THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

November 3, 2011

The Honorable Lindsay Graham
United States Senate
290 Russell Senate Office Building
Washington, DC 20510

The Honorable Jim DeMint
United States Senate
167 Russell Senate Office Building
Washington, DC 20510

The Honorable Tim Scott
United States House of Representatives
1117 Longworth House Office Building
Washington, DC 20515

The Honorable Joe Wilson
United States House of Representatives
2229 Rayburn House Office Building
Washington, DC 20515

The Honorable Jeff Duncan
United States House of Representatives
116 Cannon House Office Building
Washington, DC 20515

The Honorable Trey Gowdy
United States House of Representatives
1237 Longworth House Office Building
Washington, DC 20515

The Honorable Mick Mulvaney
United States House of Representatives
1004 Longworth House Office Building
Washington, DC 20515

The Honorable James E. Clyburn
United States House of Representatives
2135 Rayburn House Office Building
Washington, DC 20515

Senators and Congressmen:

For months, our State has been dealing with the effects of enormous uncertainty brought about by the nation's anemic economic recovery and growing federal deficit. As early as February of this year, we began planning for the potential consequences attending the congressional impasse over raising the federal debt ceiling and their impact on billions of State investments in U.S. Treasuries, agencies, and particularly obligations issued pursuant to the Treasury's State and Local Government Securities program.

In July, 2011, facing another protracted debate over raising the federal debt ceiling, the national rating services initiated with our State serious dialogue concerning the potential of a U.S. sovereign downgrade and its consequent impact on highly rated states like South Carolina. Thereafter, Moody's Investors Service "placed the Aaa bond rating of the government of the United States on review for possible downgrade given the rising possibility that the statutory debt limit [would] not be raised on a timely basis..."[1] and contemporaneously released a special comment warning that its fifteen Aaa-rated state governments had varying levels of exposure to sovereign risk.[2] Then, on August 2, Moody's confirmed the Aaa government bond rating of the United States following the raising of the statutory debt limit but revised its rating outlook to negative,[3] and two days later, on August 4, South Carolina was notified by Moody's that the State of South Carolina was one of five highly rated states whose outlook would be revised to negative, in lockstep with that of the sovereign, principally as a result of our State's reliance on federal revenues.

During the same period, on July 14, 2011, Standard and Poor's placed the short- and long-term sovereign credit ratings of the United States on CreditWatch with negative implications, citing as its principal rationale the continuing failure of the federal government to raise the debt ceiling and the underlying dynamics of the political debate on that action,[4] and ultimately, on August 5, S&P lowered its long-term sovereign credit rating on the United States. S&P stated pessimism about the capacity of Congress and the Administration to leverage the agreement reached into a broader fiscal consolidation plan that stabilizes the government's debt dynamics any time soon.[5] Fortunately, to this date, the State has not been notified by S&P of any state-specific action with respect to its rating as a consequence of the S&P downgrade of the sovereign, but uncertainty remains.

Our State has been negatively impacted by these events, and its coveted and pristine credit ratings remain under pressure from circumstances over which it has had little if any control. Exacerbating this insult, during the same period as the events described above, and as a condition of compromise on raising the federal debt ceiling that was the subject of these negative rating actions, the Joint Select Committee on Deficit Reduction was formed under the Budget Control Act of 2011 to "reduce the deficit by at least $1.5 trillion over the period of federal fiscal years 2012 to 2021." As a part of its recommendations to achieve that reduction, the Obama Administration proposed to both the Select Committee and as part of the American Jobs Act to limit the income exclusion for tax-exempt municipal debt for families with incomes over $250,000.

We vehemently oppose any provision that seeks to impair our right to issue obligations the income on which is exempt from federal tax because such impairment would fundamentally shift the federal burden to the States and their municipalities, universities, public schools, and other political subdivisions and entities. As a practical matter, eliminating or reducing the exclusion from federal income tax would ultimately result in increased borrowing costs to issuers of tax-exempt obligations that incur indebtedness for public purposes like capital improvements, construction and maintenance of schools, highways, research and academic facilities, dormitories, local water and waste treatment facilities, and promotion of economic development, among others. These state and local obligations are repaid by public funds originating from taxes, fees, tuition and other constituent-borne revenue sources and as a result, taxpayers, students and other consumers of government services, without their consents, would ultimately and inequitably bear the federal burden under a backdoor scheme through which the effects of federal taxation are imposed on

[1] Moody's Places US Aaa Government Bond Rating and Related Ratings on Review for Possible Downgrade, July 13, 2011.
[2] Implications of a U.S. Rating action for Aaa-Rated U.S. Municipal Credits, July 13, 2011.
[3] Moody's confirms US Aaa Rating, assigns negative outlook, August 2, 2011.
[4] Research Update: United States of America 'AAA/A-1+' Ratings Placed On CreditWatch Negative On Rising Risk Of Policy Stalemate, July 14, 2011.
[5] Research Update: United States of America Long-Term Rating Lowered To 'AA+' On Political Risks And Rising Debt Burden; Outlook Negative, August 5, 2011.

them in a way that is completely devoid of transparency. Moreover, we believe that serious constitutional questions attend the proposal.

The State of South Carolina, while still economically and financially distressed from a tenuous economic recovery, has to date weathered the uncertainties with which it has been confronted over the past decade, and those most acutely manifested over the last few months, owing in large part to our state constitutional mandate for a balanced budget process that has served to curb tendencies to excesses.

We give unqualified support to any initiative that fosters national prosperity, financial stability, and economic growth, but this proposal serves only to increase federal taxes in a way that will ultimately bypass the constituency on which it is purported to be levied at the expense of the general constituency by imposing the burden of a federal tax increase upon the States.

Accordingly, we seek your unqualified support in opposing this constitutionally inferior and poorly considered proposal.

Very truly yours,

Curtis M. Loftis, Jr.
State Treasurer