

# STATE OF SOUTH CAROLINA

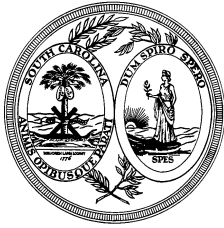
**POPULAR ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**





FRONT COVER

*Red Horse Inn in Landrum, South Carolina*  
Cover photo by Kelly Ghent



State of South Carolina  
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**RICHARD ECKSTROM, CPA**  
COMPTROLLER GENERAL

**WILLIAM E. GUNN**  
CHIEF OF STAFF

November 14, 2019

**A Message from the Comptroller**

It is my pleasure to present this Popular Annual Financial Report (PAFR) of the State of South Carolina for the fiscal year ended June 30, 2019. This easy-to-read report is intended to present only a summarized view of the State's finances. The State of South Carolina's 2019 Comprehensive Annual Financial Report (CAFR), which is available at [www.cg.sc.gov](http://www.cg.sc.gov), provides a much more detailed analysis of the State's finances and is prepared in accordance with generally accepted accounting principles (GAAP). This PAFR includes only select financial information, and it does not provide all of the required financial statements, schedules, and note disclosures that would be required by GAAP. However, those financial statements, schedules, and note disclosures not contained herein are included in the CAFR.

We hope you find this report informative, and we welcome any feedback on it that you may have.

Sincerely,

Richard Eckstrom, CPA  
Comptroller General



*State Capitol Building, Columbia, South Carolina*

## State Economy

South Carolina has a diverse economic base, including trade, professional services, health care, hospitality, manufacturing, and financial activities. Businesses such as Hitachi, Michelin, Boeing, BMW, GE, and Volvo have migrated to South Carolina from around the world to take advantage of the State's labor force, competitive wages, the lowest unionization rate in the nation, excellent port facilities, accessibility to markets, lower costs of living, and substantial tax incentives.

Businesses continue to choose South Carolina as a place to locate or expand, and the State of South Carolina is committed to working with employers to meet their workforce needs through state-supported workforce development initiatives.

During the year ended June 30, 2019, total non-farm employment in the state increased by 54,100 to 2,179,800. Industry sectors reflecting gains were Professional and Business Services (+17,800); Manufacturing (+10,500); Trade, Transportation, and Utilities (+6,800); Government (+6,100); Construction (+4,000); Leisure and Hospitality (+3,600); Education and Health Services (+3,500); and Financial Activities (+3,200). Offsetting these gains were declines in the Mining, Logging, Information, and Other Services sectors (-1,400).

South Carolina's unemployment rate was 3.5% in June 2019, which improved from June 2018's rate of 3.8%. It further improved to 2.9% in September 2019. In comparison, the U.S. unemployment rate was 3.7% in June 2019 and 3.5% in September 2019.

The South Carolina Leading Index (SCLI) was 102.44 at the end of June 2019. Above the 100 mark, the SCLI is used to forecast improving economic conditions for South Carolina over the upcoming three to six months. The SCLI finished the month of October 2019 at 102.42, the most current month available.

The number of real estate closings in the state remained virtually the same when comparing June 2019 and June 2018. But, with the declining number of foreclosures in the state, down 12.5% between June 2019 and June 2018, the supply of available homes on the market remains low. As inventory tightens, real estate values in South Carolina have appreciated. In addition, the number of residential building permits remained virtually the same compared to a year ago, but the value of those permits decreased by 8.8%, reflecting a shift in buyer demand for more moderately priced houses.

The South Carolina housing market remains strong, led by the Charleston housing market which experienced strong home sales in the first half of calendar year 2019. This growth was also complemented by the median price of homes sold in that market increasing 5.1% when comparing June 2019 to June 2018.

### South Carolina's Growing Economic Environment

Over the last several years, South Carolina has demonstrated its ability to attract expanded economic opportunities for citizens. Manufacturing has grown substantially. South Carolina has also experienced a state-wide decrease in its unemployment rate, which has shown that, even in the midst of uncertain national economic conditions, our state's business-friendly climate and committed workforce continue to attract corporate investment that creates well-paying jobs.

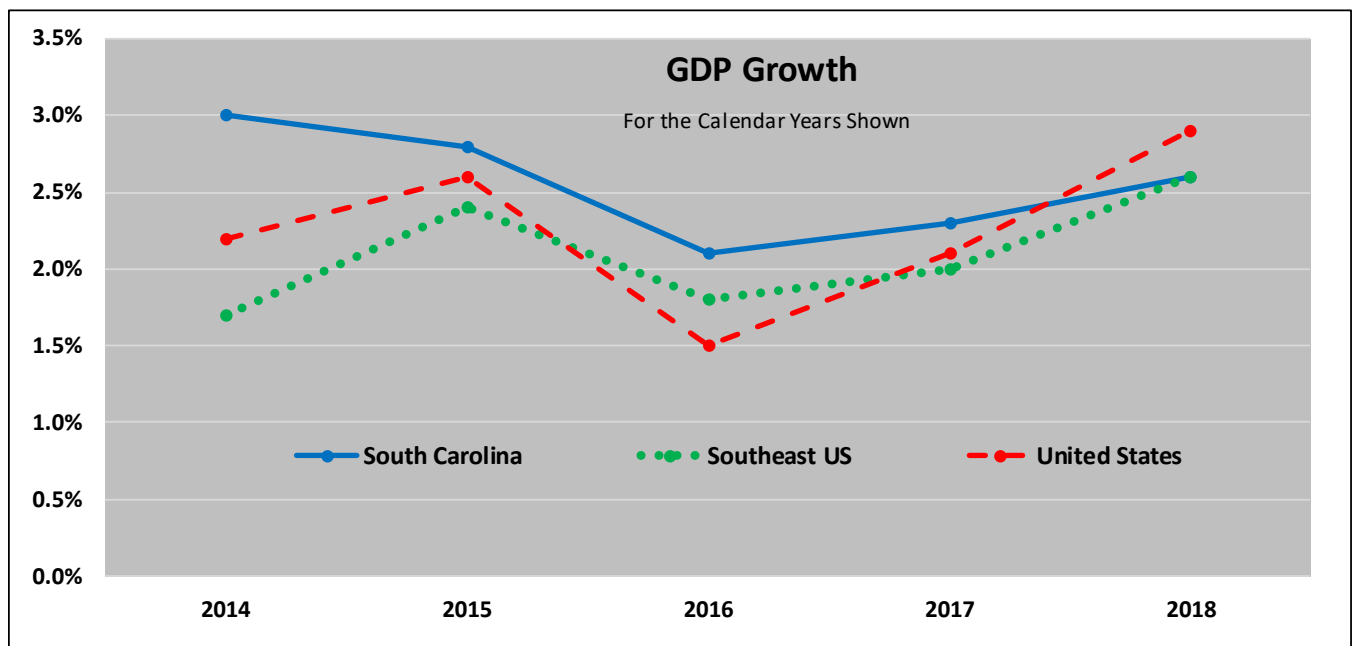
We have seen an emerging trend of companies investing and expanding in South Carolina. Many of South Carolina's major employers have expanded and created high-quality jobs within the State. The State established an Aerospace Task Force in 2012 to position the State for future growth. The task force focused on growing the aerospace supply chain for companies like Boeing and GE Turbine and supporting initiatives to assure that South Carolina has a workforce ready to support the growing aerospace industry.

South Carolina’s exports reached record levels in 2018 with exports increasing by 7.5% to \$34.6 billion from 2017 to 2018. In 2018, South Carolina ranked 14<sup>th</sup> in the United States in exports. These export figures were bolstered by the fact that the State is the nation’s top exporter of completed passenger vehicles and tires, in which the State accounted for approximately 16% of the entire U.S. passenger vehicles market and approximately 32% of the total U.S. tire export market.

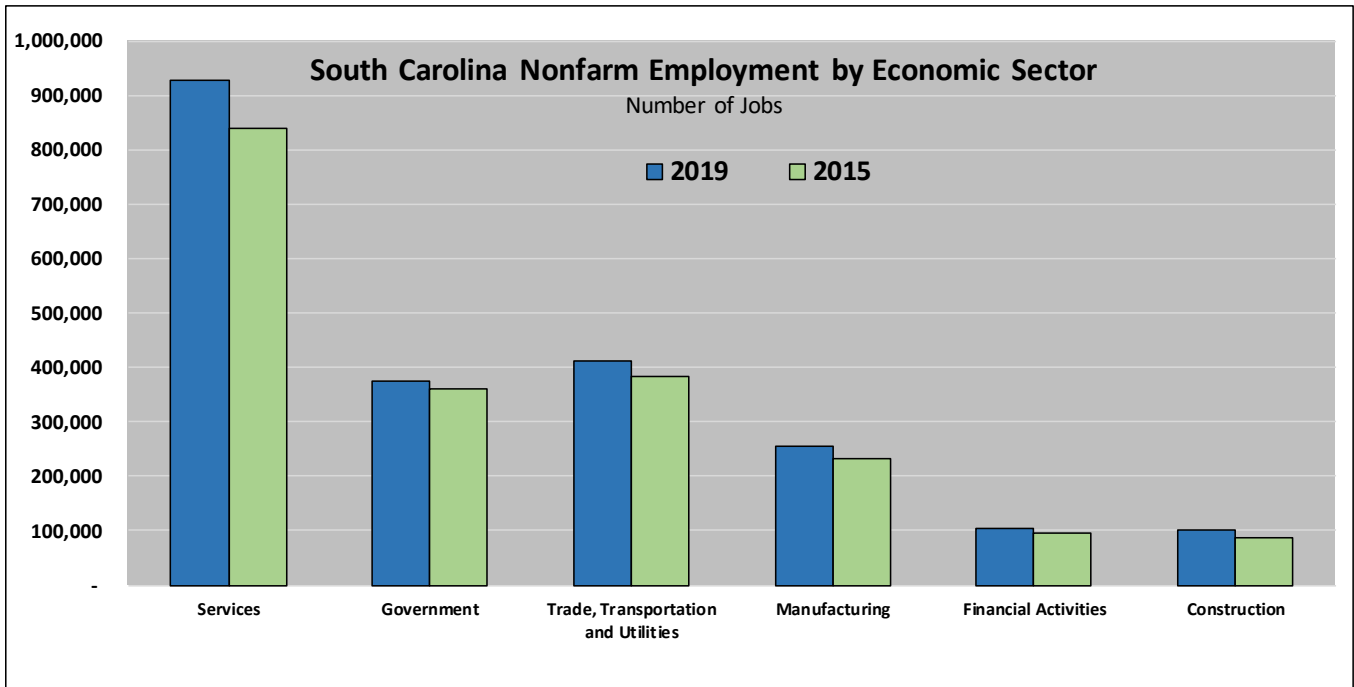
The State had also recently established a Transportation, Distribution and Logistics (TDL) Council that includes strong private sector participation. Part of the mission of this council is to prepare South Carolina for the expansion of the Panama Canal by providing South Carolina with a deeper port capable of supporting the emergence of deeper draught merchant shipping vessels. The Port of Charleston is deepening its harbor and shipping channel from forty-five to fifty-two feet. Once the project is completed by 2021, Charleston will be the deepest port on the east coast where deep draught vessels will be able to navigate without tidal restrictions.

Due in part to the State’s economic outreach initiatives, South Carolina’s total economic output or gross domestic product (GDP) was \$233.9 billion in 2018, the most recent year available. Between 2017 and 2018, the state’s GDP grew 2.6%, compared to the southeast states’ average growth of 2.6%.

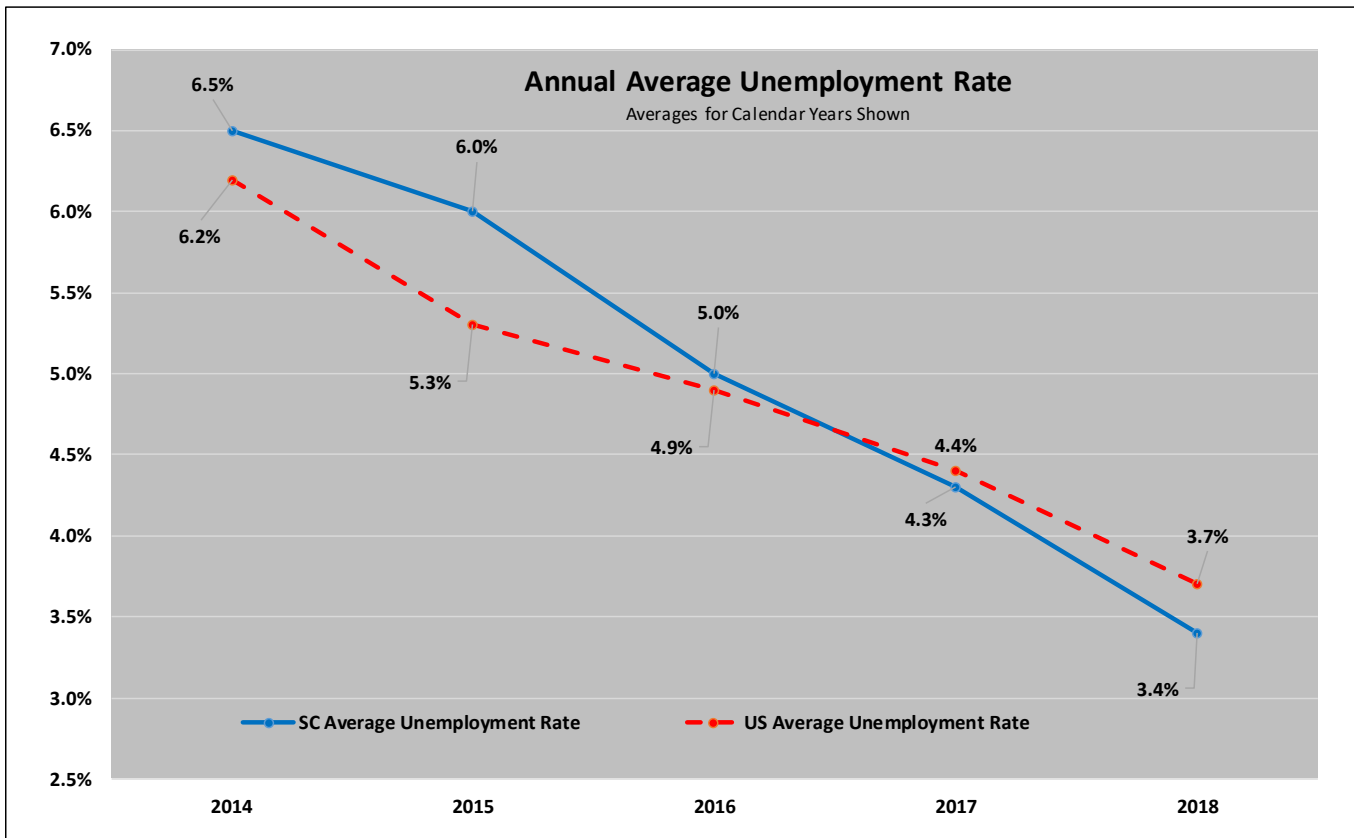
With our cost of living 11% below the national average, South Carolina offers some of the lowest labor costs in the nation. South Carolina is a right-to-work state and in 2018 was tied with North Carolina for the lowest unionization rate in the nation, at 2.7% of the workforce.

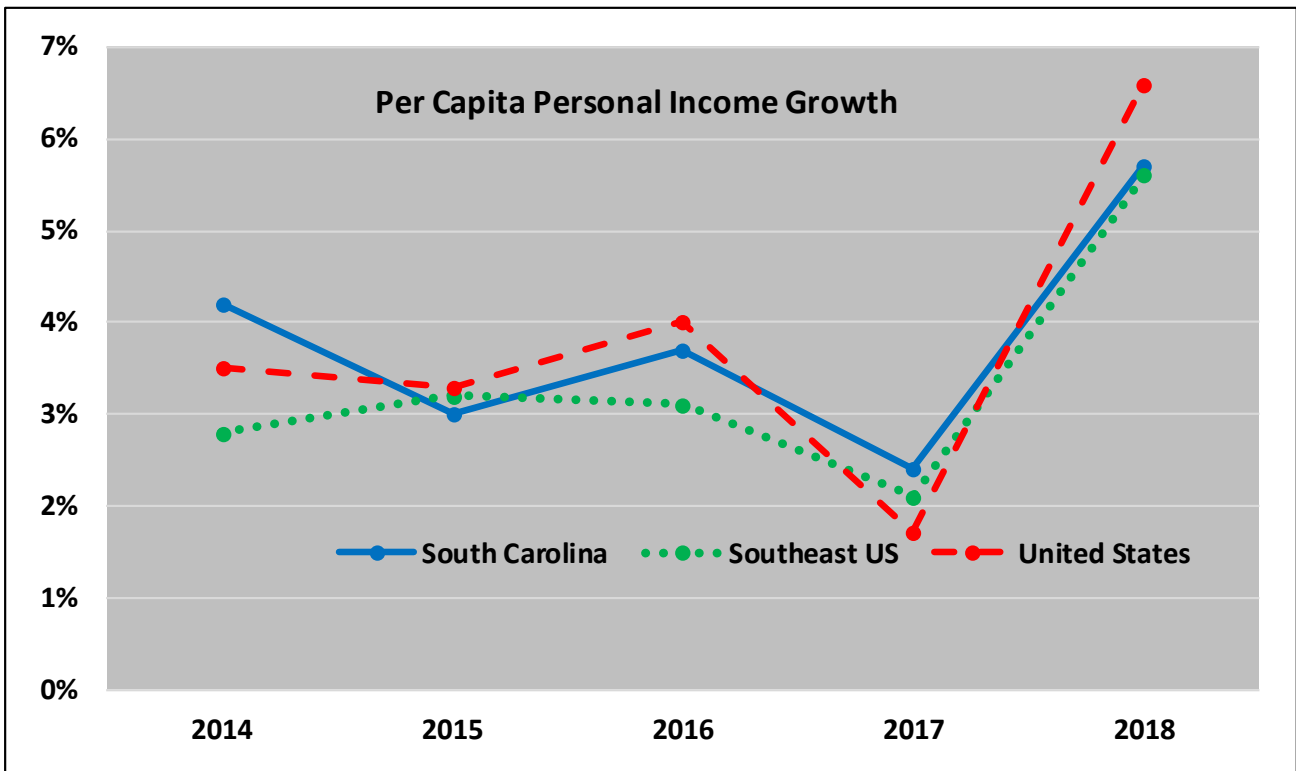
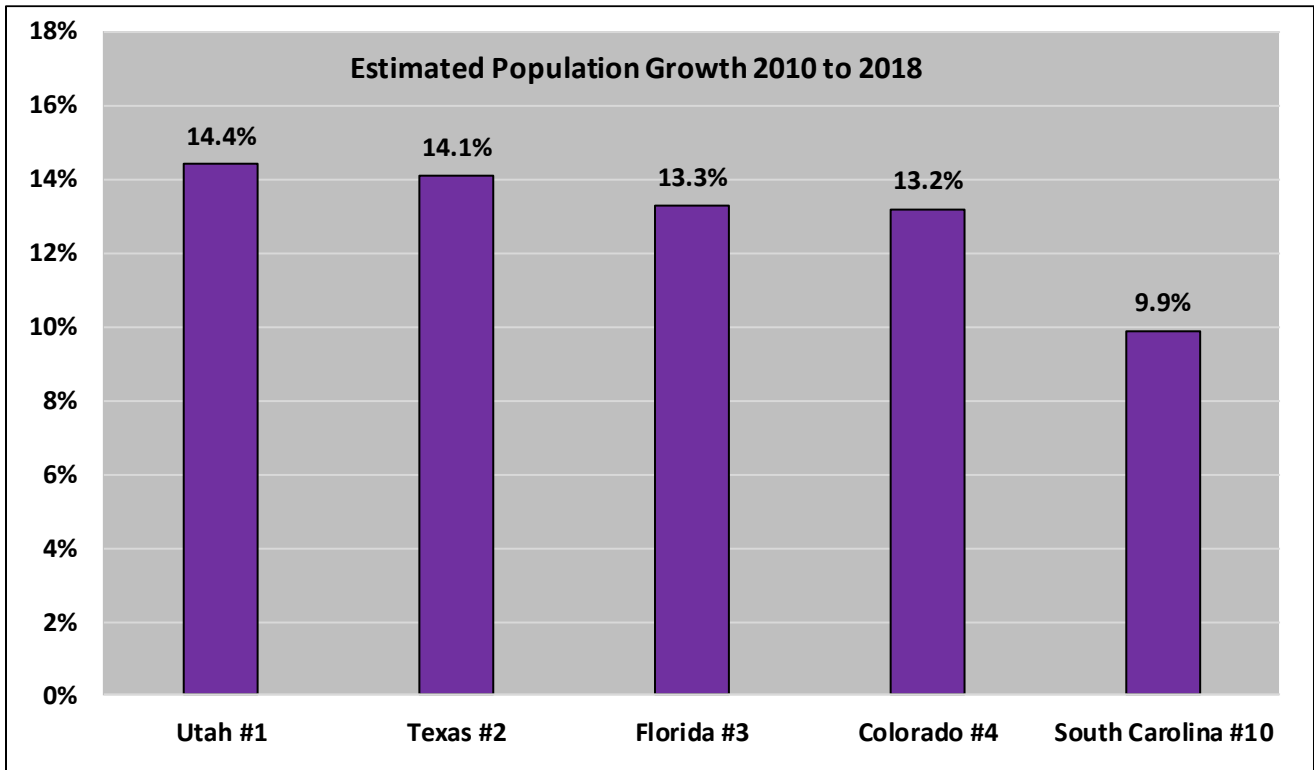


Manufacturing, construction, professional and business services, and health care and social assistance have experienced notable gains with most of the state’s metropolitan areas experiencing moderate growth in GDP over the past several years.



The employment category for services above includes professional and business services, education and health services, hospitality and leisure services, information services, and other services.





## Financial Highlights

This 2019 Popular Annual Financial Report (PAFR) presents a condensed view of state government's financial condition. It intentionally doesn't include detailed financial statements, which many readers consider to be difficult to understand because of their voluminous, complex nature and the required technical terminology that must be used to complete them. *For those interested in obtaining more detail than is provided in this PAFR, comprehensive financial statements and related disclosures are included in the State's 302-page Consolidated Annual Financial Report (CAFR) for fiscal year 2019, which is available at [www.cg.sc.gov](http://www.cg.sc.gov).*

The financial statements in the CAFR are prepared from **two different perspectives**. These two perspectives each produce financial statements that, while they are somewhat related, differ because of their differing perspectives.

The **first perspective** takes a long-term view of the State's finances on an overarching, *government-wide* basis, and these *government-wide* financial statements are prepared using what accountants call "accrual accounting." Accrual accounting is the method of accounting used by most businesses to reflect the actual economic substance of transactions, as opposed to "cash basis accounting" which accounts for simply the inflows and outflows of cash. The *government-wide* financial statements present the account balances and financial activities of Primary State Government (separating the State's "Governmental Activities" from its "Business-type Activities"). Governmental activities include activities to administer state government, education, health and environment services, social services, the justice system, and transportation. State taxes and federal aid finance most of the costs of governmental activities. Business-type activities are intended to recover most of the cost of providing their services by charging fees to customers. Unemployment compensation benefits, certain insurance coverages, the State's railroad operations, and financing student loans are among the State's business-type activities.

The government-wide financial statements also present the account balances and financial activities of "Component Units." Component Units are legally-separate state entities that include the Public Service Authority (Santee Cooper), the State Ports Authority, the State Housing Authority, the Lottery Commission, and South Carolina's state-supported colleges and universities, all of which operate outside the direct management and oversight of central state government. Capital assets and long-term debt are included in the State's *government-wide* financial statements but not in its shorter-term "Fund" financial statements described in the **second perspective** paragraph below.

The **second perspective** takes a shorter-term, operating cycle (generally twelve month) view that focuses on "Funds." Funds are sets of unique accounts used to separately track the financial results of specific programs, services, or functions of government. The major categories of funds contained in "Fund" financial statements include Governmental Funds, the most prominent being the State General Fund which provides for the general administration of central State government, deriving most of its revenue from taxes and fees; Proprietary Funds, the largest of which is the State Unemployment Compensation Fund, deriving most of its revenue from employer assessments; and Fiduciary Funds, the two largest of which are (1) the net assets of the State's pension plans and (2) the temporary excess cash that local governments deposit into the Local Government Investment Pool operated by the State. The accounting method used for Governmental Funds is *modified* accrual accounting, while the accounting method used for Proprietary and Fiduciary Funds is accrual accounting.

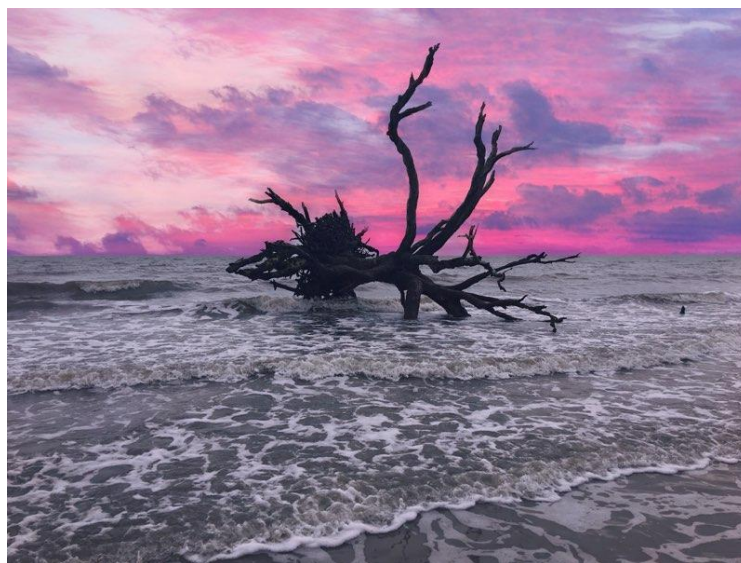
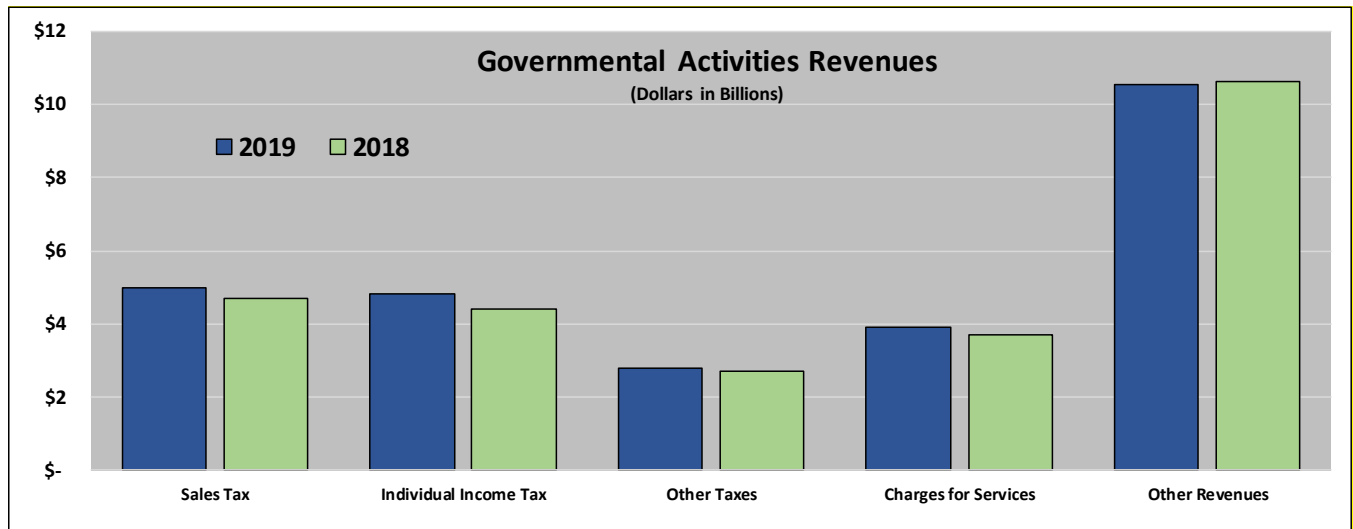
In the remaining pages of this report the financial information reflects both a government-wide perspective (see pages 6-13) and a fund perspective (see pages 14-17).



**Government-wide Governmental Activities**

Governmental Activities revenues were \$27.0 billion, increasing by \$940 million, or 3.6%, in fiscal year 2019.

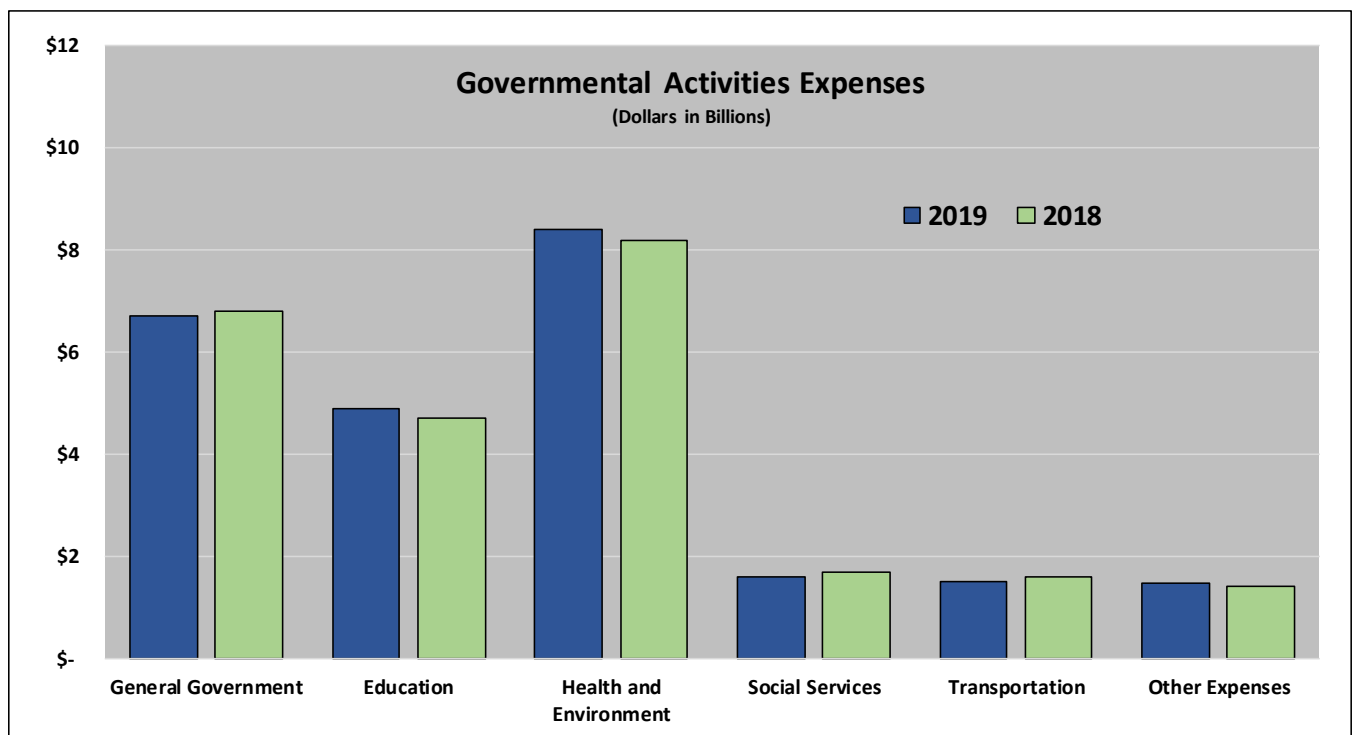
- Individual income tax revenues increased by \$427 million, or 9.7%, retail sales and use tax revenues increased by \$316 million, or 6.7%, and other taxes revenues increased by \$140 million, or 5.3%. Overall tax collections increased during fiscal year 2019 due to increased enforcement and improvements in consumer spending within the state and national economies.
- Capital grants and contributions decreased by \$305 million, or 31.1%, from last year. This was primarily a result of reduced federal transportation reimbursements tied to delayed execution of certain State infrastructure projects and weather-related delays.
- Other revenue increases included a significant increase in unrestricted investment income of \$205 million, or 127.5%, from the previous fiscal year. This increase was attributed to the availability of higher investable cash balances and increased interest rates during the 2019 fiscal year. Additionally, there was an increase in securities lending investing, which yields higher rates than the other investments the State Treasurer is permitted to invest in by State constitutional limits.



*Botany Bay, Edisto Island, South Carolina – Kelly Eckstrom*

Total expenses for the State governmental activities were \$24.6 billion, an increase of \$142 million, or .6%. The most significant changes in expenses include the following:

- Health and environment expenses increased by \$233 million, or 2.9%.
- Education expenses increased by \$148 million, or 3.1%.
- Other expenses included increases in resources and economic development expenses of \$79 million, or 20.1%, from last year. This increase was due primarily to a capital asset donation of \$121 million fiscal year 2018 that offset the previous year’s expenses compared to only \$2 million in similar donations fiscal year 2019.
- General government expenses decreased by \$158 million, or 2.3%.
- Social services expenses decreased by \$93 million, or 5.5%.
- Transportation expenses decreased by \$94 million, or 5.8%, from last year. As stated above, the decrease is the result primarily of delayed execution of projects and weather-related delays.



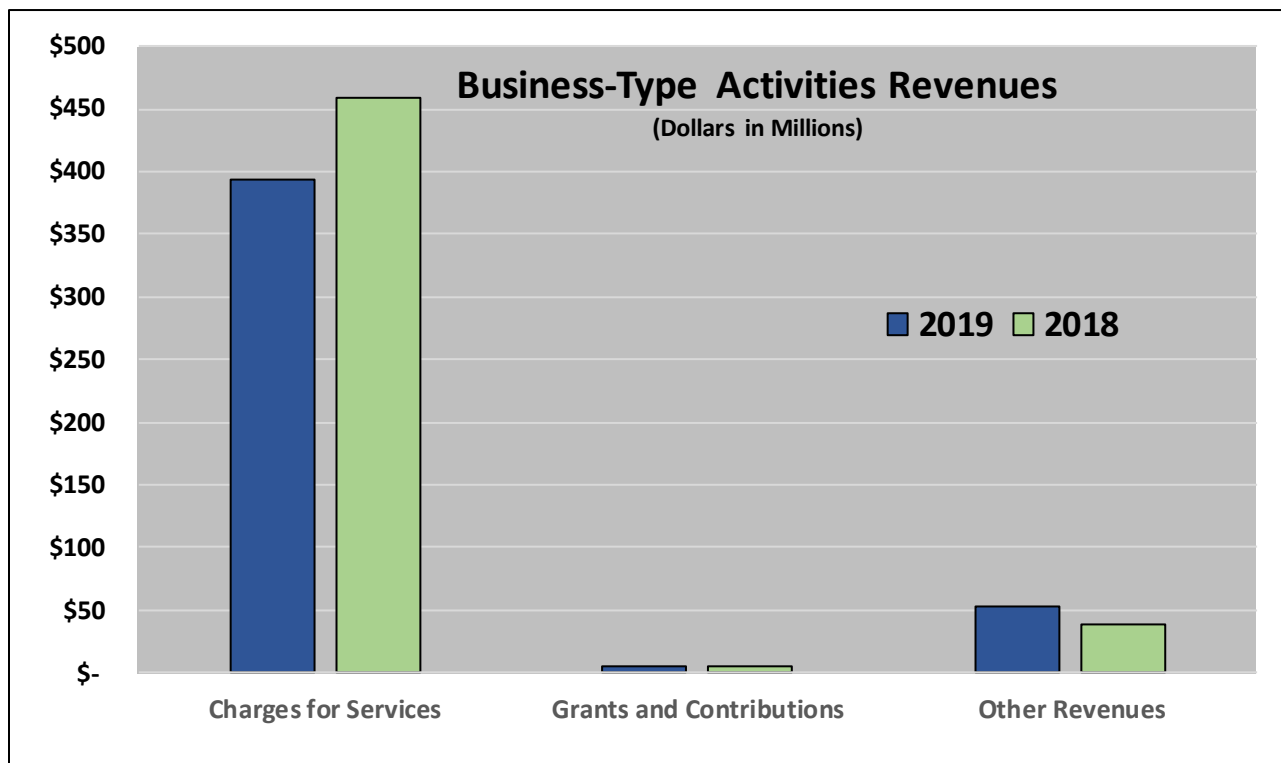
*Spider lilies, Saluda River, South Carolina – Kelly Ghent*

**Government-wide Business-type Activities**

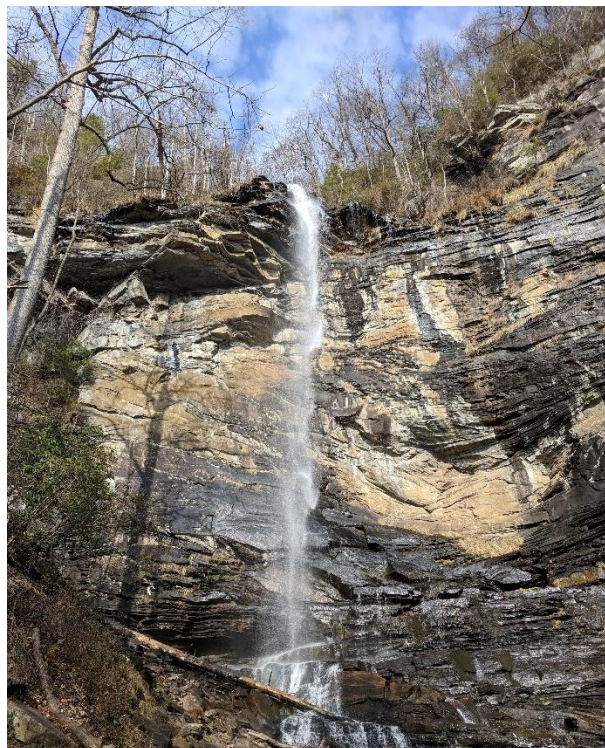
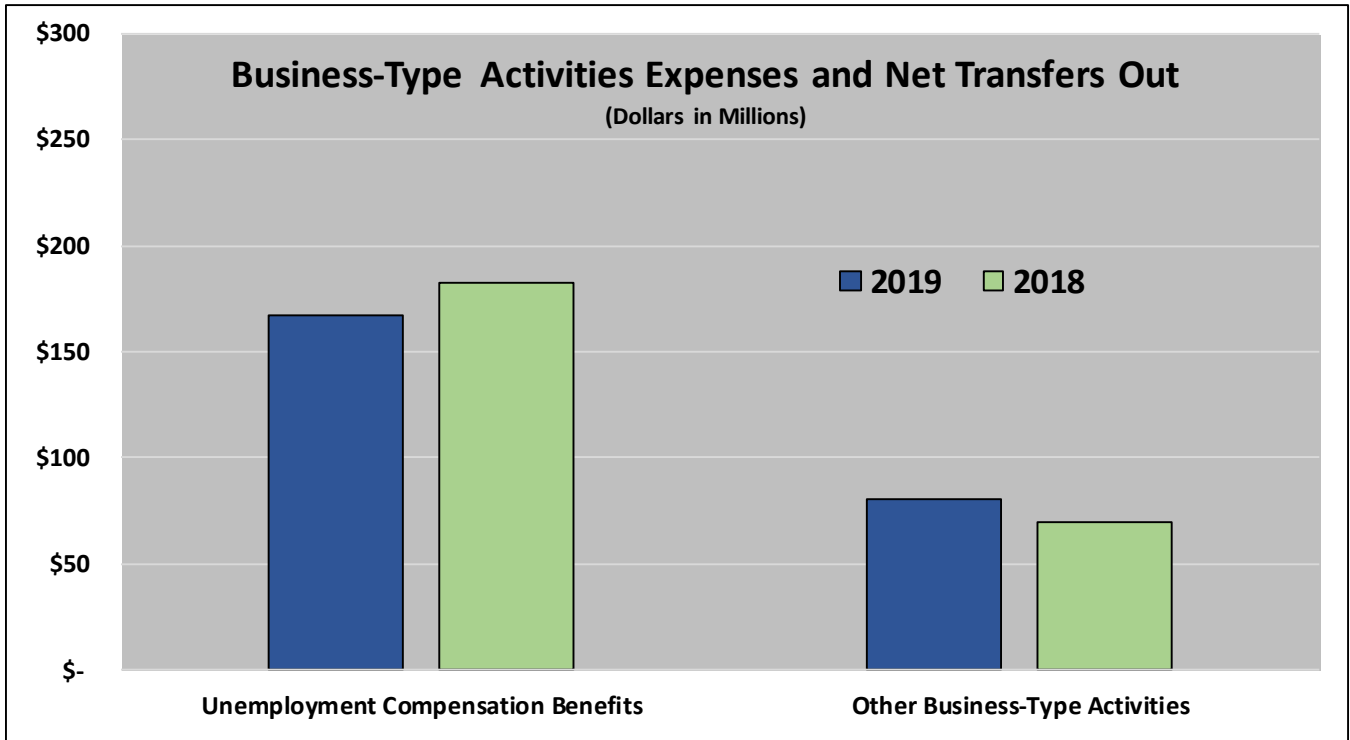
For fiscal year 2019, business-type activity total revenues were \$453 million, a decrease of \$50 million, or 10%, from the prior year. Most of these revenues were from the operation of the Unemployment Compensation Fund in the form of employer-paid state unemployment tax revenues of \$370 million, which was a \$3 million increase from fiscal year 2018 corresponding revenue.

Most business-type activities are self-supporting. The Unemployment Compensation Fund accounts for the State’s unemployment compensation benefits in which federal grants and assessments on employers are obtained to pay for the services that the Unemployment Compensation Fund provides. The Unemployment Compensation Fund’s net position as of June 30, 2019 was \$1.2 billion, which was an increase of \$203 million, or 20.8%, from last year.

The significant decline in Charges for Services Revenues is due to the \$60 million decrease in assessments by the South Carolina Second Injury Fund. The Second Injury Fund serves as a claims processor for insurance carriers, self-insurers, and the State Accident Fund. The fund processes claims of employees with existing permanent physical impairment who are further injured in the course of subsequent employment. With the ratification of the Workers’ Compensation Reform Act of 2007, the Second Injury Fund was placed in “run-off” and terminated effective July 1, 2013. The Act provided for an orderly termination of the Fund by decreasing the assessment calculation factor, closing the acceptance of new claims, and transferring any remaining claims as of July 1, 2013 to the State Accident Fund.



Operating expenses paying unemployment compensation benefits decreased by \$33 million, or 18.1%, during the 2019 fiscal year. These decreased expenses reflected the general decline in unemployment rates nationally.



Rainbow Falls, Jones Gap State Park, Marietta, South Carolina – Kelly Ghent

**Long-Term Debt**

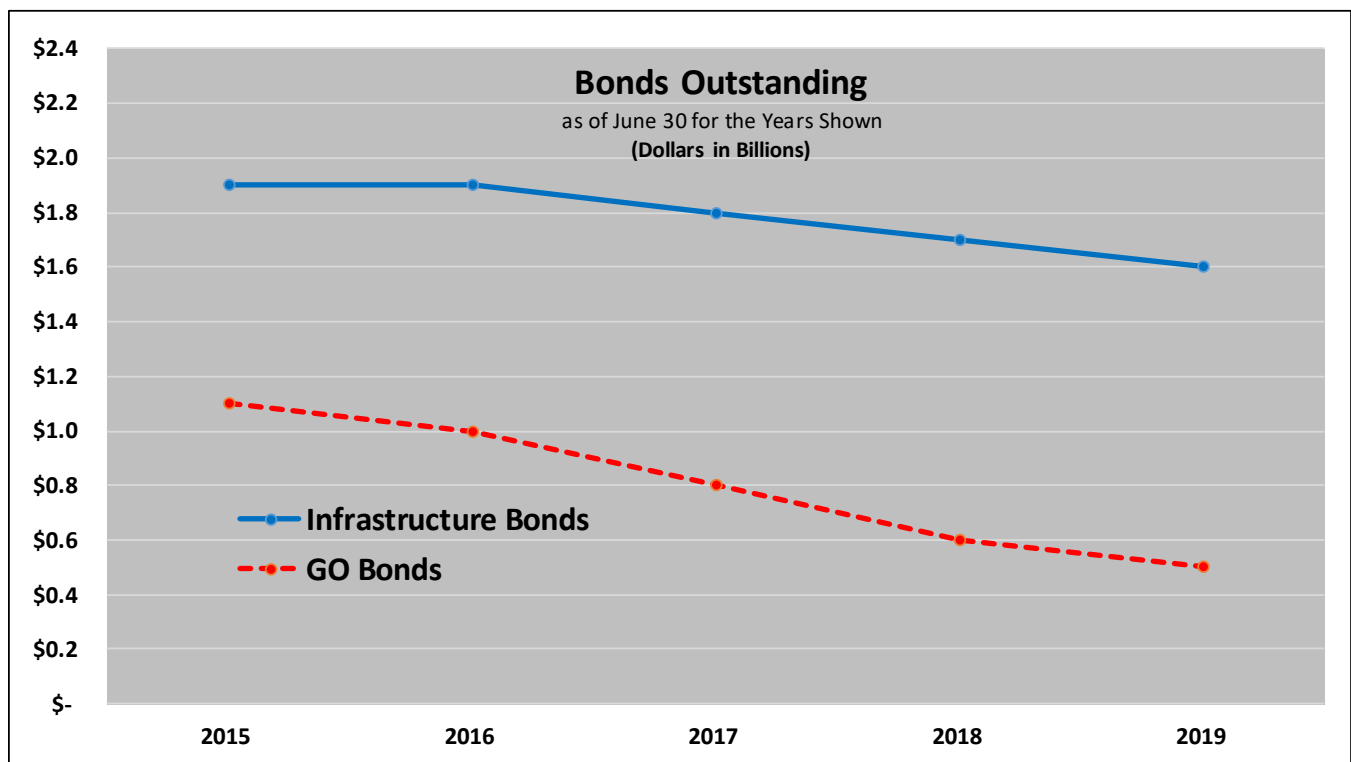
South Carolina issues various types of general obligation debt including capital improvement bonds, highway bonds, school facilities bonds, higher education facilities bonds, and economic development bonds. General obligation bonds are backed by the full faith, credit, and taxing power of the State. Additionally, South Carolina issues revenue bonds, which are not backed by the full faith, credit, and taxing power of the State. Instead, the State pledges certain revenue streams for repaying this type of debt.

At June 30, 2019, the State had \$2.2 billion in bonds and notes outstanding—a decrease of \$203 million, or 8.3%, from the previous year.

The repayment of principal on outstanding debt exceeded issuances of debt during fiscal year 2019, resulting in a decrease in debt outstanding for governmental activities of \$203 million, or 8.3%. Contributing to this decline was a major refunding of Infrastructure Bank bonds.

Three bond rating services assign ratings to bonds the State backs with its own taxing authority (*general obligation bonds*). Fitch Ratings rated these bonds as “AAA” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2019, the highest rating that these services assign. The State’s bond rating from Standard & Poor’s was “AA+” during the same period, that firm’s second highest rating.

The State limits the amount of annual payments for principal and interest (or annual debt service) on general obligation bonds and notes instead of limiting the amount of those bonds and notes that the State may have outstanding. At June 30, 2019, the State had the legal capacity to issue additional bonds as long as the new debt would not increase annual debt service payments by more than the following amounts: \$69 million for highway bonds, \$442 million for general obligation bonds (excluding institution and highway bonds), \$36 million for economic development bonds, and \$21 million for research university infrastructure bonds.



## Retirement Plans and Other Post-Employment Benefits

*State Retirement System* — The South Carolina Retirement Systems (the System) is comprised of five defined benefit pension plans:

- *South Carolina Retirement System (SCRS)* – Covers state and municipal employees, as well as teachers and personnel in public school districts;
- *Police Officers Retirement System (PORS)* – Covers state and local law enforcement personnel and firefighters;
- *The Retirement System for Members of the General Assembly (GARS)* – Covers members of the South Carolina General Assembly elected prior to November 2012 (members elected after November 2012 can elect to participate in either SCRS or the State Optional Retirement Program);
- *The Retirement System for Judges and Solicitors (JSRS)* – Covers judges, solicitors, and circuit public defenders; and
- *South Carolina National Guard Supplemental Retirement Plan (SCNG)* – Covers members of the South Carolina National Guard.

Beginning in November 2012, the State authorized the State Optional Retirement Program (ORP), whereby new employees can elect not to participate in SCRS, but they still contribute the same amount of their pay to a tax-deferred retirement program in which participants direct the investment of their funds. Additionally, the employer contributes 5% to the employees' ORP accounts, which immediately vest to the employee. The State assumes no liability for State ORP benefits.

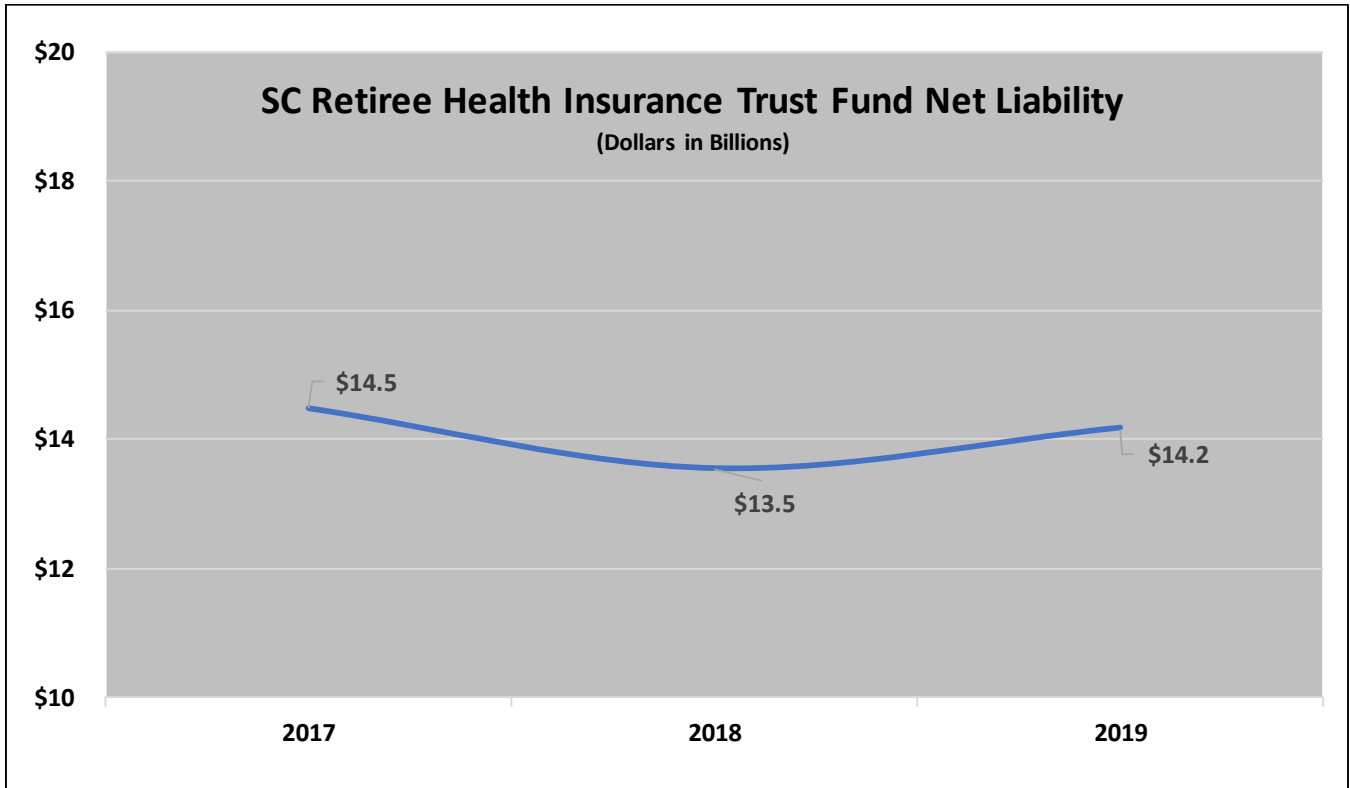
According to the South Carolina Code of Laws, the State is responsible for funding employer contributions related to all publicly funded teachers and the employees of the State's technical colleges. However, because these employer contributions for the State's teachers and technical college employees are not paid directly by the State to SCRS and PORS, but instead remitted by the State to each school district and technical college to cover these employer contribution payments, governmental accounting standards dictate that the school districts and technical colleges recognize the net pension liabilities that relate to their respective employees, including those liabilities for which the State effectively makes payments on their behalf.

As the State is actually responsible for these net pension liabilities, the State's effective combined share of the SCRS net pension liability was approximately \$12.9 billion at June 30, 2019, with related combined pension expenses of approximately \$1.3 billion for the year ended June 30, 2019. Likewise, the State's effective combined share of the PORS net pension liability was approximately \$844 million at June 30, 2019, with related combined pension expenses of approximately \$110 million for the year ended June 30, 2019.

Yet as prescribed by governmental accounting standards, the public school teachers and technical college employee-related net pension liabilities and corresponding pension expenses are excluded from the State's net pension liability and the State's pension expense that are reported in the State's CAFR.

The funding shortfall for pension benefits has grown steadily in the past 20 years. The reasons for the large deficit include: cost of living allowances have been granted that were not considered in setting contribution rates, encouragement of early retirements, underperformance of investment earnings, insufficient employer and employee contributions to offset lower than expected investment earnings, and the static State and local government workforce compared to the increasing number of retirees over the last ten years (fewer active employees paying for an increasing number of retirees). To address this growing unfunded liability, the State enacted limited reforms to the System in 2012. But, these reforms have not been effective in managing the System deficit which continues to steadily grow. At June 30, 2019, promised but unfunded pension benefits that have been accumulated by SCRS and PORS, totaled \$22.8 billion and \$2.9 billion, respectively.

The *South Carolina Retiree Health Insurance Trust Fund* (SCRHI) was established to accumulate the funds necessary to provide post-employment health insurance benefits (OPEB) for retired state and school district employees. SCRHI has a total net OPEB liability (a deficit) of \$14.2 billion as of June 30, 2019. \$10.9 billion of the net liability is attributable to the State, and \$3.3 billion is the liability of other governmental entities (school districts and local governments). The growth in the OPEB liability has been driven by the national trend of escalated healthcare costs coupled with an increasing number of retirees.



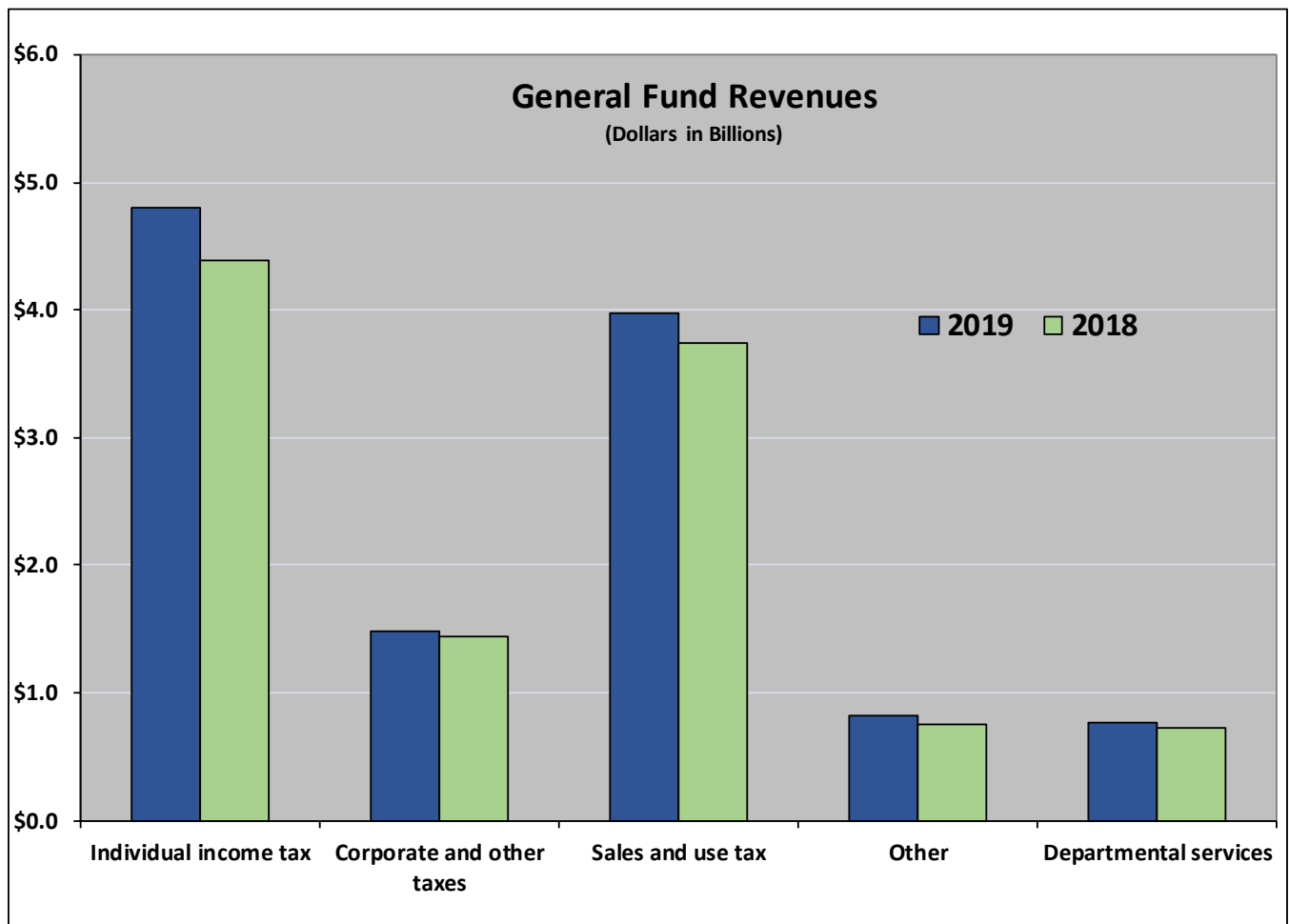
Beaufort, South Carolina – Kelly Eckstrom

### Fund Financial Statements

The preceding pages show a summary of the State’s government-wide financial activity. However, the State uses hundreds of distinct governmental “funds” in accounting for its operations. Two of the largest “funds” are the State’s General Fund and the Department of Transportation Fund. The following pages show a summary of those two funds’ activity.

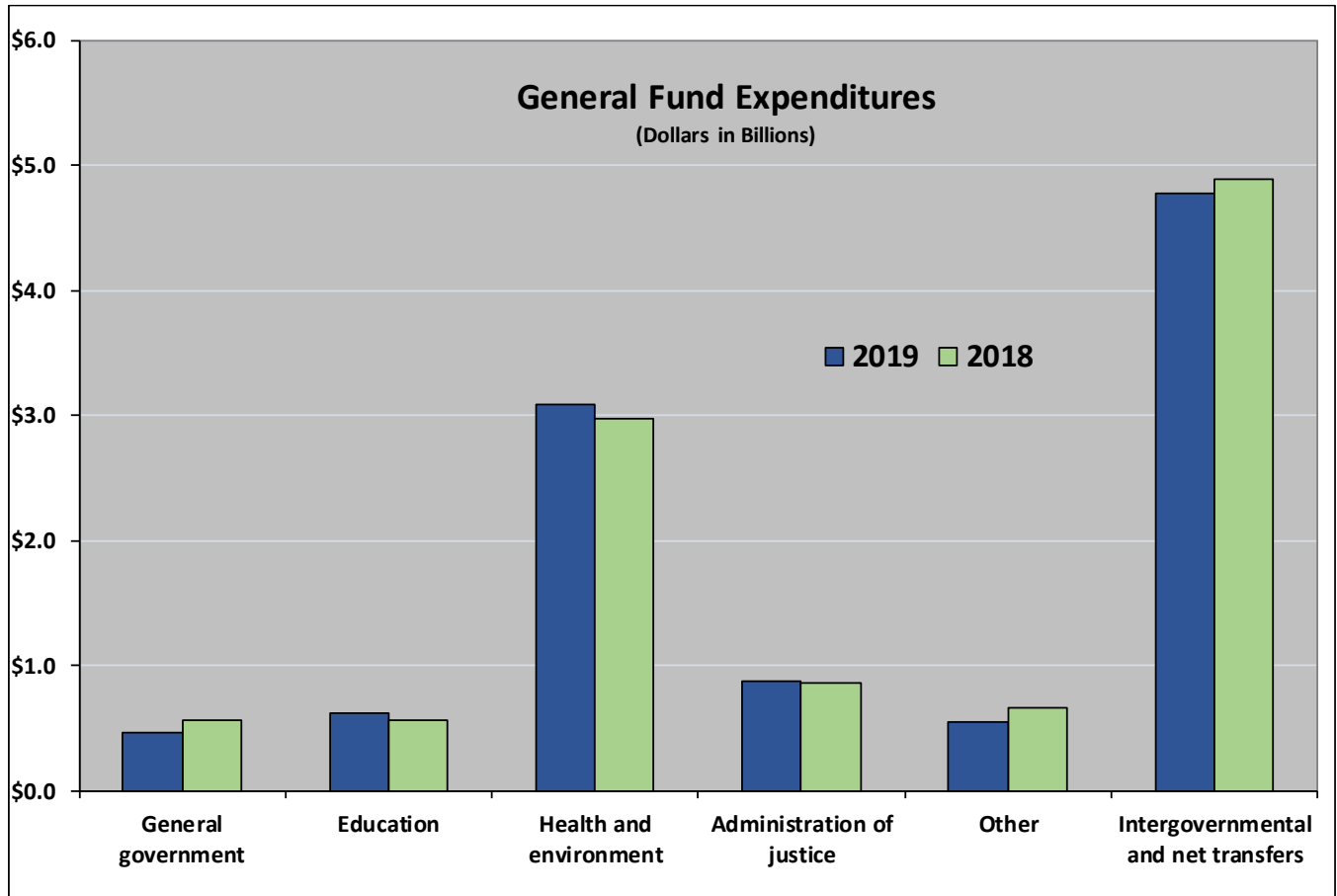
#### General Fund Highlights

The *General Fund* is the State’s operating fund. This fund accounts for resources, primarily taxes, that pay for the services that the State traditionally provides to its citizens. Activity is accounted for in the General Fund unless constraints established by State law or external parties require it to be accounted for in another fund. Compared to fiscal year 2018, fiscal year 2019 experienced increases in individual income tax of \$417 million, 9.5%; retail sales and use tax of \$233 million, 6.2%; insurance tax of \$13 million, 7.1%; other taxes of \$25 million, 4.2%; and other revenues of \$9 million, 3.0%.





General Fund expenditures, which decreased by \$125 million, or 1.2%, were below total General Fund revenues indicating a continued controlling of costs and through previously mandated spending reductions.



**The “Rainy Day Account”**

At June 30, 2019, the General Reserve Fund, also called the “rainy day account”, which is available to protect state government from unexpected economic downturns, had a balance of \$379 million. The State’s rainy day account is fully funded at 5.0% of the Budgetary General Fund’s revenues of the prior fiscal year in accordance with the State’s Constitution. In any year that funds need to be withdrawn from it, the State’s Constitution requires restoration of this reserve to full funding within three fiscal years.

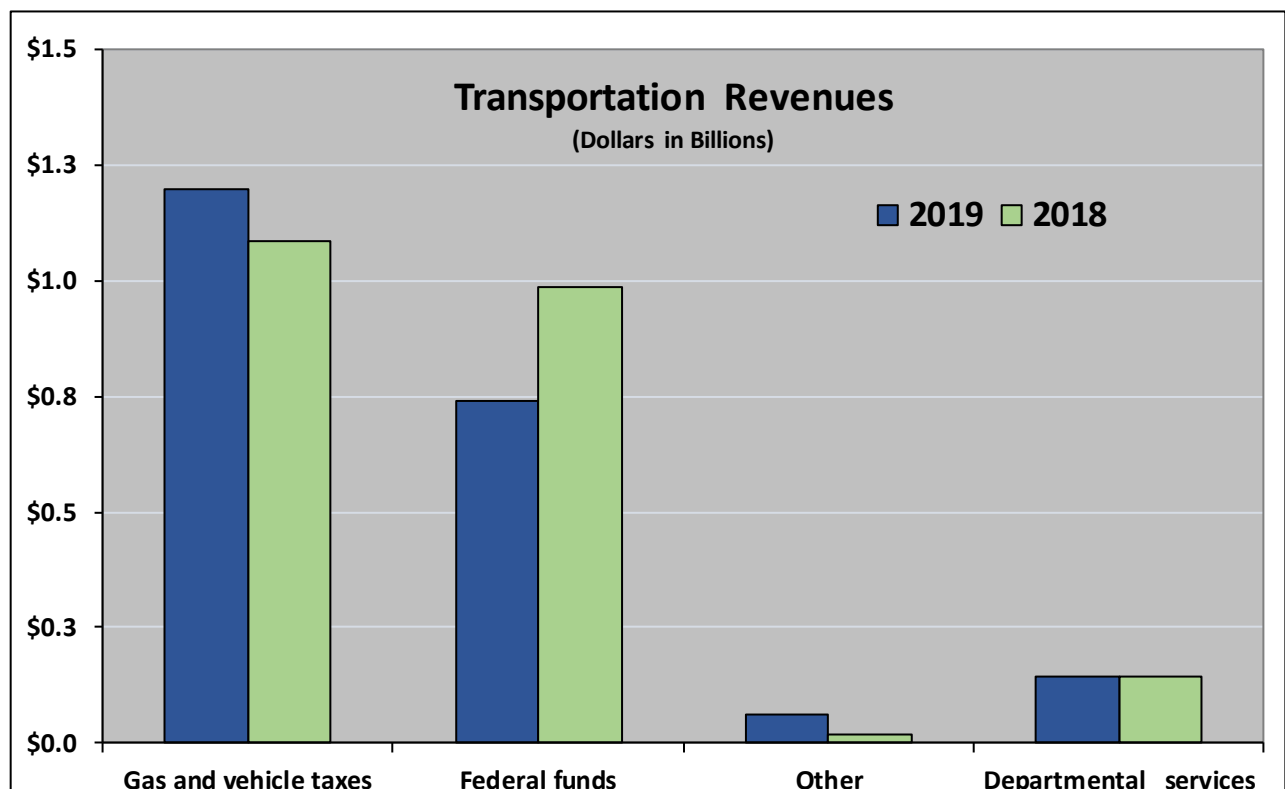
**Department of Transportation Highlights**

The Department of Transportation (DOT) uses the DOT Special Revenue Fund to account for the various gasoline taxes, fees, fines and federal grant resources it receives to maintain and construct roadways and bridges within the State of South Carolina. It also uses these resources to pay for its general operations, which include maintenance and regulation.

Revenues and expenditures of the Infrastructure Maintenance Trust Fund (IMTF) are included within the DOT Special Revenue Fund. To raise additional money to improve the state’s existing roads and bridges, the S.C. General Assembly passed Act 40, which took effect in July 2017. The law increases the state’s gasoline tax by 12 cents per gallon over six years (two cents per year) and imposed a variety of fee increases on vehicles. Additional IMTF budgetary basis information is available here: <https://cg.sc.gov/fiscal-transparency/new-taxes-and-fees-road-maintenance>.

During fiscal year 2019, revenues of \$2.1 billion represented a decrease of \$90 million, or 4.0%, from the previous year. The primary factors producing this net revenue decrease are presented below:

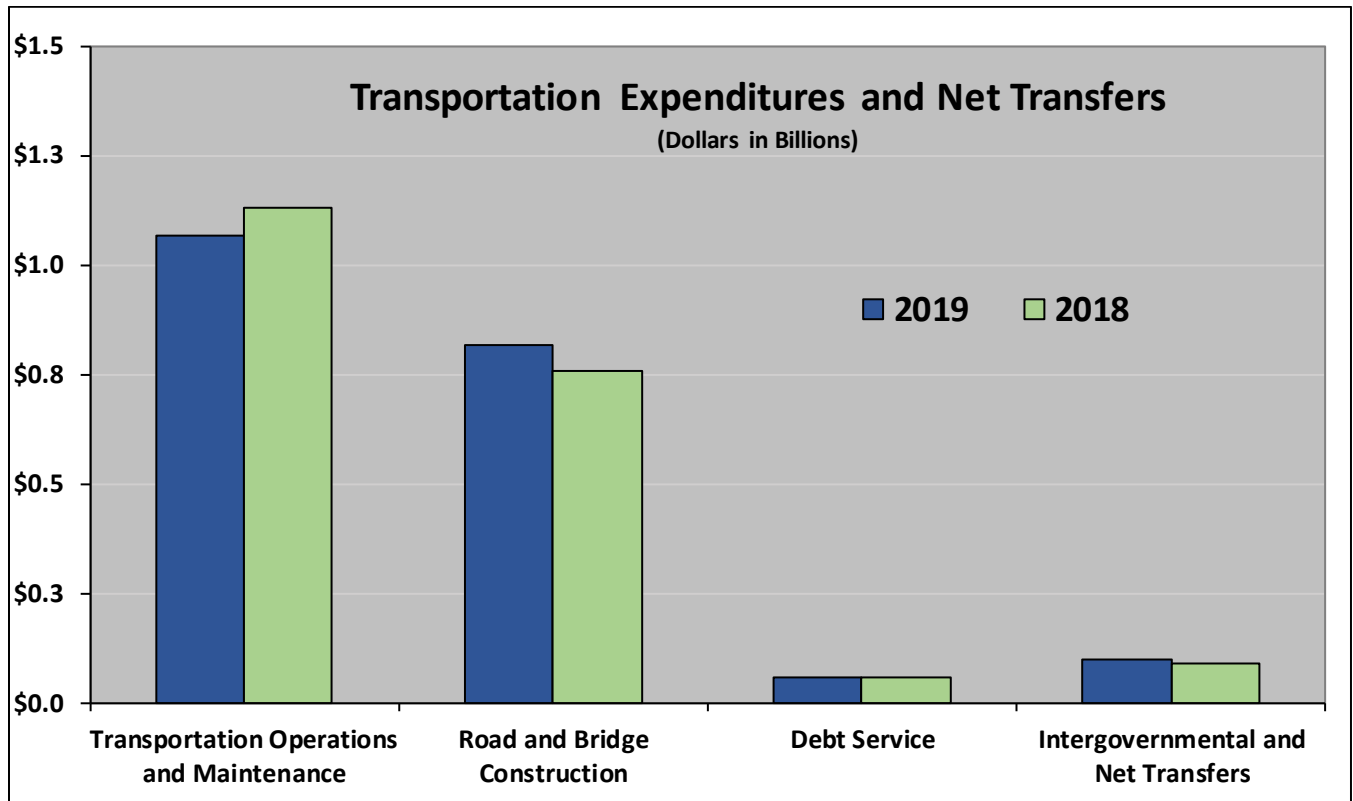
- Gasoline and motor vehicle taxes increased by \$114 million
- Federal funds decreased by \$247 million
- Other revenues increased by \$44 million



\*Transportation Revenues Includes revenues of the Infrastructure Maintenance Trust Fund.

Transportation and net transfers of \$2.0 billion represented an increase of \$57 million, or 2.9%, from the previous year. These changes are summarized below:

- Transportation operations and maintenance decreased by \$62 million
- Road and bridge construction increased by \$56 million
- Debt service decreased by \$2 million
- Intergovernmental expenditures and net transfers increased by \$65 million



\*Transportation Expenditures and Net Transfers Includes expenditures of the Infrastructure Maintenance Trust Fund.

The total fund balance of \$862 million represented an increase of \$100 million, or 13.2%, from the previous year.

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STATE OF SOUTH CAROLINA

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*State Treasurer*

**Richard Eckstrom, CPA**  
*Comptroller General*

**Hugh K. Leatherman Sr.**  
*Senate Finance Chairman*

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*House Ways and Means Chairman*