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ATTN: South Carolina Office of the State Treasurer  
Rick Harmon

MOODY'S AFFIRMS Aaa RATING AND NEGATIVE OUTLOOK ASSIGNED TO \$2.4 BILLION  
OUTSTANDING STATE OF SOUTH CAROLINA GENERAL OBLIGATION BONDS

NEW YORK, July 29, 2005 -- Moody's Investors Service affirms its Aaa rating and negative outlook assigned to the state of South Carolina's General Obligation Bonds. The Aaa rating is based on the state's conservative debt and fiscal management, which has been particularly important during this period of slowed economic growth. In addition to various established statutory and fiscal policy requirements designed to safeguard financial stability, the state has historically taken quick action to address budget gaps during the year and has passed legislation in the last two legislative sessions to eliminate a cumulative operating deficit, restore reserves, control expenditures, and begin to develop a formal process for long-term financial planning.

State finances are beginning to see improvement, with the state experiencing healthy revenue growth. Following a fiscal 2003 decline in recurring General Fund revenues of about 3%, recurring revenues increased by 6.5% in fiscal 2004, with continued growth in fiscal 2005 (about 6%). The state is projecting a fiscal 2005 surplus of \$287 million. After a \$78 million transfer to the general reserve (that will bring the balance up to \$153 million, the statutorily required level of 3% of revenues) and planned supplemental expenditures, over \$140 million will still remain.

Despite two years of strong revenue growth, the fiscal 2006 budget is based on revenue growth projections kept conservatively low at 1.5% for recurring revenues. In addition, the fiscal 2006 budget begins a process of restoring various non-General Fund balances that were accessed for General Fund support in recent years. In addition to a \$35 million appropriation in fiscal 2006, the state has committed to applying the first ten percent of any General Fund surplus to the restoration of about \$180 million that was borrowed.

The financial improvement the state is currently experiencing represents a shift away from a trend of strained finances in recent years. A slowing economy adversely affected state revenues in fiscal years 2001 through 2003, with the state resorting to spending cuts and the use of available reserve funds to cover revenue shortfalls. As a result, the state's GAAP basis unreserved/ undesignated general fund balance at the end of fiscal 2001 was a negative \$174 million, a drop of over \$200 million from the comparable prior year balance (\$33 million). Including available reserves, the balance dropped from \$179 million (about 3% of revenues) in fiscal 2000 to negative \$113 million (-1.9% of revenues) in fiscal 2001. The General Reserve Fund was depleted in fiscal 2002 and the unreserved/ undesignated general fund balance fell further to a negative \$208 million at the end of fiscal 2002 and remained negative in fiscal 2003 (negative \$204 million) and fiscal 2004 (negative \$72 million including available reserves).

While the state's finances are improving, its economy does not yet reflect the same kind of strengthening. The state economy continues to be negatively affected by its reliance on non-durable manufacturing, primarily related to textiles, which makes up about 7.8% of the state's employment base as compared to 4.3% nationally. Year-over-year manufacturing job losses in 2001 through 2003 were the chief contributors to state employment declines. In those three years, the state lost about 60,000 jobs, or 3% of its total non-farm payroll employment. Figures for 2004 show a continued though smaller decline. While reliance on non-durables continues, some growth in the durable manufacturing sector has also occurred. This has been led by expansion in the automotive sector.

**Draft****Fitch Rates South Carolina \$68.4MM GO Bonds (Various) 'AAA'**

Fitch Ratings-NY-August 16, 2005: Fitch Ratings assigns an 'AAA' rating to the State of South Carolina's \$68.4 million general obligation bonds (various) scheduled to sell competitively on August 18. Fitch also affirms the 'AAA' rating assigned to \$2.5 billion outstanding general obligations.

The bonds, for separate bids, include the following:

--\$50.125 million general obligation state economic development bonds, series 2005C;

--\$17.000 million general obligation state institution bonds (issued on behalf of Winthrop University), series 2005B;

--\$1.275 million general obligation state institution bonds (issued on behalf of Francis Marion University), series 2005C.

South Carolina's strong credit standing rests on its careful and conservative approach to both financial operations and debt. The state's centralized and autonomous budget and control board is mandated to take prompt corrective action to maintain balance when necessary. Recent revenue growth has been solid, and state tax-supported debt ratios remain moderate. Offsetting these strengths is the state's sluggish economy, with essentially flat employment in the last few months and high unemployment rates. Economic performance will be an important credit factor going forward.

After several years of revenue weakness, which required significant spending cuts and the use of reserves, a \$243 million fiscal 2004 surplus allowed the state to replenish a carryover deficit. Fiscal 2005 ended with a surplus of more than \$400 million. Revenues exceeded fiscal 2004 results and original estimates, each by more than 8.0%, with particular strength in personal income and corporate taxes. The state comptroller general used \$105 million of the fiscal 2005 surplus to correct for accelerated revenue recognition in fiscal years 1991, 1993 and 2001, and \$144 million was carried forward to fund the fiscal 2006 budget. After years of negative GAAP fund balances, fiscal 2005 is projected to have ended with a positive balance. As of September 1, 2005, the state will have rebuilt the 3% general reserve and 2% capital reserve to their constitutional requirements.

The budget for fiscal 2006 is based on conservative revenue assumptions. The legislature rejected the governor's proposal to lower the top marginal income tax rate and instead passed a small business tax cut. In the 2005 session, the legislature also required that the first 10% of any surplus general fund revenues be applied to fully restore moneys borrowed from other funds, formalized a three-year financial planning process, and passed pension reform. A trial court decision in a lawsuit challenging the state's funding of schools, expected by the end of the summer, could introduce a new spending pressure for the state.

State tax-supported debt ratios, although notably increasing over the past few years, are still moderate at \$1,154 per capita and 4.1% of personal income. When the debt of the state's transportation infrastructure bank (which receives about 40% of its revenues from the state's truck registration fees on a subordinate basis to the claim of \$727 million state highway general obligation bonds) is excluded, the ratios further moderate to \$672 per capita and 2.4% of personal income. The state has rarely extended its credit, and other than the transportation infrastructure bank, now representing more than 40% of tax-supported debt, most tax-supported debt is general obligation and scheduled for rapid retirement.