

STATE OF SOUTH CAROLINA

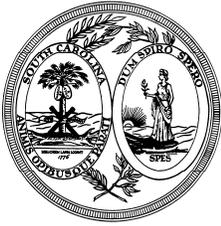
**POPULAR ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**





FRONT COVER

*Shoreline at Santee State Park; Lake Marion, South Carolina
Cover and inside photos by S.C. Comptroller General Richard Eckstrom*



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COMPTROLLER GENERAL

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WILLIAM E. GUNN
CHIEF OF STAFF

March 7, 2018

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, 2017. This convenient and easy-to-read report is intended to present a summarized view of the State's finances. The State of South Carolina's 270-page Comprehensive Annual Financial Report (CAFR), also available from my office at www.cg.sc.gov, provides a much more detailed analysis of the State's financial health and is prepared in accordance with Generally Accepted Accounting Principles (GAAP). The PAFR includes only select financial information and excludes things like fiduciary fund and component unit information. Additionally, this report does not provide all of the required financial statements and note disclosures as required by GAAP; however those financial statements and note disclosures are included in the CAFR.

Thank you for your interest, I hope you find this report informative, and I welcome any feedback you may have.

Sincerely,

A handwritten signature in cursive script that reads "Richard Eckstrom".

Richard Eckstrom, CPA
Comptroller General

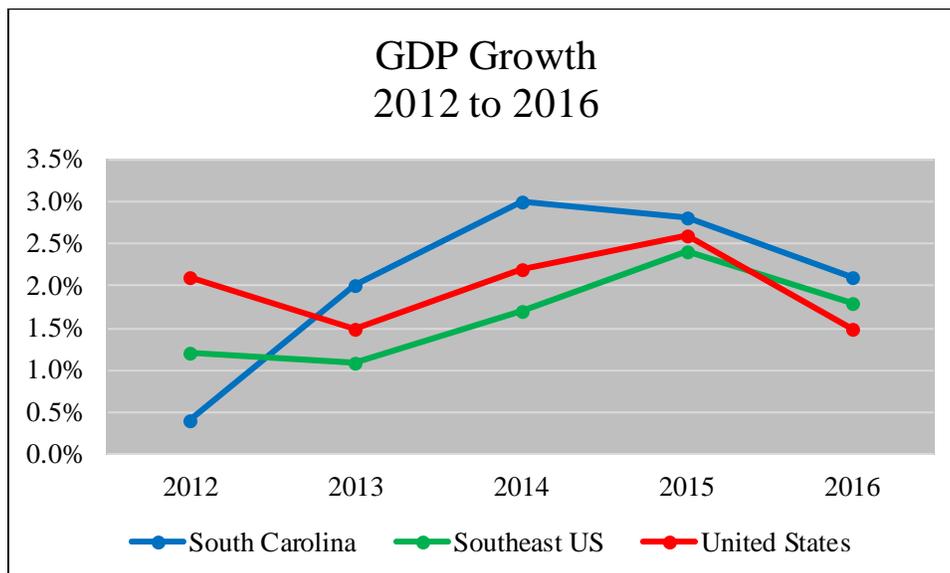
State Economy

Introduction

South Carolina has a diverse economic base, including trade, professional services, health care, hospitality, manufacturing, and financial activities. Businesses such as 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.

Gross Domestic Product

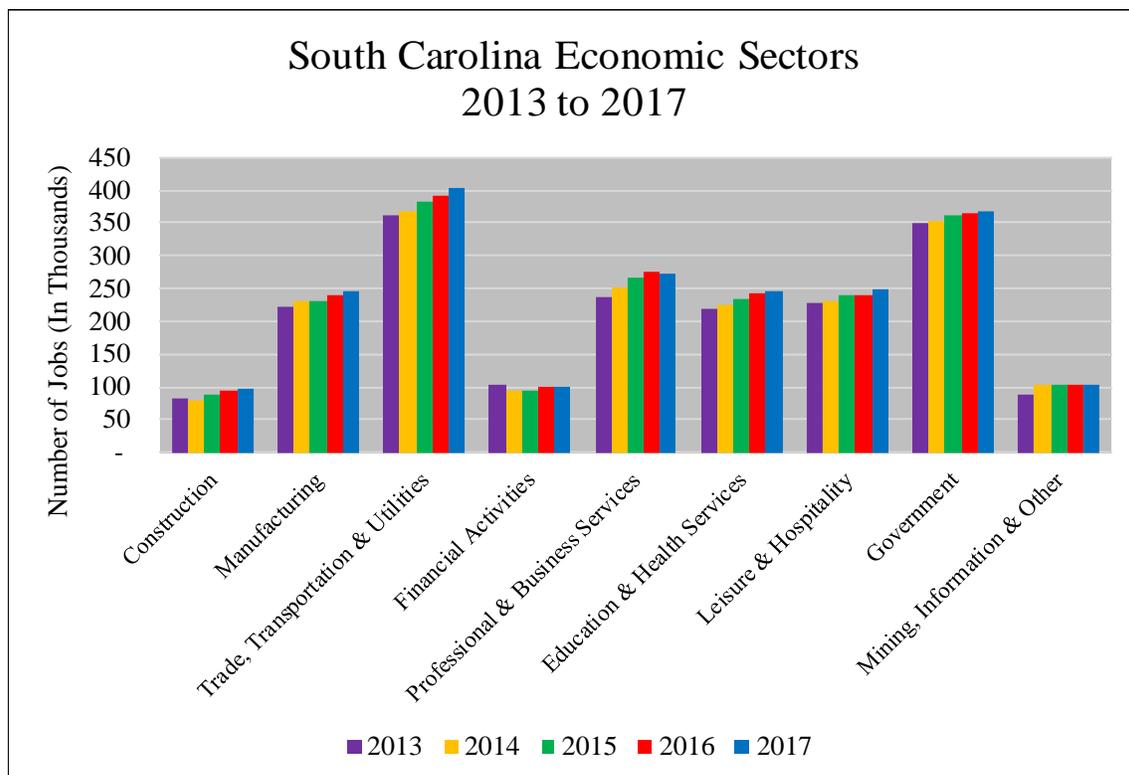
South Carolina's total economic output or gross domestic product (GDP) was \$209.7 billion in 2016 (most recent year available). Between 2015 and 2016, South Carolina's GDP grew by 2.1%, which compares to the southeastern United States GDP growth of 1.8% and the entire United States GDP growth at 1.5%.



State Economy

SC Economic Sectors

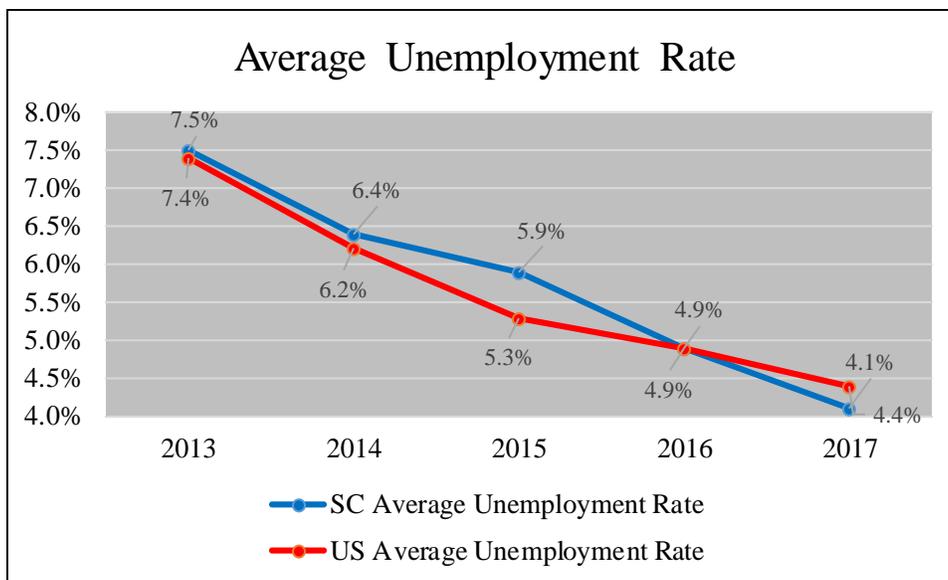
The number of jobs in South Carolina has grown steadily over the last five years. During the 2016 calendar year (most recent year available), South Carolina added 37,000 jobs. Most job sectors experienced growth in the first half of 2016, with the construction sector experiencing the highest rate of growth from mid-2015 at 5.2% and the leisure and hospitality sector experiencing the second-highest rate of growth at 3.3% during the same period. The trade, transportation, and utilities sector is South Carolina’s largest sector with 19.3% of its jobs, followed by government at 17.6%, and professional and business services at 13.1%.



State Economy

Unemployment Rate

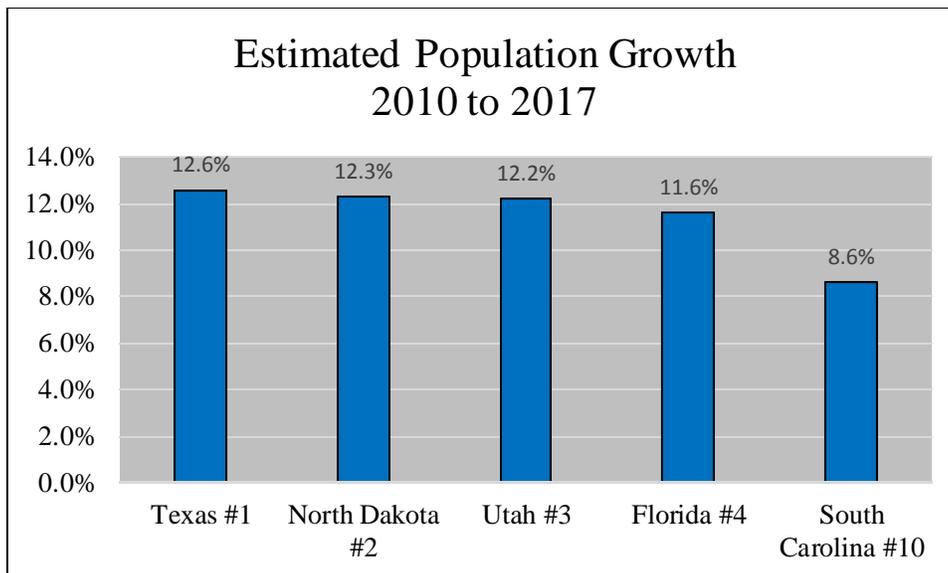
The State’s 2017 calendar year average unemployment rate of 4.1% is slightly better than the national average unemployment rate of 4.4%. South Carolina’s 2017 average unemployment rate has fallen by 3.4% since 2013 and has fallen by 7.2% since the height of the Great Recession in 2009. At June 30, 2017, Charleston County had the lowest unemployment rate of the State at 3.5%, while Bamberg County had the highest unemployment rate of the State at 7.5%.



State Economy

Population Growth

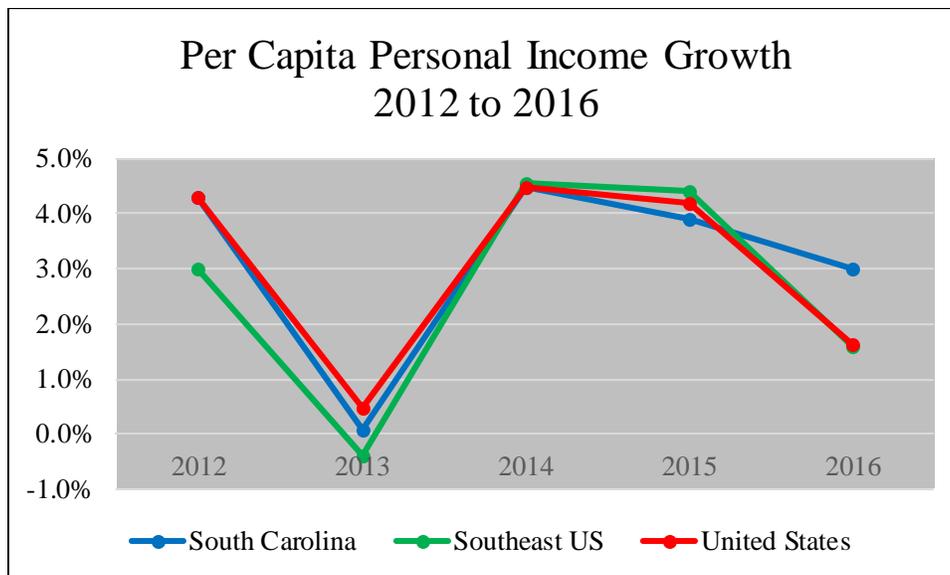
South Carolina's rate of population growth is currently the tenth fastest in the nation. Under the latest estimates, South Carolina's population at July 1, 2017 was approximately 5.0 million. Since the 2010 U.S. Census, South Carolina's population has increased by 399 thousand, or 8.6%.



State Economy

Per Capita Income

South Carolina's per capita income for calendar year 2016 (most recent year available) increased to \$39,465 or 3.0% over 2015. 2016's increase was higher than both the national and southeastern United States growth rates of 1.6%.



Financial Highlights

The State of South Carolina's government-wide financial statements present a long-term view of the State's finances as a whole, using accrual basis accounting – the same accounting method that most businesses use. The government-wide statements present three different kinds of activities:

Governmental activities: Most of the State's basic services are included here, such as general government, education, health and environment, social services, administration of justice, and transportation. Taxes (primarily income and sales taxes) and federal grants finance most of these services.

Business-type activities: These activities usually recover all, or a significant portion, of the costs of their services or goods by charging fees to customers. Unemployment compensation benefits, some insurance coverages, railroad operations, and financing of student loans are the most significant of South Carolina's business-type activities.

Component units: Although component units are legally separate from the State, the State's elected officials are financially accountable for them. *The Public Service Authority (Santee-Cooper, an electric utility company), the State Ports Authority, the State Housing Authority, the Lottery Commission, the University of South Carolina, Clemson University, and the Medical University of South Carolina* are the State's major component units.

To simplify the financial information that follows, component unit information is not included. You can obtain financial information for component units from the State's Comprehensive Annual Financial Report (CAFR), which can be obtained on the Comptroller General's Office website at www.cg.sc.gov.

Financial Highlights

The State's net position (similar to net worth) is reported in three categories.

The largest portion of the State's net position reflects its investment in capital assets (for example, buildings, roads, and bridges), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens and they are not available for future spending. Also, the State cannot sell the capital assets themselves to repay the related debt because it needs the assets for its operations; so it must find other resources to repay the debt.

The State's restricted net position is generally available for future spending but is subject to external restrictions, such as bond covenants, federal government grant restrictions, or restrictions imposed by enabling State legislation or through State constitutional provisions. The State's largest restricted balances include capital improvement bond proceeds (restricted for various capital projects) and loan program funds (restricted primarily for local government water and sewer projects).

The State's unrestricted net position is the remaining resources that are available for future spending without restrictions.

During the past year, the most significant changes (increases and decreases) in net position occurred within current and other assets and other liabilities balances of governmental activities:

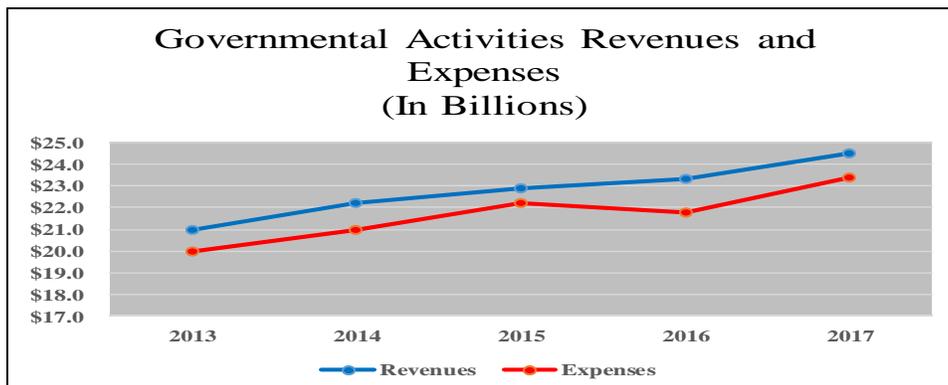
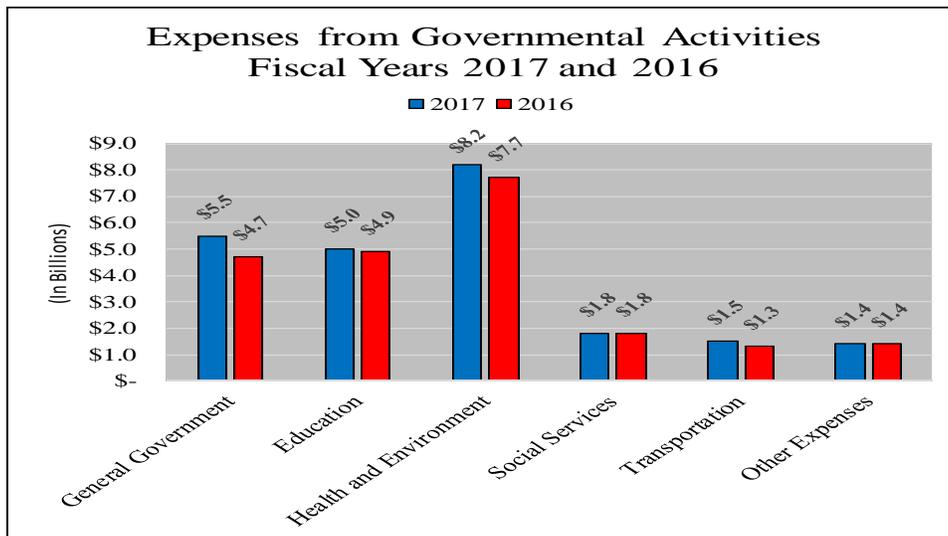
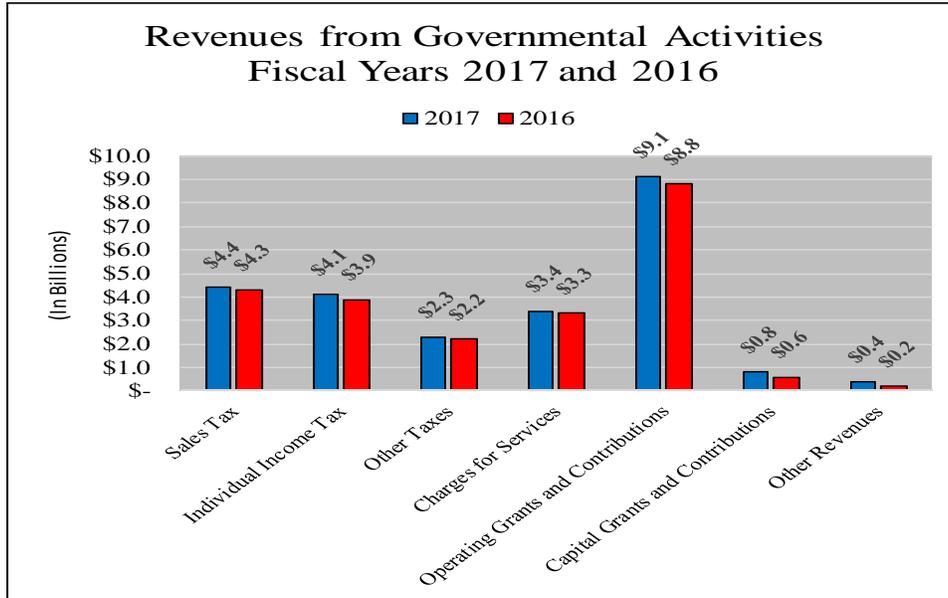
- An \$821.5 million increase (5.2%) in capital assets within governmental activities was the result of increased infrastructure investment. See pages 12 and pages 25 to 26 for more detail.
- The State experienced a \$409.9 million increase (12.5%) in its governmental activities net pension liability. See pages 15 to 18 for more detail.

Financial Highlights

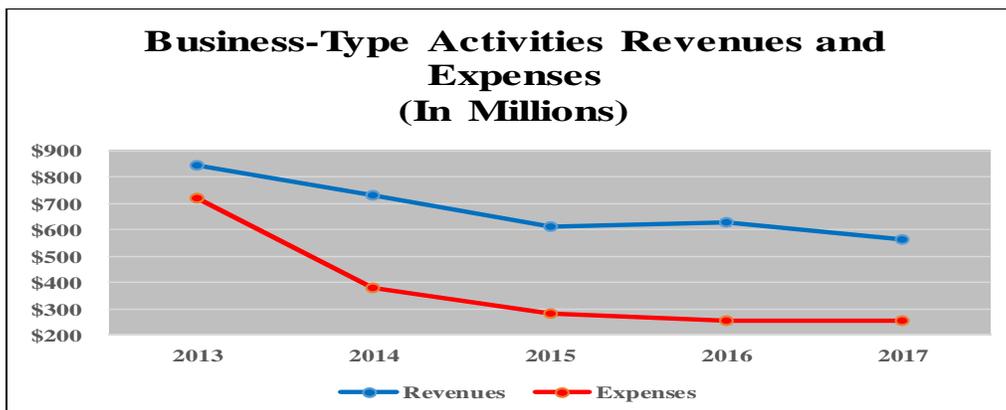
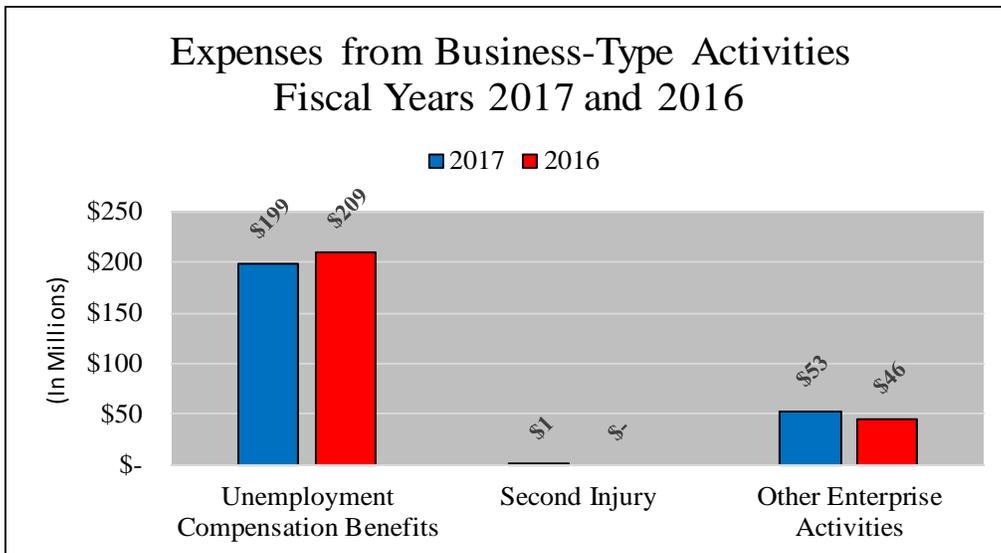
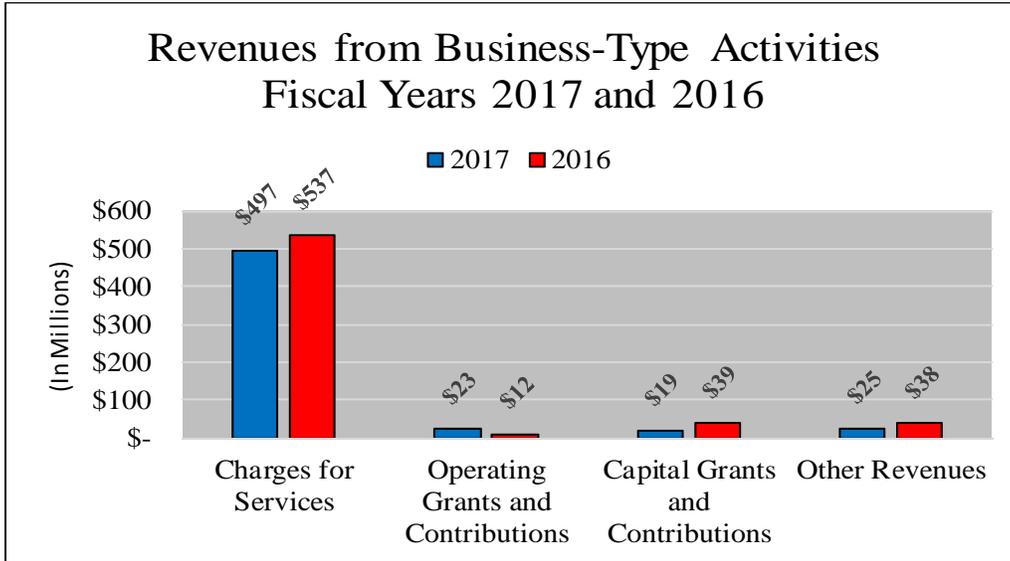
The most significant changes in revenues and expenses for the State include the following:

- Individual income tax revenues increased by \$258.4 million, or 6.7%, retail sales and use tax revenues increased by \$157.0 million, or 3.7%, and other taxes revenues increased by \$127.1 million, or 5.8%. Overall tax collections increased during fiscal year 2017 due to increased enforcement and improvements in consumer spending within the state and national economies.
- Revenues from capital grants and contributions increased by \$230.7 million or 39.6% from last year. This was a result primarily of contributions from the State Infrastructure Bank and federal grants related to highway projects.
- General government expenses increased by \$814.6 million, or 17.4%, from last year. This was attributable to the availability of budgetary appropriations due to improvements in the State's economy and the increased cost of providing Medicaid services.
- Transportation expenses increased by \$171.3 million, or 13.1%, from last year. The increase is the result primarily of increased expenditures related to the storms that South Carolina has experienced over the last two years. These storms did major damage to bridges and roads. As the State of South Carolina recovers from such damage, these expenditures can span a number of years as the infrastructure is rebuilt and repaired. In fiscal year 2017, the State spent \$54.8 million to repair roadways damaged by the 2016 storm and \$110.7 million to repair roadways damaged by the 2015 storm. FEMA reimbursed \$71.6 million of these costs as of June 30, 2017.

Financial Highlights

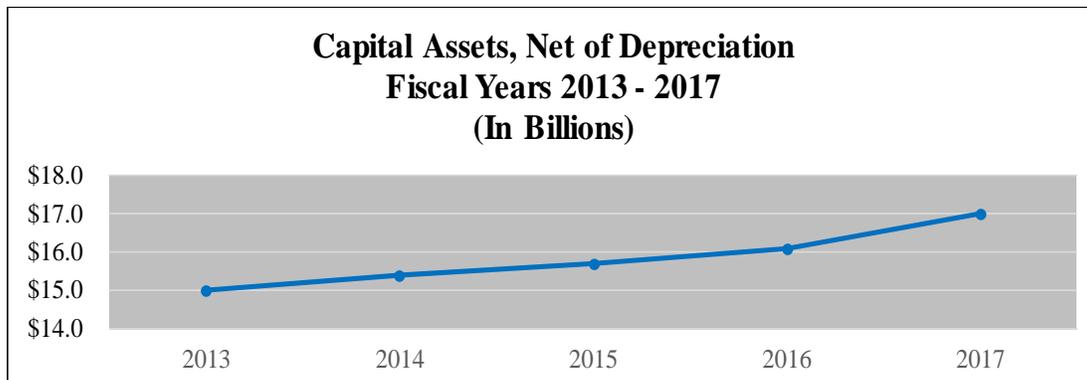
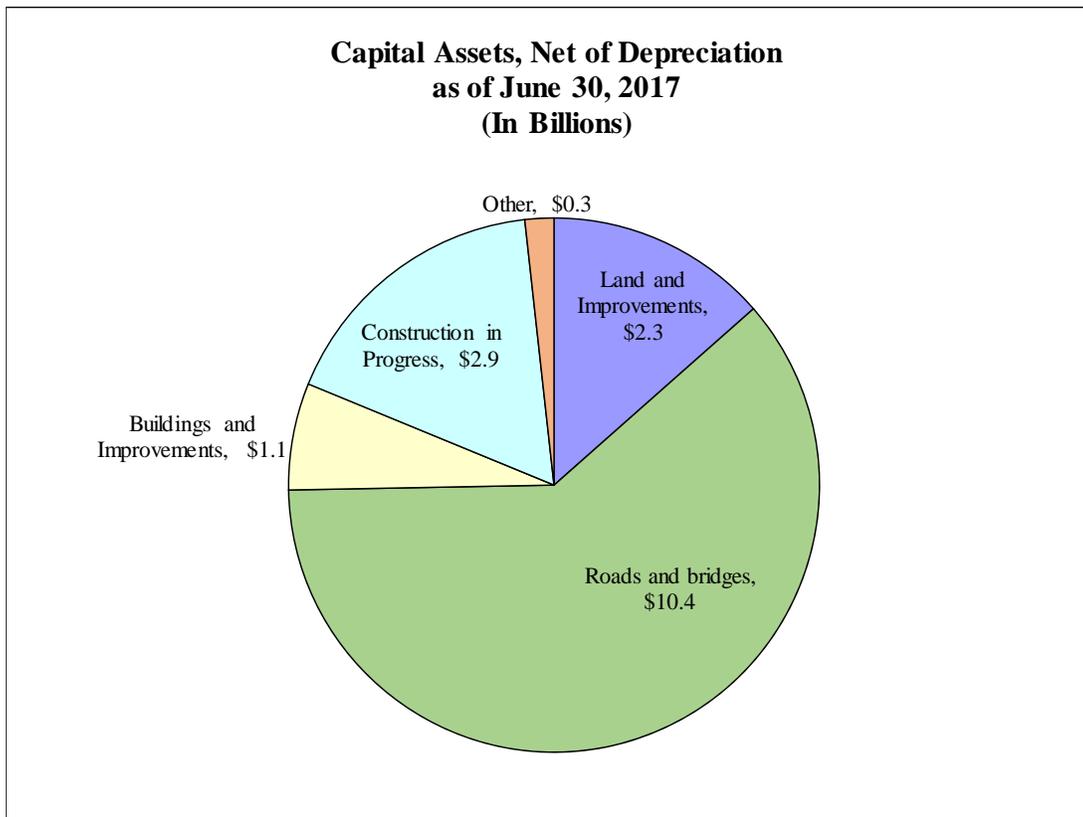


Financial Highlights



Capital Assets

During the fiscal year 2017, the capital assets, net of depreciation of the primary government were valued at \$16.8 billion. The value of these capital assets by category are depicted below:



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.

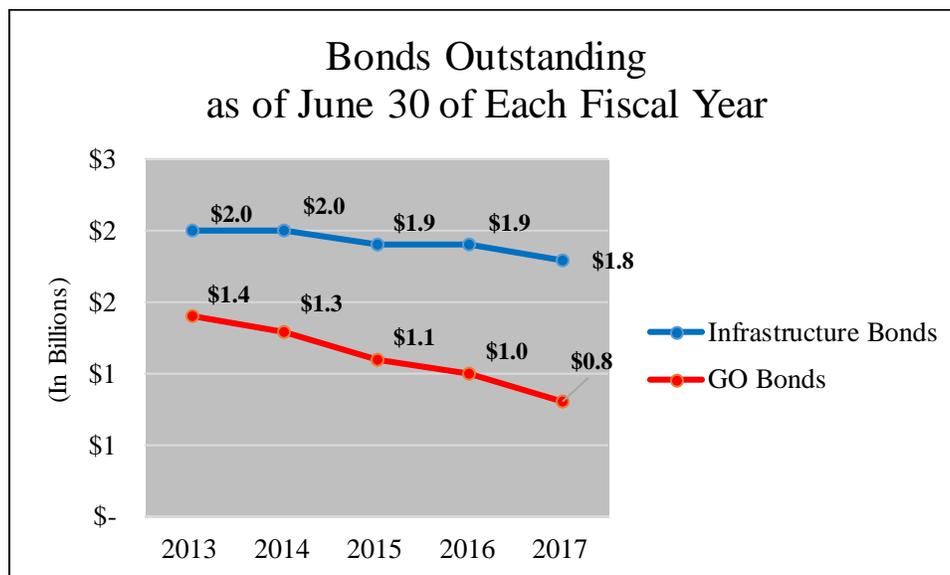
At June 30, 2017, the State had \$2.6 billion in total bonds and notes outstanding, which was a decrease of \$224 million, or 7.8%, compared to the prior fiscal year. Expressed in relation to the State's population, the share of the State's debt per capita at June 30, 2017 was \$524 compared to \$575 a year earlier.

The \$224 million reduction in debt reported in governmental activities resulted primarily from the refunding (refinancing) of the State's Infrastructure Bank bonds along with principal payments on all categories of bonds. Offsetting the refundings and principal payments were issuances of \$37 million in Department of Mental Health revenue bonds and \$25 million in Department of Administration and Department of Education notes.

National bond rating services assign ratings to bonds that the State backs with its taxing authority (general obligation bonds). Fitch Ratings has rated these bonds as "AAA" and Moody's Investors Service has rated them as "Aaa", the highest ratings that these services assign, while Standard & Poor's has rated them as "AA+".

Long-Term Debt

To limit the overall amount of general obligation debt that can be issued, State law limits the amount of annual payments that can be made for principal and interest (referred to as debt service) on general obligation debt. At June 30, 2017, the State was well within its legal debt limits.



Retirement Plans and Other Post-Employment Benefits

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

South Carolina Retirement System (SCRS) – Covers teachers and personnel in public school districts, as well as state and municipal employees;

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

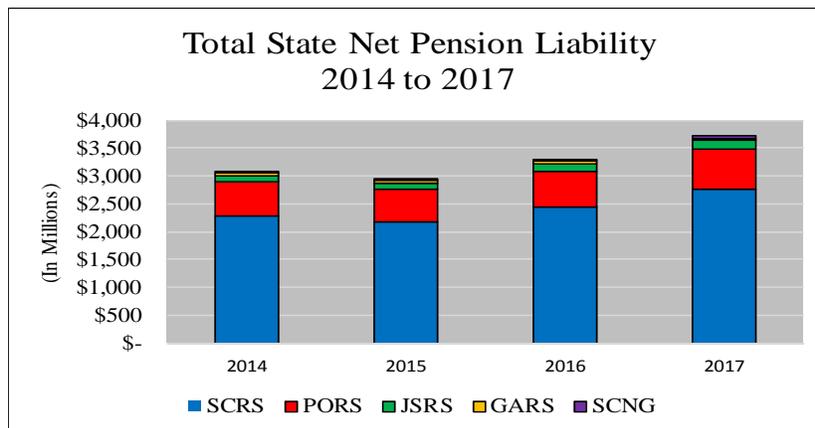
South Carolina National Guard Supplemental Retirement Plan (SCNG) – Covers members of the South Carolina National Guard.

Both SCRS and PORS provide retirement benefits for State employees, but they also provide benefits to public employees (primarily those employed by local governments), for which the State has no liability.

Retirement Plans and Other Post-Employment Benefits

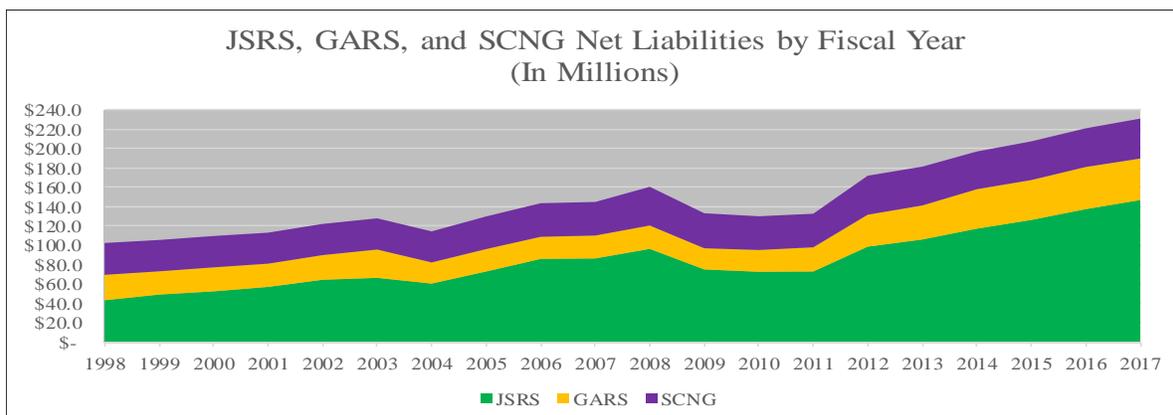
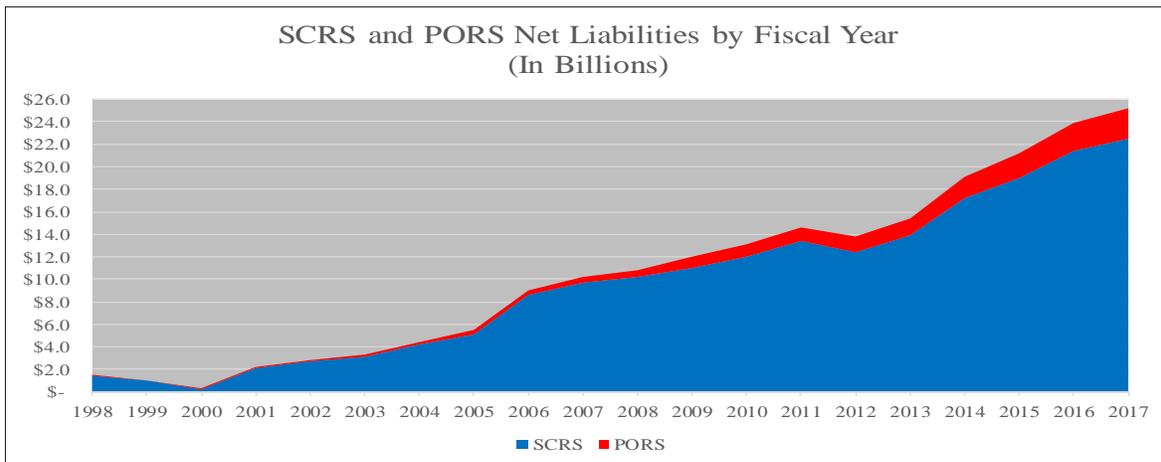
Beginning in November 2012, the State adopted the Optional Retirement Program (ORP), whereby new employees can elect not to participate in SCRS, but they still contribute the same amount of their pay to a tax-deferred retirement program in which participants direct the investment of their funds. Additionally,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

The State's portion of the retirement system net pension liability was \$3.7 billion as of June 30, 2017. Due to a provision in general governmental accounting standards, this balance does not include the net pension liability related to State-funded employees at the State's school districts and technical colleges, although the State has accepted responsibility for paying down the net pension liability attributed to them. Including this portion would increase the State's reported liability of \$3.7 billion to approximately \$14.2 billion. SCRS has a total net pension liability of \$25.5 billion as of June 30, 2017. Aside from the \$14.2 billion net liability attributable to the State, \$11.3 billion is the liability of other governmental entities (counties, municipalities, school districts, fire departments, etc.).



Retirement Plans and Other Post-Employment Benefits

The five pension plans' total \$25.5 billion net pension liability has grown from approximately \$341.8 million as of June 30, 1999. The reasons for the large increase in the pension liability are: cost of living allowances were granted that were never included in setting contribution rates, early retirements have been encouraged, investment earnings were less than assumed, employer and employee contributions were not high enough to offset lower investment earnings, and the numbers of those working have been shrinking in relation to the number of retirees over the last ten years (less people paying for more retirees).



Retirement Plans and Other Post-Employment Benefits

To address the growing net pension liability, the State enacted reforms to the system in 2012, and in 2016 the South Carolina Legislature formed the Joint Committee on Pension Systems Review to potentially enact further reforms to address the causes of the growing liability.

Retirees' Health Insurance (SCRHI)

The South Carolina Retiree Health Insurance Trust Fund was established to accumulate sufficient funds to provide post-employment health insurance benefits for retired state and school district employees. As of June 30, 2017, SCRHI was only 9% funded and had an unfunded actuarial accrued liability (difference between trust assets held and the estimated liability for benefits to be paid) of \$10.5 billion.

Long-term Disability Insurance (LTDI)

The State also maintains a Long-Term Disability Insurance Trust Fund to accumulate sufficient funds to provide disability benefits for state employees, school district employees, and employees of participating local government entities. As of June 30, 2017, LTDI was fully funded.

Fund Statements

The preceding pages show a summary of the State’s government-wide financial activity. However, the State operates out of hundreds of funds. Three of the largest funds are the State’s General Fund, the Department of Transportation Fund, and the State’s Departmental Program Services Fund (which includes the State’s Department of Health and Human Services Medicaid activity). The following pages show a summary of those three funds’ activity.



Old Stone House, built 1784; Fairfield County, SC

General Fund Highlights

The General Fund is the State’s primary operating fund. This fund includes resources, such as tax revenues, that pay for the services that the State traditionally provides to its citizens. Activity is accounted for in the General Fund unless constraints that are established by State law or external parties require them to be accounted for in another fund.

During the fiscal year 2017, the total fund balance of the General Fund increased by \$203.2 million or 5.8% from the previous year. Total General Fund revenues increased by \$334.1 million. Overall tax collections increased by \$281.4 million as a result of increased enforcement and improvements in consumer spending. The increase in departmental services and other revenues is a result of increased demand for health and environmental services.

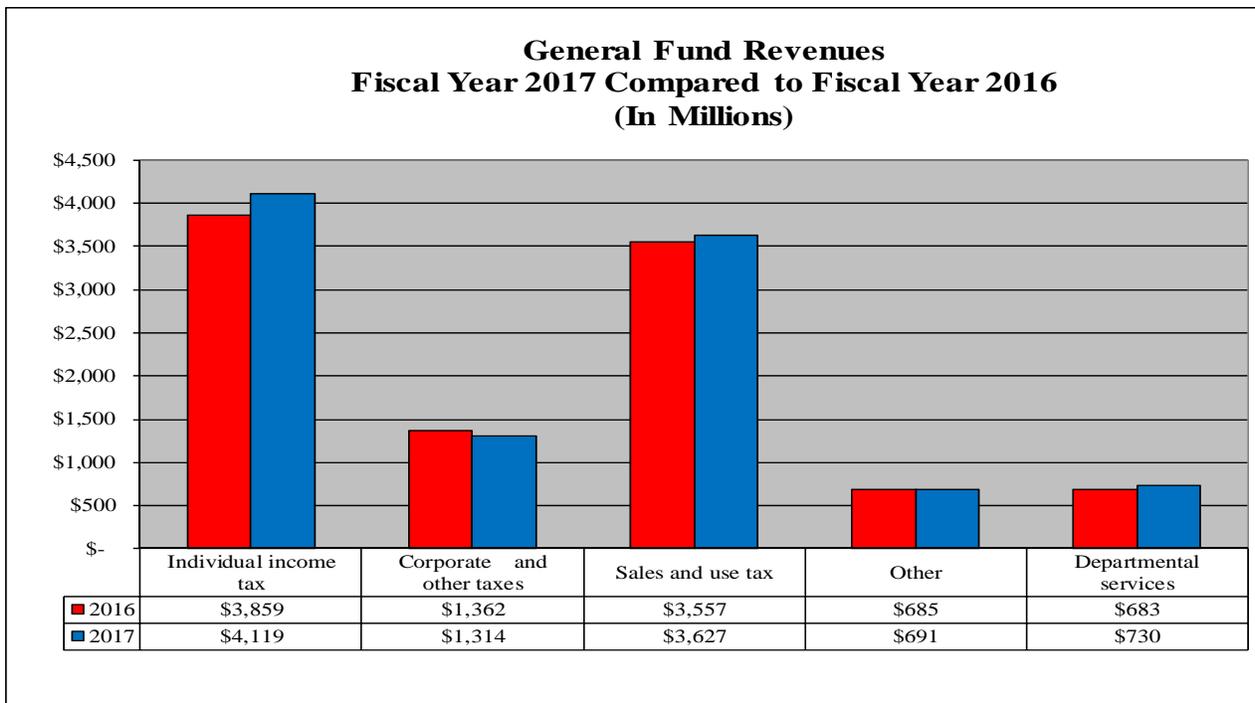


Palmetto Sunrise; Myrtle Beach, SC

General Fund Highlights

The changes in revenues are presented below:

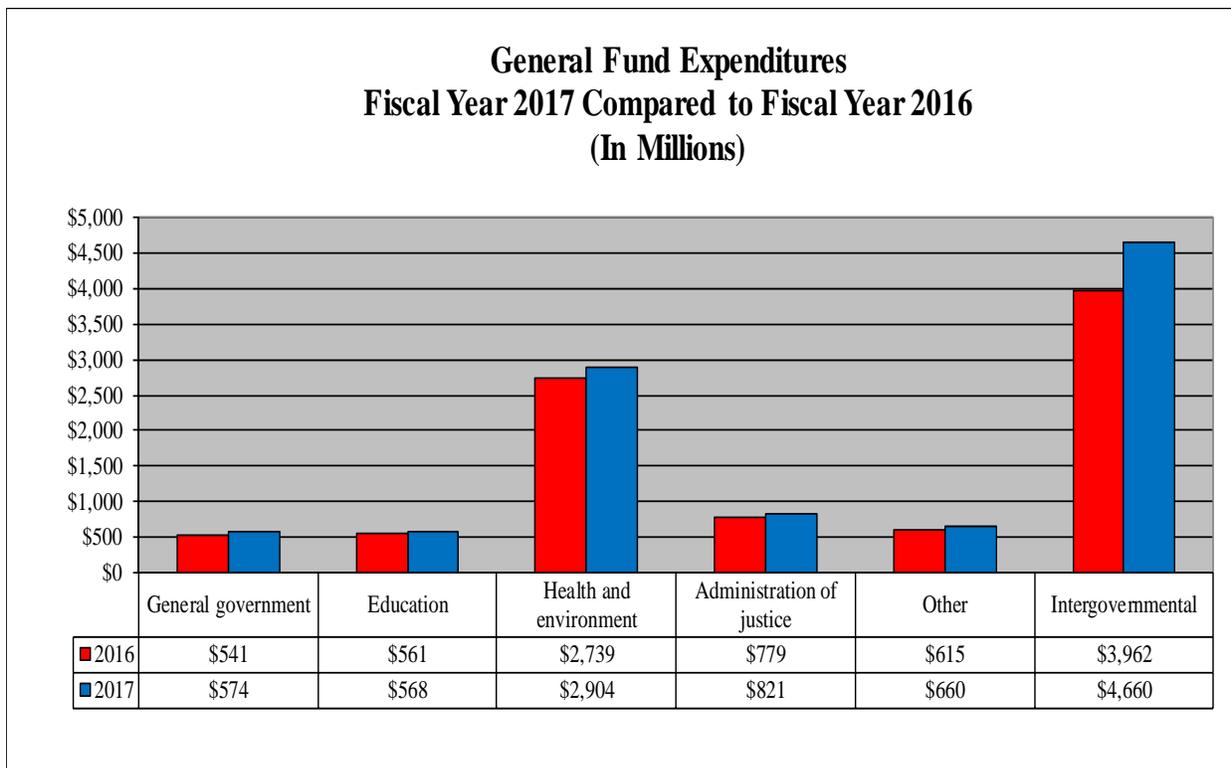
- Individual income taxes increased by \$260.1 million
- Corporate and other taxes decreased by \$48.5 million
- Sales and use tax increased by \$69.9 million
- Departmental services and other revenues increased by \$52.7 million



General Fund Highlights

During the fiscal year 2017, the increase in fund balance of \$203.2 million was primarily a result in decreased transfers out of \$344.3 million. The following General Fund activity contributed to the change in fund balance as well. General Fund expenditures increased by \$990.1 million. The largest increase in expenditures was \$697.8 million for intergovernmental related to allocations for Higher Education entities. Other changes in expenditures are presented below:

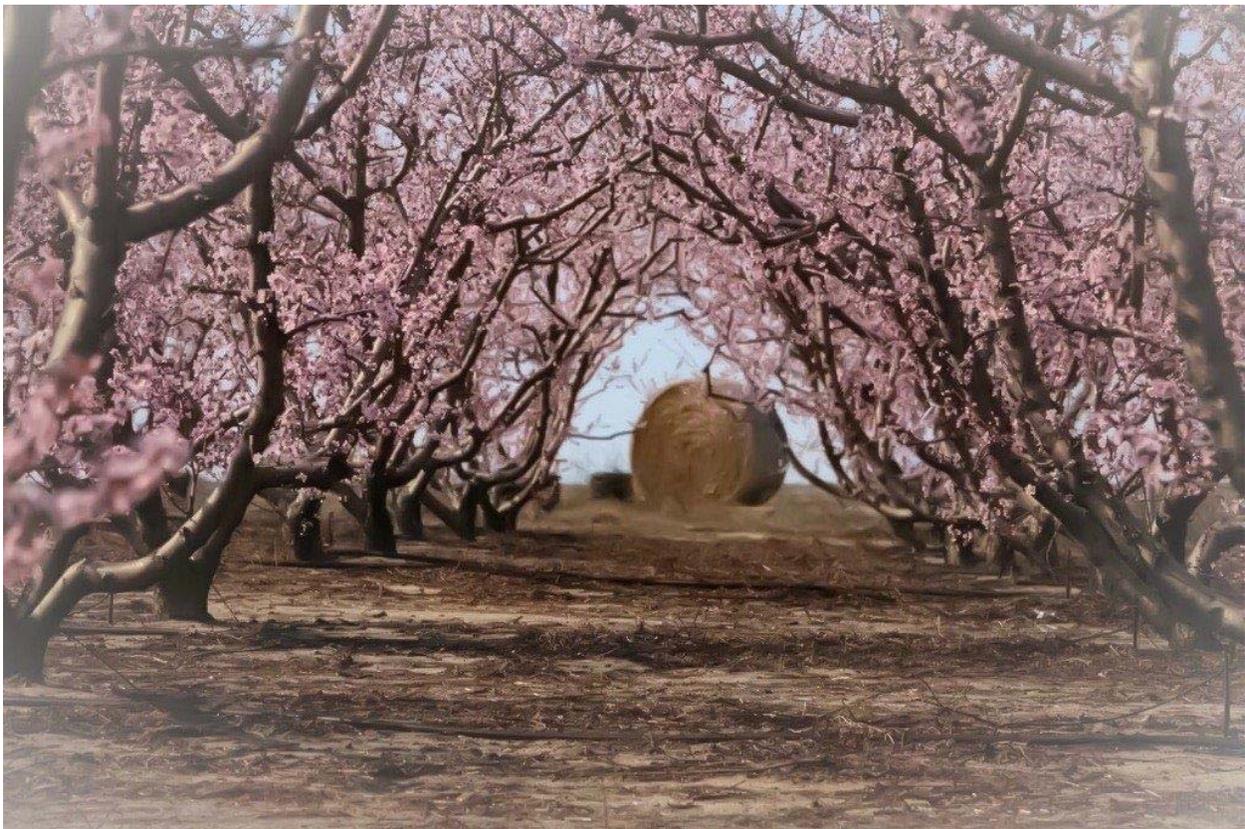
- General government increased by \$32.4 million
- Education increased by \$7.2 million
- Health and environment increased by \$165.1 million
- Administration of justice increased by \$41.3 million
- Other expenditures increased by \$46.3 million



General Fund Highlights

The “Rainy Day Account”

At June 30, 2017, the General Reserve Fund, sometimes called the rainy day account, had a balance of \$348.0 million which increased from the prior year by \$20.4 million appropriated by the 2016-2017 Appropriations Act. The balance is fully funded in accordance with the State’s Constitution. The State’s Constitution requires restoration of the reserve to full funding within three fiscal years after a withdrawal. For the fiscal year 2017, State law defines full funding for the reserve as 5.0% of the Budgetary General Fund’s revenues of the prior fiscal year.



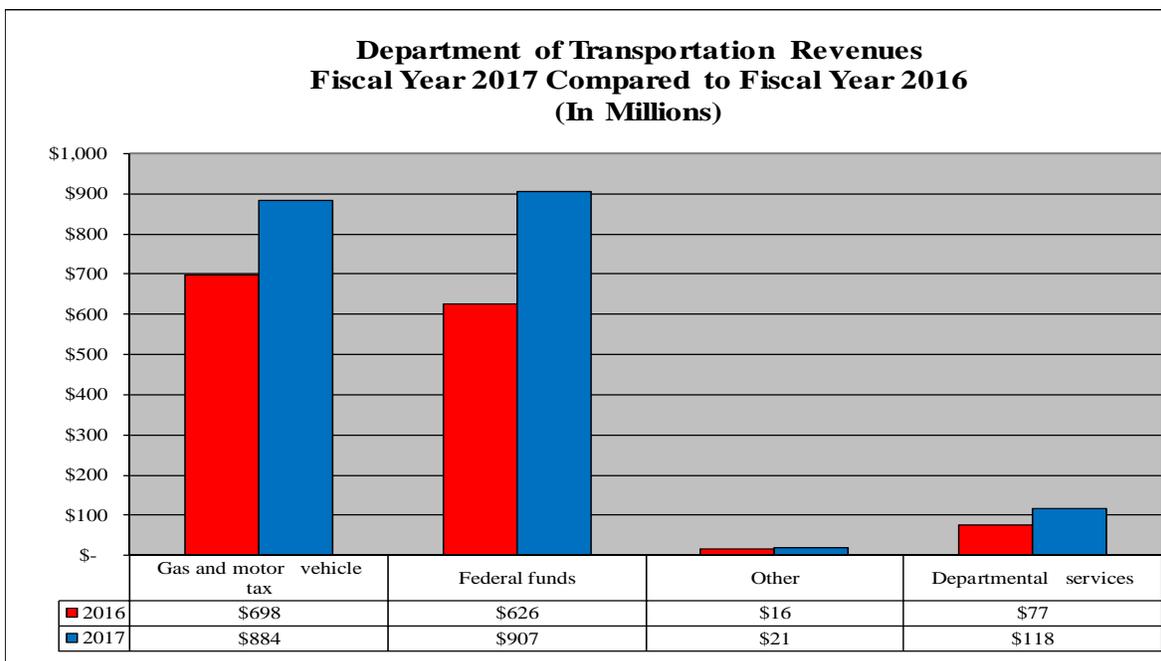
Peach Trees in Bloom; McBee, SC

Department of Transportation Highlights

The Department of Transportation Fund accounts for the various gasoline taxes, fees, fines and federal grant resources that are used to maintain and construct roadways and bridges within the State of South Carolina.

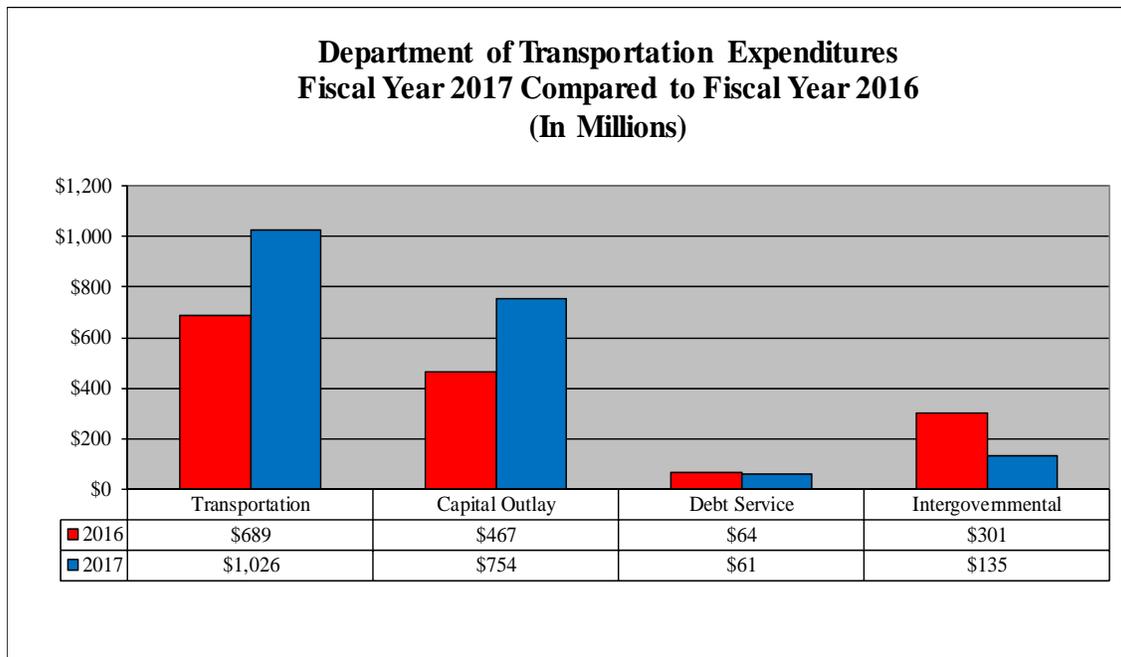
During the fiscal year 2017, the total fund balance of the Department of Transportation increased by \$141.3 million or 37.8% from the previous year. The Department of Transportation revenues increased by \$513.7 million. The primary factors in the revenue increase were increased federal funds as well as increased gas and motor vehicle taxes. These changes in revenues are presented below:

- Gasoline and motor vehicle taxes increased by \$185.8 million
- Federal funds increased by \$281.3 million
- Departmental services increased by \$40.8 million
- Other revenues increased by \$5.8 million



Department of Transportation Highlights

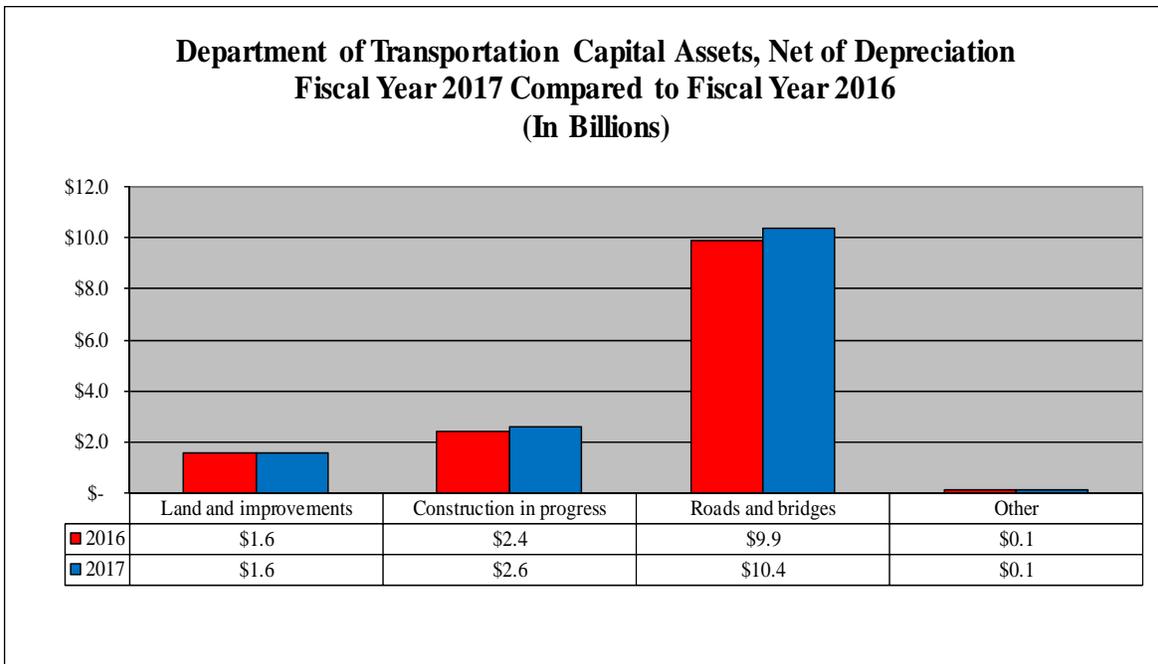
During fiscal year 2017, the additional impact on fund balance was attributable to increased expenditures. The Department of Transportation Fund expenditures increased by \$455.5 million. The increase was primarily the result of \$337.0 million related to expenditures for maintenance of roads and bridges, \$287.0 million increase for capital outlay (new construction), offset by \$166.0 million in reduction of allocations to other local jurisdictions and a \$3.0 million decrease in debt service expenditures. These changes are summarized below:



Department of Transportation Highlights

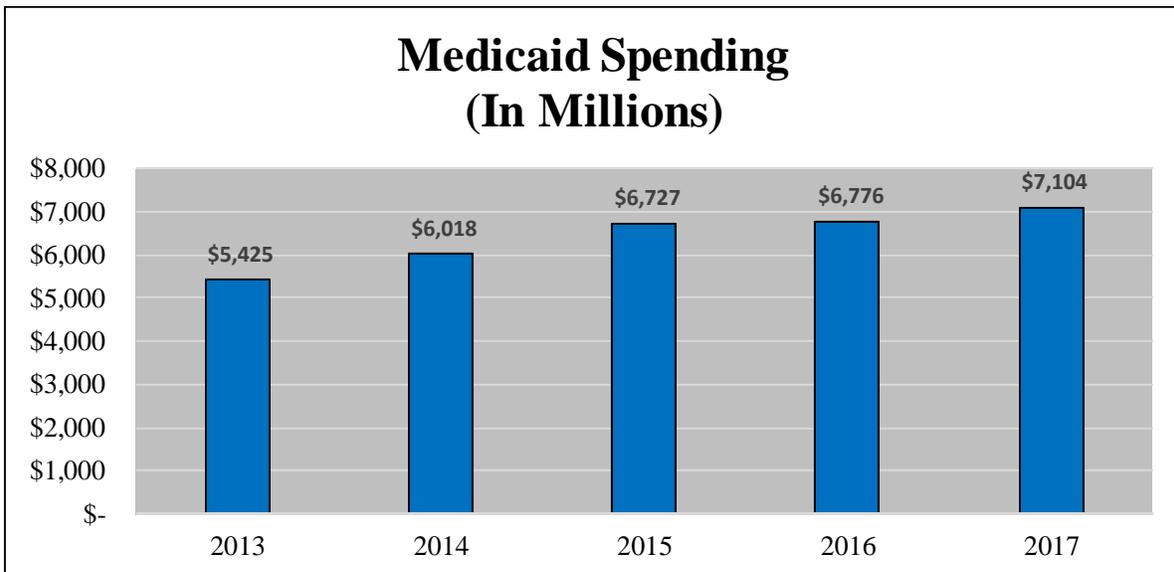
During the fiscal year 2017, the Department of Transportation’s capital assets, net of depreciation increased by \$701 million. These increases in capital assets, net of depreciation, resulted primarily from:

- Construction in progress increasing by \$176 million
- Roads and bridges increasing by \$507 million



Department of Health and Human Services/Medicaid Highlights

The mission of the South Carolina Department of Health and Human Services (DHHS) is to purchase the most healthcare for the State's citizens in need at the lowest possible cost to the taxpayer. It provides full benefits for approximately one million residents annually who are either poor, elderly, or disabled. DHHS has the important job of ensuring the State gets the best possible return on its healthcare investment by identifying and confronting the fundamental inefficiencies that drive up costs and hold down quality. The most recent numbers show that in 2016 there were 1.2 million Medicaid participants receiving some level of benefits, or 24% of the State's population. Total expenditures for 2017 were \$7.1 billion, increasing 31% between 2013 and 2017.



Department of Health and Human Services/Medicaid Highlights

Recent efforts being undertaken to further the mission of the agency include providing autism spectrum disorder services, which include managed care. The agency is also reexamining the existing State plan for opioid dependence, which includes screening, intervention, treatment referral, limiting payments for inappropriate prescriptions, and increased access to medication-assisted treatments. The State recognizes that opioid dependency has evolved into a critical health crisis affecting citizens at all points on the economic spectrum.



Viewing Solar Eclipse; front steps of SC State House



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