MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to South Carolina's $128.6M 2014 GO bonds; outlook stable

Global Credit Research - 14 May 2014

New York, May 14, 2014 --

Moody's Rating

Issue: General Obligation State Highway Refunding Bonds, Series 2014A; Rating: Aaa; Sale Amount: $75,435,000; Expected Sale Date: 05-20-2014; Rating Description: General Obligation

Issue: General Obligation State Institution Bonds (Issued on behalf of Clemson University), Series 2014B; Rating: Aaa; Sale Amount: $36,395,000; Expected Sale Date: 05-20-2014; Rating Description: General Obligation

Issue: General Obligation State Institution Bonds (Issued on behalf of the University of South Carolina), Series 2014A; Rating: Aaa; Sale Amount: $16,735,000; Expected Sale Date: 05-20-2014; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned Aaa ratings to South Carolina's planned issuance of general obligation (GO) bonds in the three series listed above. A stable outlook applies to the new issues and approximately $1.9 billion of outstanding GO bonds. The State Institution bonds will fund a portion of the capital projects costs for the University of South Carolina and Clemson University. The Highway Refunding series will advance refund outstanding highway bonds. All three series are expected to be priced on May 20.

SUMMARY RATING RATIONALE

South Carolina's conservative financial management practices have long supported a Aaa rating, despite economic challenges such as non-durable goods manufacturing job losses and an elevated poverty rate. In recent years, the state has rebuilt fund balances and strengthened its financial reserve and budget monitoring requirements, bolstering its financial prospects. South Carolina's economic development program has helped the economy to add jobs and diversify.

STRENGTHS

--Requirements to fund budget reserves

--Conservative financial management practices including multi-year budget planning, close revenue monitoring, and rapid response to revenue shortfalls

--Statutory limits on supplemental spending, increasing likelihood of year-end surpluses

--Low cost of doing business; successful durable-goods manufacturing sector development

CHALLENGES

--Revenues remain below pre-recession levels on a budgetary basis

--Expected long-term Medicaid cost growth

--Weak per-capita personal income levels relative to U.S.; elevated poverty and unemployment

OUTLOOK

The rating outlook for the State of South Carolina's general obligation bonds is stable. While the state faced significant financial stress from the recent recession, we expect South Carolina's conservative management will maintain fiscal stability even in the face of ongoing economic weakness.

WHAT COULD MOVE THE RATING DOWN

--Change in management practices to a less conservative stance

--Trend of negative General Fund GAAP-basis available fund balances

--Depletion of reserves

--Reliance on one-time budget measures leading to significant structural budget imbalance

--Narrowing liquidity

--Increasing debt burden

RATING METHODOLOGY

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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