

# STATE OF SOUTH CAROLINA

## A Report to Our Citizens

### For Fiscal Year 2008

(JULY 1, 2007 THROUGH JUNE 30, 2008)

#### Table of Contents:

Keys for Change..... 1  
 South Carolina's Progress..... 2  
 South Carolina's Finances..... 3  
 Future Challenges..... 4



#### THE SOUTH CAROLINA VISION

Our vision is that South Carolina becomes a better place to call home. Accordingly, we believe in limiting and reforming state government so that we can more quickly grow the private sector; in unleashing the innovation that comes with market choices over government edicts; and in enhancing and preserving our state's unique quality of life and natural beauty. These objectives add up to changes that are making us more competitive in the global marketplace in offering opportunity to those who call South Carolina home.

- Governor Mark Sanford

#### KEYS FOR CHANGE:

##### Fiscal Responsibility at the State and Local Government Levels:

- Adopt more responsible budgets
- Contain taxes by also containing government spending
- Reduce borrowing

##### Restructure State Government:

- Streamline and combine agencies
- Make Governor responsible for central administrative functions

	Calendar Year 2006	Calendar Year 2007
Population	4,330,108	4,407,709
Unemployment Rate	6.4%	5.9%
Per Capita Income	\$29,767	\$31,013
	Fiscal Year 2007	Fiscal Year 2008
Public School Enrollment	698,290	701,749
State Government Employees	68,817	66,754

*The results used in this report are preliminary and unaudited. Final numbers might differ once the independent audit, which is in progress, is complete.*

# SOUTH CAROLINA'S PROGRESS

## In Fiscal Year 2008

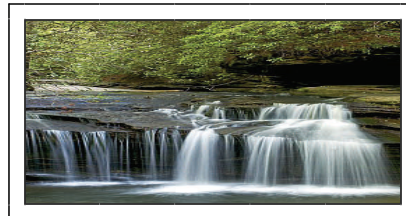
### GOVERNMENT:

Several key bills were signed into law during fiscal year 2008:

- A new DUI law toughens penalties for repeat offenders, implements tiered penalties for levels of intoxication, and removes a number of legal loopholes that favored defendants.
- A new immigration law requires citizenship verification via the federal e-verify system, and penalizes businesses that do not do so, or who knowingly hire illegal immigrants.
- A new law providing small business better access to healthcare allows businesses to pool together for the purpose of purchasing group healthcare.

### ECONOMY/EMPLOYMENT:

South Carolina reported slight job increase with total employment up 4,500 jobs over the last 12 months, a gain of less than 1%. Although the State has seen a small increase in overall jobs, it experienced losses of 13,900 in construction and 5,000 in manufacturing from June 2007. As a result of an economic slowdown starting in late 2007, the State's Board of Economic Advisors was forced to reduce the amount of state tax revenues that it projects the State will collect, resulting in some cutbacks in spending for the upcoming 2008-09 fiscal year. On a more positive note, South Carolina's per capita income for calendar year 2007 (latest available) increased to \$31,013, up 4.2% over calendar year 2006.



### RETIREMENT:

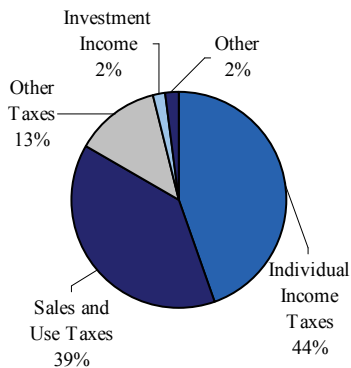
- *State Retirement System* — The General Assembly approved a plan (Act 311 of 2008) to provide state retirees an annual cost of living adjustment (COLA) of up to 2% and to accumulate money to cover these costs. This replaces the previous plan that provided retirees “ad hoc” COLAs which were unfunded and were seriously eroding the economic health of the State Retirement System. The new plan provides an opportunity to reduce the Retirement System’s \$10 billion unfunded liability (similar to a 30 year mortgage that the State must pay) while still providing state retirees annual COLAs.
- *Retirees’ Health Insurance* — In accordance with new rules by the Governmental Accounting Standards Board to account for public employee health insurance benefits, the General Assembly established the South Carolina Retiree Health Insurance Trust Fund to accumulate sufficient funds to provide post-employment health insurance benefits for retired state and school district employees. The General Assembly placed \$312 million in the Trust Fund as the first installment payment towards the State’s current unfunded liability for these benefits of \$8.6 billion.

# SOUTH CAROLINA'S FINANCES

## Budgetary Revenues and Expenditures

### General Fund Sources of Revenue (Unaudited)

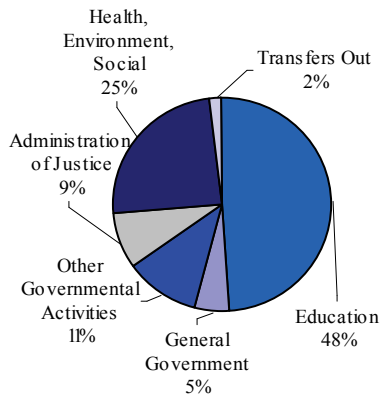
#### 2008 REVENUES BY SOURCE



Revenues by Source (Expressed in Thousands)	2007 Revenue (in \$)	2008 Revenue (in \$)
Individual Income Taxes	2,881,931	2,863,839
Sales and Use Taxes	2,631,222	2,463,275
Other Taxes	835,489	808,699
Investment Income	128,756	123,633
Other	181,105	132,948
<b>Total Revenues</b>	<b>6,658,503</b>	<b>6,392,394</b>

### General Fund Functional Expenditures (Unaudited)

#### 2008 EXPENITURES BY FUNCTION



Expenditures by Function (Expressed in Thousands)	2007 Expenditures (in \$)	2008 Expenditures (in \$)
General Government	246,189	330,223
Health, Environment, Social	1,509,332	1,772,952
Education (K-12)	3,148,094	3,513,782
Administration of Justice	554,894	626,679
Other Governmental Activities	658,802	793,664
Transfers Out	447,983	111,821
<b>Total Expenditures and Transfers</b>	<b>6,565,294</b>	<b>7,149,121</b>

*To see the State's 2007 Comprehensive Annual Financial Report, visit [www.cg.sc.gov](http://www.cg.sc.gov).*

# WHAT'S NEXT?

## Future Challenges



### **BUDGET:**

The State of South Carolina incurred an unaudited \$250 million budgetary deficit for Fiscal Year 2008. This deficit resulted from patterns of unsustainable spending and structural budgetary imbalances. Fiscal Year 2009 budgetary highlights include:

- Revenue estimates cut from original budget twice, totaling \$230 million in reductions.
- Adjournment resolution passed to allow legislature to meet prior to October 31, 2008 to address revenue shortfalls, if necessary.

Based on these challenges, State leaders need to work together to produce comprehensive solutions to restore the State's fiscal strength and integrity.

### **ECONOMIC CHALLENGES:**

Expected revenue shortfalls and additional agency budget cuts leave potential deficits at the Department of Corrections and the Department of Education of nearly \$100 million for FY 09.

The Department of Education is facing a funding shortfall for core state needs including paying for fuel for school buses. This shortfall coupled with an additional agency budget cut of \$73 million will force the agency to make some tough decisions dealing with the reduced funding.

The Department of Corrections (DOC) ended FY 08 with an approximate \$4 million budgetary deficit. The department has been projecting a FY 09 budgetary deficit of \$8 million which has been recently increased by a mid-year budget cut of \$10 million. With an \$18 million appropriations shortfall in its annual budget, the DOC is faced with the difficult choice of closing prisons and laying off staff, or incurring a much larger year end deficit.

Revenue collections for July 2008 are down 2.9% from collections made for July 2007. State officials approved the FY 09 budget based on growing revenue projections, and accordingly the State Budget & Control Board trimmed agency budgets by 3% at its August 12, 2008 meeting.

The State has deficits (unfunded liabilities) of \$10 billion in its public employee retirement system and \$8.6 billion in its retiree health plan which it must pay off over the next 25-30 years in order to comply with governmental accounting rules.

*For additional information, visit [www.cg.sc.gov](http://www.cg.sc.gov).*

*If you have any questions, contact Comptroller General Richard Eckstrom's office at 803-734-2121.*