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CREDIT OPINION
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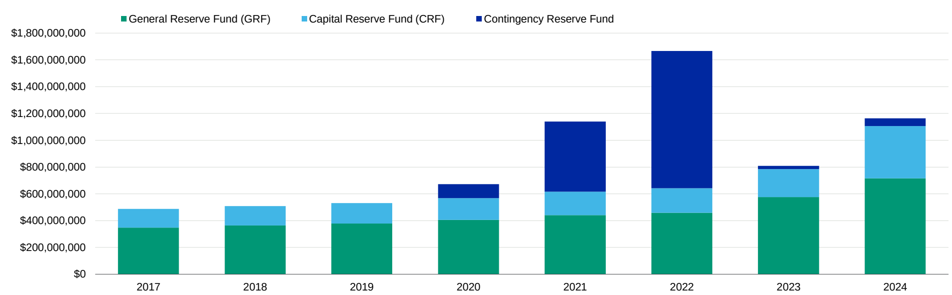
South Carolina (State of)

Update to credit analysis

Summary

The State of South Carolina's Aaa issuer rating is supported by conservative budgeting practices that have helped build strong reserves during the past several years (Exhibit 1), capitalizing on both positive economic trends and supportive federal fiscal policy during the coronavirus pandemic. The state benefits from stringent reserve requirements and from prudent fiscal governance practices. Audit errors and accounting inconsistencies uncovered in recent years do not reflect errors in the state's budgetary position and are being corrected. Fiscal strengths offset some social weaknesses, including an elevated poverty rate and comparatively weak personal income per capita, which persist despite economic and revenue gains of recent years. The state also faces relatively large unfunded pension liabilities, even after recent reform efforts.

Exhibit 1
Reserves remain robust



Source: State of South Carolina

Credit strengths

» Practice of prudent fiscal management exemplified by close revenue monitoring, financial reserve requirements and rapid response to shortfalls

» Record of above-average economic growth, reflecting strong manufacturing trends

» Manageable bonded debt burden that has declined in recent years

Credit challenges

» Relatively large unfunded pension liability burden, despite recent reform efforts

» History of economic weaknesses visible in elevated poverty level and other social indicators

» Accounting irregularities identified in audited financials reflect weak practices, which the state is addressing with a cross-department commission

Rating outlook

The stable outlook reflects the state's strong financial position, including its purposeful efforts to build reserves and budget conservatively, sustaining financial flexibility through potential periods of uncertainty.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Adoption of less conservative financial management practices that lead to reliance on one-time measures leading to significant structural budget imbalance or extended reserve depletion

» Trend of economic performance weaker than the nation

» Further errors or inconsistencies identified in the state's audits, including additional restatements

Key indicators

Exhibit 2

	2020	2021	2022	2023	2024	State Medians (2023)
Economy						
Nominal GDP ($billions)	249.4	272.4	301.9	327.4	350.0	313.0
Real GDP, annual growth	-2.2%	5.2%	3.6%	3.1%	4.2%	2.2%
RPP-adjusted per capita income as % of US	90.8%	88.2%	88.0%	88.1%	NA	97.7%
Nonfarm employment, annual growth	-4.9%	3.5%	4.1%	2.8%	3.1%	2.1%
Financial performance						
Available balance as % of own-source revenue	13.6%	28.1%	41.6%	45.1%	42.3%	44.4%
Net unrestricted cash as % of own-source revenue	60.3%	63.3%	91.5%	95.5%	91.9%	72.4%
Leverage						
Total long-term liabilities as % of own-source revenue	258.5%	264.5%	232.7%	152.3%	129.0%	99.4%
Adjusted fixed costs as % of own-source revenue	10.2%	8.6%	7.0%	6.9%	6.3%	5.2%

Source: US Bureau of Economic Analysis, State of South Carolina ACFRs, Moody's Ratings

Profile

South Carolina's 2023 nominal gross domestic product (GDP) amounted to $327.4 billion, ranking 24th among states, according to the US Bureau of Economic Analysis. The state's population totaled 5.5 million in 2024, based on Census Bureau estimates, ranking 23rd among states. Despite a history of strong economic growth, the state's personal income for 2024 remained comparatively low, at $59,995 per capita or 83% of the US level. South Carolina's geographic area is compact, at 30,000 square miles, ranking 40th among states. It is bordered by North Carolina and, to the west and south, by Georgia.

Detailed credit considerations

Economy and Tax Base

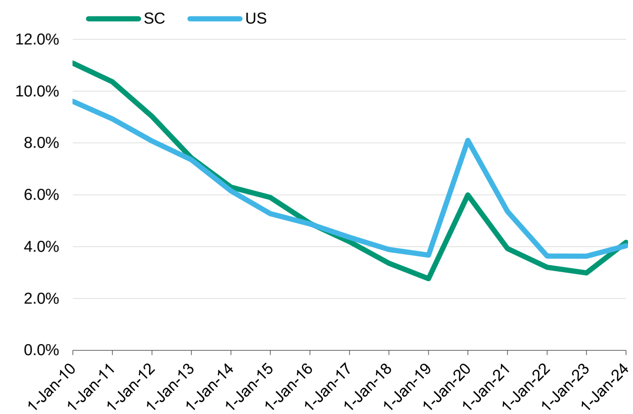
South Carolina's economy should continue to benefit from population growth and economic expansion. South Carolina's economy has consistently grown faster than that of the US. The state's five-year average real GDP growth was 2.82% in 2024, compared with 2.45% for the US overall. Population growth has been strong over the past 10 years. South Carolina's population increased more than 17%

between 2011 and 2024 while the total US population's growth has been much slower, increasing by roughly 9% during that period. Net migration, primarily domestic, has been a large driver in the state's population growth post pandemic (Exhibit 4).

South Carolina's unemployment rate has been higher than that of the US for the past 10 months; as of March 2025, it was 4.2%, slightly higher than the 4.1% national average. Personal income per capita on a regional price parity-adjusted basis was 88.1% of the nations in 2023, below the 97.7% median for the 50 states. This comparative weakness is consistent with elevated poverty levels. The state's poverty rate is consistently above that of the US and in 2023 was 11.7% and 11.1%, respectively. While these trends weigh down the state's economic profile, they are offset by notable growth.

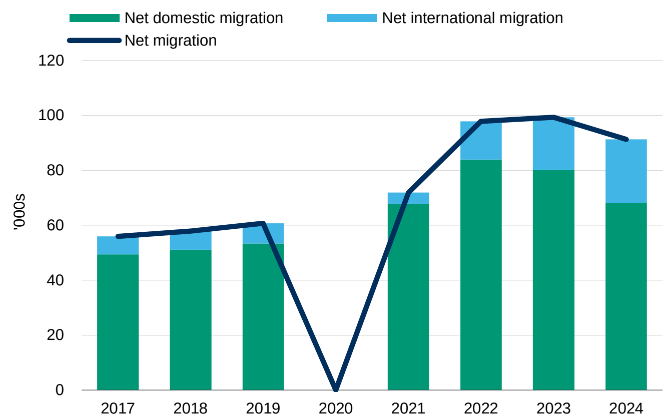
The state has had success in recruiting durable goods manufacturing industries and continues to attract economic development, particularly in the electric vehicle production space and automotive industry. Isuzu announced plans earlier this year to establish a new production facility in South Carolina and the state has begun construction on road projects that will allow the previously announced Scout Motors factory easier access to major interstates. These announcements and others indicate continued diversification of the state's economy and tax base.

Exhibit 3
South Carolina's unemployment rate is gradually increasing



Source: US Bureau of Labor Statistics

Exhibit 4
Net migration remains strong



Source: US Census Bureau

Finances and liquidity

The state ended fiscal year 2024 on solid financial footing with a governmental funds total available balance of $9.9 billion. This figure has increased annually since 2020 for a total increase of 342%. The state's two largest revenue sources are sales and use tax and individual income tax (Exhibit 6). South Carolina's May 2025 general fund revenue forecast projected a 5.4% increase in overall gross general fund revenue as compared to FY2024. Increases in corporate income taxes, sales and use taxes and investment earnings are the major drivers of the increase in revenue. The state is projecting virtually flat revenue for FY2025-26. These projections indicate that FY2025 will end stronger than the previous forecast completed in February 2024 indicated while FY2025-26 is forecast to have a smaller increase than previously projected.

South Carolina's fiscal year 2026 budget was signed by Gov. McMaster on June 4. The budget includes pay increases for teachers, law enforcement and lawmakers, as well as a freeze on college tuition and a reduction in the top personal income tax bracket from 6.2% to 6% in 2026.

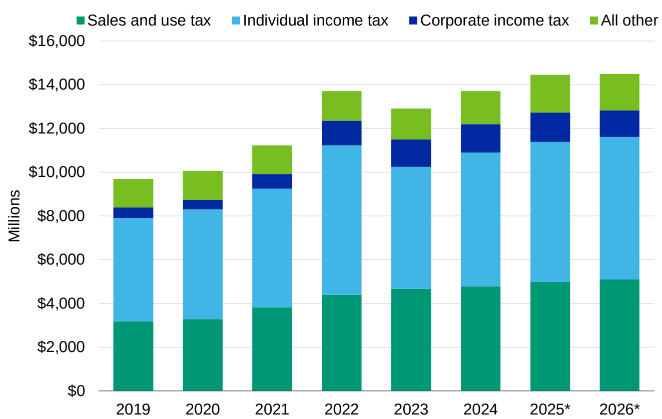
Similar to many states across the US, South Carolina enacted income tax reductions over the past few years in efforts to boost economic growth. For tax year 2022, there was a reduction in the top tax rate from 7% to 6.5%. From 2023 through 2028, the top rate gradually decreases 0.1% annually, until it reaches 6%, provided the state economy meets certain performance measures. At the same time, the state has implemented policies to mitigate negative impacts to its revenue collections. State revenue must be projected to increase by at least 5% relative to the previous year to implement the rate reduction. If state revenue falls, the top marginal rate would remain at the prior year's level. For tax year 2025 the top tax rate remains at 6.2%.

The state's primary rainy day fund is the General Reserve Fund (GRF), which has grown dramatically in recent years, in proportion with revenue growth. The GRF held $715 million at the end of fiscal year 2024, more than double the amount held 10 years ago. The state can only withdraw GRF funds to cover year-end operating deficits without any action from the legislature; it has not drawn on the GRF since the recessionary period in 2008 and 2009, when it fully depleted the fund. Any GRF withdrawals must be restored in five years. Further, the GRF funding target is annually increasing until 2027 when the fund balance reaches 7% of the budgetary general fund's revenue of the prior fiscal year. The state's Capital Reserve Fund ("CRF") functions partially as a backstop for the GRF and the state constitution requires each year's appropriations act to set aside funds for the CRF. In the event of a year-end deficit covered by the GRF, CRF funds must be deployed first to replenish the GRF. If no deficit has occurred or a deficit was less than the CRF amount, the CRF balance can be appropriated for capital or other non-recurring items in the next fiscal year, subject to legislative supermajority approval. South Carolina ended fiscal year 2024 with total reserves of $1.1 billion.

Over the past three years, South Carolina's finances have been in the news. First, in late 2022, a $3.5 billion accounting error was discovered. General fund balances were overstated because the state failed to properly account for the effect of transfers to colleges and universities. This discovery necessitated the restatement of ACFRs for fiscal years 2013-2021. In March 2024, another issue was identified. A $1.8 billion balance was included in a fund that is designated as a non-reportable, pass through account that should have maintained a zero balance. All accounting errors have been traced back to mapping errors that occurred with the implementation of new accounting systems and failure to reconcile between the old and new systems. Ultimately, while audited fund balances were determined to be overstated, these errors did not reflect any errors in the state's management of its budget and financial operations.

Exhibit 5

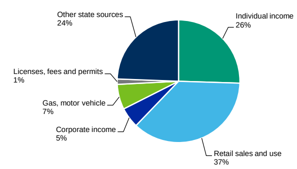
Current state forecast anticipates flat general fund revenue during the next fiscal year



*estimate
Includes revenue collected by the state's general fund from taxes, fines, fees investment income and similar sources; excludes federal funding.
Source: South Carolina Revenue and Fiscal Affairs Office

Exhibit 6

Taxes on sales and use and individual income are the primary revenue sources



Governmental Funds revenue for the year ended June 30, 2024; excludes federal sources.
Source: Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2023; South Carolina Comptroller General's Office.

Liquidity

South Carolina's liquidity remains strong and can be seen in its budgetary financial reserves in the exhibit on page one. At the end of fiscal year 2024, the state had more than $1 billion in reserves, a marked improvement as compared to pre-COVID levels. Total general fund budgetary fund balances declined slightly in 2024, though they remain near historic highs. The state's cash and investments reported in the governmental funds balance sheet of its audited financial statements has more than tripled since 2017 rising to $18.6 billion as of June 30, 2024.

Leverage

South Carolina's leverage is relatively high and primarily because of employee-benefit related liabilities while debt obligations are relatively low. Debt is largely limited to two types: general obligation bonds, discussed below and revenue bonds issued by the South

Carolina Transportation and Infrastructure Bank (SCTIB, Aa2, stable). The SCTIB issues bonds for transportation infrastructure, with a pledge of various statutory allocations linked to highway use and economic activity in the state.

Legal security

South Carolina's GO bonds are general obligations of the state and are supported by a pledge of its full faith, credit and taxing power. In addition, certain of the bonds are backed by specific other pledged revenue sources. Series designated as state institution bonds are additionally backed by pledges of their respective institutions' tuition fee receipts, which are deposited in special funds created at each state university for which the bonds are issued. Transportation infrastructure GO bonds are additionally secured by funds received by the state's Transportation Infrastructure Bank under agreements with other government units.

To give power to the GO bonds' full faith and credit pledge, the state's constitution provides that in the event of a missed payment, the state must levy an ad valorem tax on all taxable property to provide for debt service.

Bonds issued by the SCTIB are secured primarily by system payments and loan payments from borrowers including the state's Department of Transportation or local governments.

The South Carolina School District Enhancement Program (Aa1 stable) for school district general obligation bonds creates a mechanism to apply a school district's appropriated aid payments to its GO debt service in the event of an inability to pay debt service.

Debt structure

The state constitution (Article X, Sect. 13) imposes a 30-year maximum maturity and generally limits total GO borrowing, based on maximum allowable debt service to revenue ratios. Certain bond types can be excluded from this cap if approved by voters in a public vote or by two-thirds majorities in the state's General Assembly. For example, an economic development program authorized in 2009 is capped based on a $170 million maximum principal amount that can be outstanding at any time. State institution bonds issued on behalf of public universities that are additionally secured by tuition fee revenue are subject to a different limit: maximum debt service cannot exceed 90% of an institution's tuition revenue.

The state's constitution allows the legislature to authorize general obligation borrowing, provided that authorizing legislation allocates sufficient tax revenue for future debt service payments. In general, GO issuance is capped at an amount producing maximum annual debt service of no more than 6% of general fund revenue in the year before a new issue. The limit can be raised or lowered in a 4% to 7% range with approval by two-thirds of legislators in both chambers of the state General Assembly. Limited use of GO debt has left the state's actual debt service well below applicable limits in recent years.

Exhibit 7

Debt consists primarily of SCTIB and state GO bonds

Type		Amount (000s)
General Obligation Bonds	$	78,435
Transportation Infrastructure Bank Bonds	$	1,311,793
Capital Leases	$	273,921
Lease Revenue Bonds	$	32,660
Total	$	1,696,809

All debt is as of June 30, 2024

Source: South Carolina ACFR

Debt-related derivatives

South Carolina no exposure to debt-related derivatives.

Pensions and OPEB

South Carolina has comparatively large unfunded pension liabilities. The state carries one of the highest relative pension burdens among states rated Aaa. Its fiscal 2023 adjusted net pension liability (ANPL) totaled almost $26.4 billion, or 124% of own-source revenue, well above the 50-state median of 52.5%. South Carolina ranks 7th out of 50-states with regard to ANPL metrics. The state's adjusted net other post employment benefits (OPEB) liability (ANOL) metrics are also high. Its ANOL was $2.5 billion in fiscal year 2023, 11.9% of own-source revenue and well above the median of 6.5%.

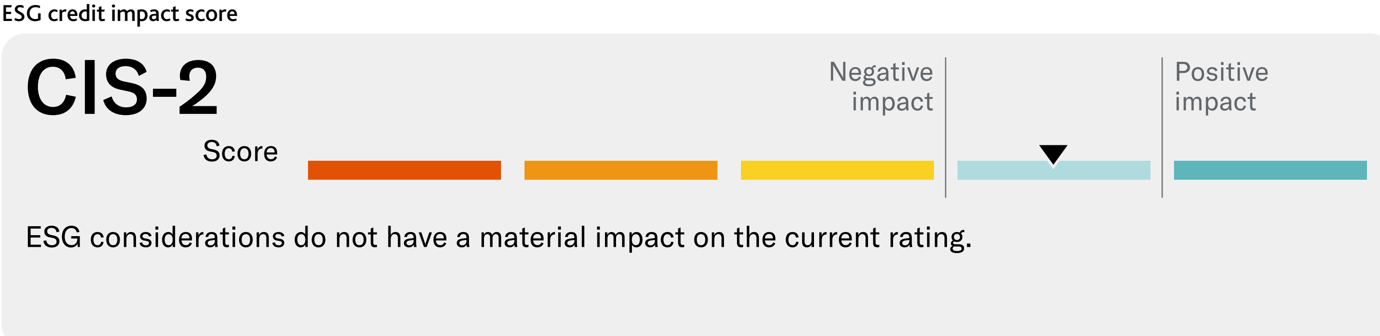
The state has made efforts to reduce these liabilities. In 2017, South Carolina enacted legislation that required the state, as well as participating local governments, to increase annual contributions to public pensions. Under the law, employer contributions have been rising annually by one percentage point (on a percentage of payroll basis), following an initial two percentage point rise in fiscal 2018. For the South Carolina Retirement System (SCRS, the state's largest plan, serving the state government as well as school districts), this legislation meant that employer contributions would gradually rise to 18.56% of compensation by fiscal 2023. This progression was disrupted by the state's failure to enact a normal budget for fiscal year 2022, in light of the coronavirus pandemic. The state subsequently made up for this by contributing more than its required contribution in both fiscal 2022 and 2023. Further, the plans' assumed rate of return was lowered to 7% from 7.25% in 2022. Continuation of the funding requirements imposed under the state's 2017 reforms should eventually help lower the state's liabilities.

Another consideration is that the state's legal framework allows for benefit modifications (such as COLA reductions for current participants) that could provide a way to keep the state's funding burden manageable over time. South Carolina's OPEB benefits are primarily retiree health benefits to state and local workers through a cost-sharing, multi-employer plan. Like most states, South Carolina does not pre-fund benefits as they are earned, but covers expenses of current benefits as they are provided and has not accumulated assets to pay future costs. Current expenses generally fall short of actuarially calculated liabilities, resulting in an a growing liability.

ESG considerations

South Carolina (State of)'s ESG credit impact score is CIS-2

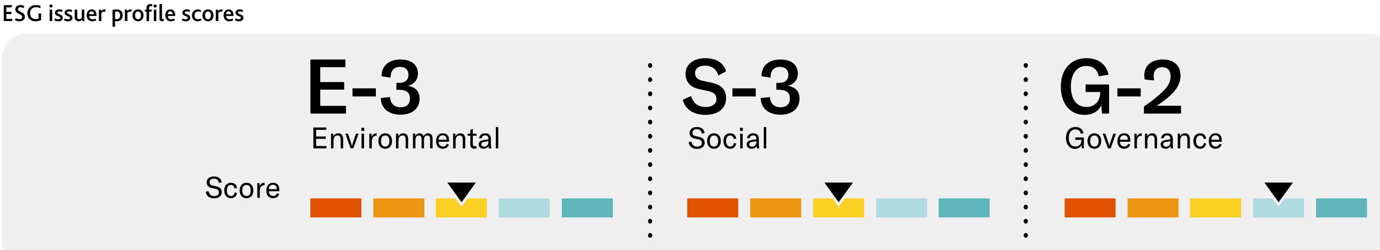
Exhibit 8
ESG credit impact score



Source: Moody's Ratings

South Carolina's ESG Credit Impact Score is neutral-to-low **CIS-2**, reflecting its exposure to environmental risks and social risks and governance profile.

Exhibit 9
ESG issuer profile scores



Source: Moody's Ratings

Environmental

South Carolina's E issuer profile score is **E-3**. Its location on the southeastern seaboard gives it elevated exposure to environmental risks, such as hurricanes and sea level rise. According to data from Moody's ESG Solutions, South Carolina counties' average projected rate of change in six climate risk factors, when weighted by county GDP, is among the highest in the nation. The state's 2,876-mile

Atlantic coast, on the front line of hurricanes, accounts for about 30% of state GDP. Sea level at the coastal city Charleston has been rising at a rate of 1.3 inches a decade since 1921 compared with a 0.7-inch global rate, according to the National Climate Assessment.

Social

South Carolina's S issuer profile score is **S-3**. The state faces somewhat elevated poverty levels, like other states in the southeast region. Per capita personal income, as discussed in the economy section of this report, is weak versus the nation's. At the same time, the state's population has been growing at a rapid pace.

Governance

South Carolina's G profile score is **G-2**, characterized by a practice of reducing budgeted spending during downturns and increasing financial reserves during periods of strong revenue growth. The state's legislature by law must pass a budget that is balanced, based on a binding consensus revenue forecast provided by the state's Board of Economic Advisors. The state's process for addressing deficits, if any, requires executive budget office cuts to appropriations in the event of shortfalls of up to 3% from budget and, in the case of larger shortfalls, potentially the convening of special legislative session to impose such measures. The BEA is required to monitor revenue and reassess its forecast on an at least quarterly basis to track potential variances. Weaknesses in the state’s governance have emerged in recent years as discussed above. The apparent mismanagement of the state’s IT system upgrade and resulting issues calls into question the states internal financial policy effectiveness and transparency.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US States and Territories Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to state and territory credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned. The distinction between the assigned rating and the scorecard in this case is consistent with the state's very strong governance and financial management practices.

Exhibit 10

US states rating methodology scorecard

South Carolina (State of)

	Measure	Weight	Score
Economy			
Resident Income (PCI Adjusted for RPP / US PCI)	87.5%	15%	Aa
Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	0.3%	15%	Aaa
Financial performance			
Financial performance	Aaa	20%	Aaa
Governance/Institutional Framework			
Governance/Institutional Framework	Aa	20%	Aaa
Leverage			
Long-term liabilities ratio (adjusted long-term liabilities / own-source revenue)	152.3%	20%	Aa
Fixed-costs ratio (adjusted fixed costs / own-source revenue)	6.9%	10%	Aaa
Notching factors			
Very limited and concentrated economy			
Scorecard-Indicated Outcome			Aa1
Assigned rating			Aaa

Sources: US Bureau of Economic Analysis, State of South Carolina ACFRs, Moody's Ratings

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