



**Joint Capital Bond Study Committee Discussion (11/30/2015)**



South Carolina

# Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

## Topics of Discussion

- I. The Office of State Treasurer
  - Ia. The Office of State Treasurer (Mission Statement)
  - Ib. The Office of State Treasurer's Interaction w/Rating Agencies
- II. The State's Current Ratings and Ratings Trends
- III. Debt Authorization for the State
- IV. The State's Current GO Debt Service Analysis through FY 2018-19
- V. Questions?

# I. The Office of the State Treasurer



*South Carolina*

# Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

## Mission Statement

The Office of the State Treasurer's mission is to serve the citizens of South Carolina by providing the most efficient banking, investment, and financial management services for South Carolina State Government.

Ultimately, the Treasurer's commitment is to safeguard the State's financial resources and to maximize return on the State's investments.



*South Carolina*

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Office of State Treasurer (Mission Cont..)

The Office of the State Treasurer issues and administers the debt of the State of South Carolina (the State), public institutions and certain authorities.

The need for borrowed funds is initiated by the General Assembly and the State's agencies and the Office of State Treasurer assists them with forming a plan to receive the borrowed funds and to repay them in a timely manner.

The Office of State Treasurer's role with the issuance and management of state debt is defined within Title 11, Chapter 5, of the SC Code of Laws, as well as various other chapters contained within Title 11.



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Interaction with the Rating Agencies

- The Office of State Treasurer is in constant contact with the three (3) major rating agencies throughout the year.
  - BEA forecasts
  - budgetary actions/events
  - statewide economic developments
  - natural disasters
- Beyond this contact, the Office of State Treasurer also interacts with the rating agencies through an ongoing reporting process that presents the current status of the State's financial condition.
- Finally, the Office of State Treasurer interacts with the rating agencies at the point in which debt is issued.

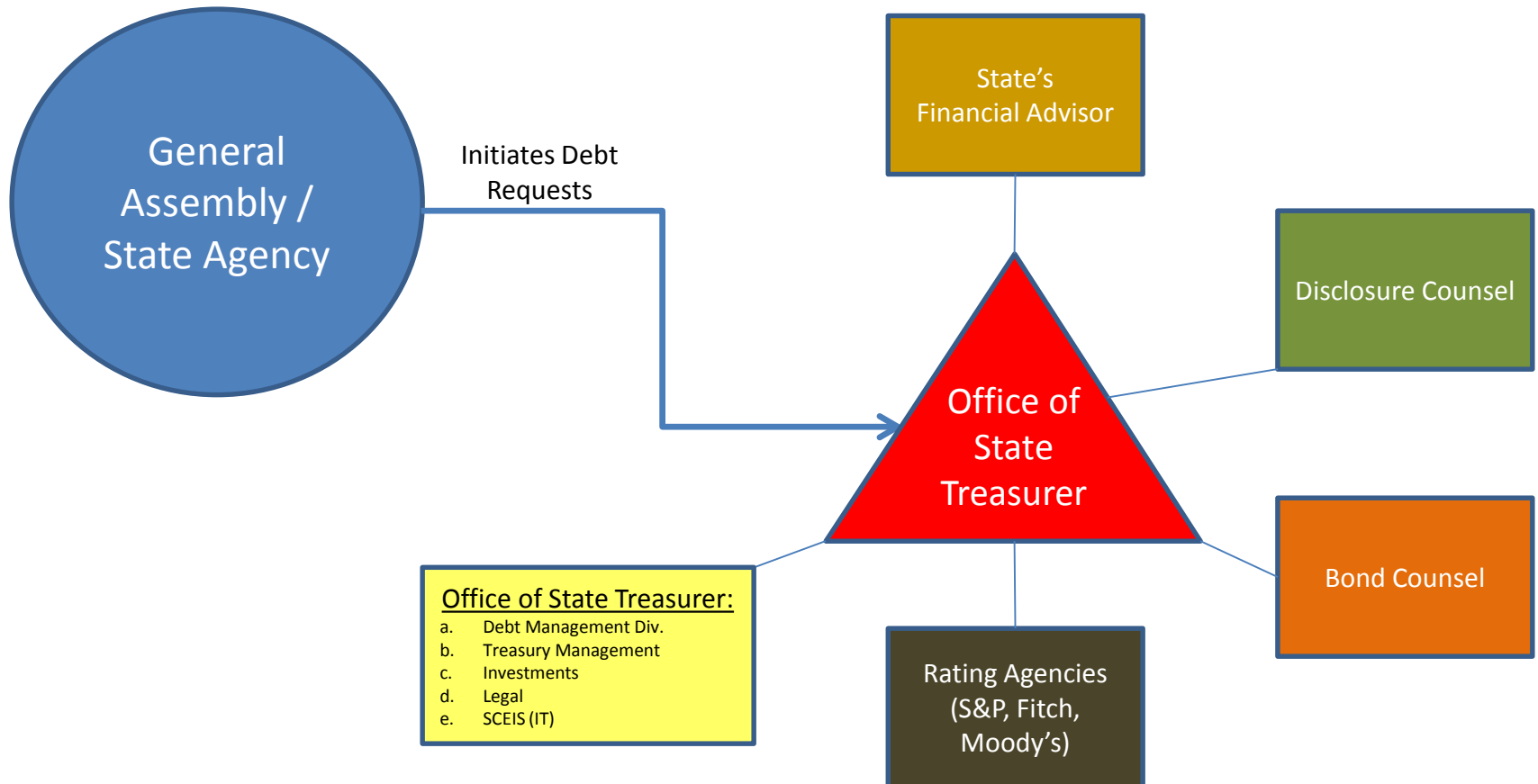


South Carolina

# Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

## Office of State Treasurer Issuance Primary Partners (GO Debt)



## II. The State's Current Ratings and Rating Trends





South Carolina

# Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

## From State's most recent GO Bond Sale

Ratings:  
 Fitch Ratings: AAA  
 Moody's Investors Service, Inc.: Aaa  
 Standard & Poors Credit Market Services: AA+

Fitch	S&P	Moody's	Rating grade description (Moody's)
AAA	AAA	Aaa	Minimal credit risk
AA+	AA+	Aa1	Investment grade Very low credit risk
AA	AA	Aa2	
AA-	AA-	Aa3	
A+	A+	A1	Investment grade Low credit risk
A	A	A2	
A-	A-	A3	
BBB+	BBB+	Baa1	Investment grade Moderate credit risk
BBB	BBB	Baa2	
BBB-	BBB-	Baa3	
BB+	BB+	Ba1	Investment grade Substantial credit risk
BB	BB	Ba2	
BB-	BB-	Ba3	
B+	B+	B1	Speculative grade High credit risk
B	B	B2	
B-	B-	B3	
CCC+	CCC+	Caa1	Speculative grade Very high credit risk
CCC	CCC	Caa2	
CCC-	CCC-	Caa3	
CC	CC	Ca	Speculative grade In or near default, with possibility of recovery
C	C		
DDD	SD	C	
DD	D		
D			



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Recent Rating Summary/Outlook (S&P)<sup>1</sup>

#### Summary:

“... The (AA+) ratings reflect our view of South Carolina’s:

- Growing economy, although growth has been historically cyclical;
- Positive revenue trends and financial operations;
- Proactive budget adjustments to offset declining revenues in previous years;
- Maintenance of required budgetary reserves; and,
- Low-to-moderate debt levels.”

#### Outlook:

“The stable outlook reflects what we consider South Carolina’s steady economic recovery and proactive management, which has contributed to improved financial performance in recent years.”

.... “South Carolina’s high pension liability and deteriorating pension funded ratio limits the likelihood of a higher rating in the next two years. Although not expected in the near term, should recurring state revenue become significantly misaligned with recurring expenditures, pressuring budgets and reserve balances, we could lower the rating.”

1 – Rating Agency Reports are purchased and proprietary confidential information for internal use only by Office of State Treasurer authorized staff.



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Recent Rating Summary/Outlook (Fitch)<sup>1</sup>

#### Summary:

“South Carolina has a proven ability and willingness to support fiscal balance, and Fitch believes this commitment will be maintained through a reorganization of fiscal oversight responsibilities following the elimination of the State’s longstanding Budget and Control Board (BCB),<sup>2</sup> effective July 1, 2015. The State’s careful approach to financial operations and solid revenue growth have resulted in the restoration of reserves following their depletion during the recession.”

#### Outlook:

“The outlook for South Carolina is stable, based on our expectation that the State’s conservative management will maintain fiscal stability even in the face of economic weakness.”

1 – Rating Agency Reports are purchased and proprietary confidential information for internal use only by Office of State Treasurer authorized staff.

2 – Effective July 1, 2015, the SFAA assumed all of the responsibilities of the B&CB relating to bond authorization and issuance.



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Recent Rating Summary/Outlook (Moody's)<sup>1</sup>

#### Summary:

“South Carolina’s conservative financial management practices have long supported a Aaa rating, despite economic challenges such a non-durable goods manufacturing losses and an elevated poverty rate. In recent years, the State has rebuilt fund balances and strengthened its financial reserve and budget monitoring requirements, improving its financial profile. South Carolina’s economic development program has helped the economy to add jobs and diversity.”

#### Outlook:

“The Rating Outlook (for South Carolina) is Stable.”

1 – Rating Agency Reports are purchased and proprietary confidential information for internal use only by Office of State Treasurer authorized staff.

### III. Debt Authorization for the State



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Constitutional Debt Provisions

- Article X – Section 13
  - General obligation debt - any indebtedness of the State secured in whole or in part by a pledge of the full faith, credit and taxing power of the State.
  - Indebtedness for any public purpose payable solely from a revenue-producing project or from a special source, which source does not involve revenues from any tax.
    - but may include fees paid for the use of any toll bridge, toll road or tunnel.



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Constitutional Limits on GO Debt (Cont..)

- **General Obligation Bonds**

- Maximum annual debt service on all general obligation bonds of the State (excluding highway bonds, state institution bonds, tax anticipation notes, and bond anticipation notes) must not exceed 5% of the general revenues of the State for the prior fiscal year (excluding revenues authorized to be pledged for state highway bonds and state institution bonds).

- However, the percentage rate of general revenues may be reduced to 4% or increased to 7% by legislative enactment passed by a two-thirds vote of the total membership of the Senate and a two-thirds vote of the total membership of the House of Representatives.



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Constitutional Limits on GO Debt (Cont..)

- **5% Limitation**

- Capital Improvement Bonds (Act 1377 of 1968, as amended, and § 11-27-30)
- School Facilities Bonds (§ 59-71-10, et seq.)
- Transportation Infrastructure Bonds (§ 11-43-510, et seq.)
- Air Carrier Hub Bonds
- Economic Development Bonds

- **5.5% Limitation (+ 0.5%)**

- Economic Development Bonds (§ 11-41-10, et seq.) .... Added, 2002

- **6.0% Limitation (+ 0.5%)**

- Research Universities Infrastructure (§ 11-51-10, et seq.) .... Added, 2004

- Neither State Highway Bonds nor GO State Institution Bonds are subject to the above 5.0%, 5.5%, and 6.0% General Fund Revenue Constitutional Limits for GO Debt.





South Carolina

# Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

## Constitutional Limits on GO Debt (Cont..)

- **Highway Bonds<sup>1</sup>**

- Must be additionally secured by a pledge of the revenues derived from certain sources of revenue.
  - Revenues made applicable by the General Assembly for state highway purposes from any and all taxes or licenses imposed upon individuals or vehicles for the privilege of using the public highways of the State.
- Maximum annual debt service limited to 15% of the proceeds received from the following sources of revenue for the prior year:
  - Motor Vehicle License Fees (FY 2012-13 General Fund Revenues)
  - Gasoline Tax (FY 2012-13 Other Revenues)
  - Fuel Oil Tax (FY 2012-13 Other Revenues)
  - Motor Vehicle License Fees (Infrastructure Bank)
  - Motor Vehicle License Fees (SCDOT)
- Statutory Authorization
  - SC Code Ann. § 57-11-210, et seq.

1 – Highway Bonds are not subject to the 5.0 %, 5.5%, and 6.0% General Fund Revenue Constitutional Limits on GO Debt.



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Constitutional Limits on GO Debt (Cont..)

- **State Institution Bonds<sup>1</sup>**

- Must be additionally secured by a pledge of the revenues derived from the tuition fees received by the particular institution of higher learning for which such state institution bonds are issued.
- Maximum annual debt service limited to 90% of the state institution's tuition fees set aside for Debt Service for the prior fiscal year.
- Statutory Authorization
  - SC Code Ann. § 59-107-10, et seq.

1 – State Institution Bonds are not subject to the 5.0 %, 5.5%, and 6.0% General Fund Revenue Constitutional Limits on GO Debt.

## IV. The State's Current GO Debt Service Analysis through FY 2018-19



South Carolina

## Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

### Prospective Capital Bond Bill Amount

- **\$1.0 Billion (Based on historical and conservative debt practices)**
  - Assumes \$200 million budget, with \$140 million allocable to 5.0% debt class.
  - Assumes 80% limitation on \$140 million allocable to 5.0% debt class.
  - Assumes 15 year term.
  - Assumes issuance at PAR 5% coupon.



PRELIMINARY DEBT SERVICE BUDGET ESTIMATE  
EXISTING LAW - EXCLUDES POTENTIAL IMPACT OF PROPOSED LEGISLATION

CATEGORY		FISCAL YEAR 2015-16		FISCAL YEAR 2016-17			FUTURE YEARS	
		APPROPRIATED	APPROPRIATION NEEDED	CURRENT OUTSTANDING (AT 6/30/15)	NEW ISSUES (AFTER 6/30/15) <sup>6</sup>	TOTAL NEEDED	2017-18	2018-19
Capital Improvement Bonds	<u>5% Const Limit</u>	49,343,728	48,091,650	35,286,250	- <sup>1,2</sup>	35,286,250	23,529,500	15,226,250
State School Facilities Bonds	<u>5% Const Limit</u>	57,992,525	44,266,500	20,534,000	-	20,534,000	8,736,000	-
Air Carrier Hub Bonds	<u>5% Const Limit</u>	4,308,400	4,209,200	4,178,000	-	4,178,000	4,148,200	4,129,600
Economic Development Bonds 11-41-50C	<u>5% Const Limit</u>	10,420,132 <sup>7</sup>	13,178,167	13,113,875	-	13,113,875	13,113,625	13,115,125
Transportation Infrastructure Bonds	<u>5% Const Limit</u>	-	-	- <sup>8</sup>	-	-	-	-
Capital Bond Bill Debt Service	<u>5% Const Limit</u>	-	-	-	25,101,250	25,101,250 <sup>9</sup>	64,944,500 <sup>9</sup>	82,031,000
<b>Total 5% Constitutional Limit</b>		<b>122,064,785</b>	<b>109,745,517</b>	<b>73,112,125</b>	<b>25,101,250</b>	<b>98,213,375</b>	<b>114,471,825</b>	<b>114,501,975</b>
Economic Development Bonds 11-41-50A	<u>.5%/5.5% Stat Limit</u>	18,159,394.38 <sup>7</sup>	22,965,883	22,517,031	3,928,257 <sup>4</sup>	26,445,289	26,449,763.25	27,739,360.14
Research Universities Bonds	<u>.5%/6.0% Stat Limit</u>	24,220,344	24,608,436	20,355,313	-	20,355,313	20,251,475	20,273,800
Agricultural College Stock-Interest		11,508	11,508	11,508	-	11,508	11,508	11,508
Clemson Perpetual Stock-Interest		3,513	3,513	3,513	-	3,513	3,513	3,513
Richard B. Russell Project		550,000	550,000	550,000	-	550,000	550,000	550,000
Economic Development Bonds 11-41-50B		10,195,753.95 <sup>7</sup>	12,894,400	12,693,650	- <sup>3</sup>	12,693,650	12,498,400	10,557,900
Total other classes of budgeted debt		53,140,513.34	61,033,740	56,131,015	3,928,257	60,059,272	59,764,659	59,136,081
Recurring - Act H.4230 Section 1(B)(4) (2015-16)		16,425,000	16,425,000 <sup>5</sup>	-	-	-	-	-
Carried Forward pursuant to Proviso H4230.6 (2015-16)		17,201,319	7,201,319 <sup>5</sup>	-	-	-	-	-
<b>TOTAL DEBT SERVICE FROM GENERAL FUND</b>		<b>208,831,617</b>	<b>194,405,576</b>	<b>129,243,140</b>	<b>29,029,507</b>	<b>158,272,647</b>	<b>174,236,484</b>	<b>173,638,056</b>
Potential Appropriation Lapse for FY 16			14,426,041					

SCDOT Reimbursement Pursuant to Act 98 (2013)

50,000,000	-	50,000,000	50,000,000	50,000,000
------------	---	------------	------------	------------

Notes and Assumptions

- <sup>1</sup> Final issuance of Capital Improvement Bonds (CIB) under current bond bill completed January, 2004.
- <sup>2</sup> Fees, expenses and reimbursements included in CIB.
- <sup>3</sup> Subject in part to 0.5% increase in debt limit; includes \$170 million issued pursuant to Act 124 (2009); all debt service paid from General Fund.
- <sup>4</sup> Issuance of up to \$53 million (\$70mm of \$123mm authorization previously funded via appropriation) for Volvo Cars Project funding in FY 2017.
- <sup>5</sup> Additional appropriations used to pay down 0.5% Economic Development Bond Principal.
- <sup>6</sup> New Issues (After 6/30/15) equates to debt service requirements on planned bond issues. Approved authorizations with currently unplanned issues are not forecasted.
- <sup>7</sup> Prior appropriation allocated based on percentage of appropriation needed after separation of Economic Development Bond Classes.
- <sup>8</sup> \$60 Million issued 2004. Per CG and Budget, no debt service budgeted since the General Fund will be reimbursed by the South Carolina Transportation Infrastructure Bank.
- <sup>9</sup> Based on Issuance of Capital Bond Bill Fall of 2016 - PAR amount of approximately \$1 Billion (parameters outlined below).
  1. 5% coupon issued at PAR, 2. 15 year term, and 3. Limited to 80% of allocable portion (\$140mm) of \$200mm Debt Service Budget.



South Carolina

# Office of State Treasurer

Joint Capital Bond Study Committee Discussion (11/30/2015)

## 5.0%, 5.5%, and 6.0% Capacity Limits

### General Obligation Bonds 5.0%

2013-2014 Budgetary General Fund revenues <sup>1</sup>	\$ 6,552,390,000		
Less: 2013-2014 Budgetary General Fund revenues pledged for highway bonds	<u>11,234,000</u>		
'2013-2014 net Budgetary General Fund revenues	<u>6,541,156,000</u>		
5% of 2013-2014 net Budgetary General Fund revenues	327,057,800		
Less: maximum annual debt service for 5% Constitutional Debt Limit	<u>122,975,492</u>	6/30/2016	1.88%
Legal Debt service margin at June 30, 2015--5% Constitutional Debt Limit	204,082,308		
Reserve for General Fund Revenue Volatility (20%)	<u>(40,816,462)</u>		
Adjusted Debt service Margin	<u>\$ 163,265,847</u>		4.38%

### Notes:

1 – Calculations based on FY 2013-14 Budgetary General Fund revenues, the most recent available.



South Carolina  
**Office of State Treasurer**  
 Joint Capital Bond Study Committee Discussion (11/30/2015)

**5.0%, 5.5%, and 6.0% Capacity Limits**

**Economic Development Bonds 0.5%/5.5%** <sup>1</sup>

2013-2014 Budgetary General Fund revenues	\$ 6,552,390,000	
Less: 2013-2014 Budgetary General Fund revenues pledged for highway bonds	<u>11,234,000</u>	
'2013-2014 net Budgetary General Fund revenues	<u>6,541,156,000</u>	
.5% of 2013-2014 net Budgetary General Fund revenues	32,705,780	
Less: maximum annual debt service for .5% Economic Development Bonds.	<u>28,904,364</u>	6/30/2023 0.44%
Legal Debt service margin at June 30, 2015--economic development bonds .5% 11-41-50A.	3,801,417	
Reserve for General Fund Revenue Volatility (20%)	<u>(760,283)</u>	
Adjusted Debt service Margin	<u>\$ 3,041,133</u>	0.49%

Notes:

1 – Calculations based on FY 2013-14 Budgetary General Fund revenues, the most recent available.



South Carolina  
**Office of State Treasurer**  
 Joint Capital Bond Study Committee Discussion (11/30/2015)

**5.0%, 5.5%, and 6.0% Capacity Limits**

**Research University Infrastructure Bonds 0.5%/6.0%**

2013-2014 Budgetary General Fund revenues <sup>1</sup>	\$ 6,552,390,000	
Less: 2013-2014 Budgetary General Fund revenues pledged for highway bonds	<u>11,234,000</u>	
'2013-2014 net Budgetary General Fund revenues	<u>6,541,156,000</u>	
.5% of 2013-2014 net Budgetary General Fund revenues	32,705,780	
Less: maximum annual debt service for .5% research university infrastructure bonds.	<u>21,521,356</u>	6/30/2016 0.33%
Legal Debt service margin at June 30, 2015--research university infrastructure bonds .5%.	11,184,424	
Reserve for General Fund Revenue Volatility (20%)	<u>(2,236,885)</u>	
Adjusted Debt service Margin	<u>\$ 8,947,539</u>	0.47%

Notes:

1 – Calculations based on FY 2013-14 Budgetary General Fund revenues, the most recent available.



# V. Questions