.8%, but exceeded prior-year collections for the same period by $75.3 million or 2.0%. Both the general reserve and the capital reserve funds are fully funded at $183.4 million and $104.8 million, 3.5% and 2.0%, respectively.

The fiscal 2013 budget is in development in the legislature. To date, it has gone through the House and now resides in the Senate for review. Total general fund revenues for fiscal 2013, based on a Feb. 15, 2012, BEA estimate, reflect total recurring revenues of $6.53 billion, an increase of $244 million (3.9%) from the revised revenue estimates for fiscal 2012. South Carolina's primary revenue sources, the personal income tax ($3.16 billion) and sales tax ($2.4 billion), are budgeted to increase 4.4% and 4.2%, respectively, above fiscal 2012 estimated levels. Corporate income tax is budgeted to decline 8.8%. Total recurring revenues, net of monies provided for the tax relief trust fund, along with nonrecurring revenues of about $483 million, bring total revenues available for appropriation to nearly $6.48 billion. Nonrecurring revenues include $122.3 million from the fiscal 2011 general fund surplus, the estimated fiscal 2012 surplus of $255 million, and $104.8 million from the capital reserve fund. South Carolina has budgeted $98.2 million to replenish the general reserve fund and $112.7 million to restore the capital reserve to 5% and 2% of general fund revenue, respectively, for the latest completed fiscal year. Full funding of the general fund reserve from the previous 3% level is two fiscal years above legislative intentions.

On the spending side, fiscal 2013 general fund recurring appropriations are budgeted to rise above fiscal 2012 appropriations by $533.5 million to $6.0 billion, a nearly 9.8% increase. K-12 education, the largest spending category, is budgeted at 36% of state spending ($2.15 billion), an increase of 5.2% from fiscal 2012 appropriations. State funding for health and social services is budgeted to increase by $201 million (or nearly 14%) to $1.65 billion, making up 27% of state recurring spending. Higher education spending is up $12 million to $562.5 million and correction increases to $537.5 million (14.6%). The capital reserve fund will be fully funded. Debt service is funded at $187.2 million, a slight drop from fiscal 2012 levels. Nonrecurring spending is matched to nonrecurring revenues, with the largest appropriation being made to fund the South Carolina Ports Authority harbor deepening reserve fund of $180 million. The general reserve fund will receive $98.2 million, with $77 million appropriated for State Unemployment Tax Authority tax relief.

Standard & Poor's has assigned a score of '1.3' to South Carolina's budgetary performance, where `1.0' is the strongest and `4.0' the weakest.

Debt And Liability Profile

Given South Carolina's historically conservative stance toward debt issuance, in our view, the tax-supported debt burden is low by all measures at $497 per capita and 1.5% of personal income. The state constitution, which governs debt issuance, places restrictions on debt levels as well as bond amortization. Bond maturities on GO debt cannot exceed 30 years. Overall tax-supported debt is amortized rapidly, with nearly 80% of principal retired in the next 10 years. The state recently increased its constitutional debt limit to 6.0% from 5.5%. The additional 0.5% is for the exclusive purpose of providing research university infrastructure for state research institutions.

In our view, South Carolina's liquidity position is stable with an average cash balance for investments earnings of $1.12 billion in fiscal 2011. The state has historically not been required to do short-term borrowing for general fund cash flow.

South Carolina has five statutorily established pension plans, with the Teachers' and State Employees' Retirement System (SCRS) being the largest. In fiscal 2011, SCRS, which makes up 91% of the total unfunded liability, had a funded ratio of 66%, which Standard & Poor's considers below average among all of the states.

The state typically fully funds its annual required contribution (ARC) for all systems. Unfunded state pension liabilities per capita are a below-average $3,188 and pension liabilities to personal income are weak at 9.8%, in our opinion.

South Carolina has regularly evaluated the cost of other postemployment benefits (OPEB). Its retiree health care benefit is funded on a pay-as-you-go basis, with minimal additional accumulation of funds to pay retiree health benefits. An updated actuarial valuation of retiree health care benefits (OPEB) liability was done in 2010. The unfunded actuarial accrued liability for benefits earned as of June 30, 2010, was estimated at $9.14 billion. The actuarial assumptions reflect a short-term discount rate of 5.5%, which is consistent with previous studies. The fiscal 2011 ARC was $816 million, which South Carolina funded at 37%, a decline from 51% funding in fiscal 2009. The state established an OPEB trust fund in 2008, and the fiscal 2011 appropriation act included an appropriation of $2.4 million.

Standard & Poor's has assigned a score of '2.4' to South Carolina's debt and liability profile, where `1.0' is the strongest and `4.0' the weakest.

Related Criteria And Research

USPF Criteria: State Ratings Methodology, Jan. 3, 2011

Ratings Detail (As Of April 4, 2012)		
South Carolina GO		
Long Term Rating	AA+/Stable	Affirmed