

Richard Eckstrom
Comptroller General
of
South Carolina



News Release

WADE HAMPTON STATE OFFICE BUILDING, COLUMBIA SC 29201

STATE MAKES ROBUST RECOVERY

Eckstrom Applauds Remarkable Financial Achievements and Cooperation between Governor and Legislature

(Announced August 15, 2006 by Comptroller General Richard Eckstrom)

Year-end budgetary results reveal that State government has strongly rebounded from the financial problems of 1999-2003 that contributed to losing the State's AAA credit rating.

The Board of Economic Advisors estimated last month that the State would finish Fiscal Year 2006 with a budgetary surplus of at least \$100 million. **After closing the budgetary books this week, a healthier-than-expected state economy produced a budgetary surplus of \$171.5 million for the fiscal year ended June 30, 2006.**

In contrast, the State was on virtual life support in 2003:

- It had radically increased its debt from \$1.0 billion at the beginning of 1999 to \$2.4 billion in 2003.
- It had committed \$155 million of unconstitutional deficit spending, thus sustaining negative net worth for the first time since the Great Depression.
- It had drained its \$100 million *Capital Reserve* Fund and its \$150 million *General Reserve* or "Rainy Day" Fund.
- It had borrowed and spent \$700 million from the trust accounts of others.

In short, the State's overall financial condition was grim in 2003.

At that critical time, Governor Sanford -- then newly elected -- began working with the Legislature to improve fiscal discipline in State government. Their first act was to establish an installment payment plan to pay off the prior year's unconstitutional deficit spending of \$155 million. **They ultimately paid off that deficit in 2005 and established stronger financial controls to guard against repeat violations. They also corrected a serious accounting error, made a decade earlier yet never corrected, by prudently sacrificing \$105 million of revenues from 2005 to bring the State's accounting records back into balance.**

The Governor and the Legislature also agreed to fully restore the State's Capital Reserve Fund and Rainy Day Fund -- and to replace all the money that in prior years had been spent from the trust accounts of others. **They fully funded both reserve accounts in 2006 -- for the first time this decade -- and fully repaid the \$700 million that had been borrowed and spent from trust funds.**

These conservative fiscal measures implemented by the Governor and the Legislature have had a beneficial "trickle down" impact on the management of State government. In the past, many agency managers believed that any money remaining in their budgets, but not spent by the end of the year, was going to be swept away by the General Assembly to help offset year-end deficits of other agencies. But now agencies are encouraged to carry forward unspent budget dollars from one year to the next, knowing that these funds will not be confiscated to patch deficit "holes" left behind by others. The "use it or lose it" approach, which formerly produced a surge in spending near the end of any fiscal year, has been replaced with a "save it for a rainy day" approach by many agencies. **As a result, unspent amounts carried forward by agencies grew from \$45.7 million in 2003 to \$107.4 million in 2006, thereby producing crucial *additional* operating reserves for State agencies.**

Finally, in 2006 the Legislature created a new Contingency Reserve Fund with surplus budget revenues. This new reserve fund can be used to help the State recover from devastating storms like Hurricanes Katrina and Hugo. Following the end of hurricane season (July through November) and once the Legislature returns to session in January, the Legislature can use the remaining balance in the Contingency Reserve Fund for capital expenditures like highways, bridges, school buildings, or school busses. **At June 30, 2006, the Contingency Reserve Fund balance is \$171.5 million, the result of a stronger emphasis by the State on fiscal discipline.**

By any measure, the State's fiscal year that ended June 30, 2006 was a banner year with record growth. Compared to Fiscal Year 2005, individual income tax revenues increased \$393 million, or 17.7%. Sales and use tax revenues increased \$226 million, or 9.8%. Corporate income tax revenues increased \$72 million, or 38.4%. Overall, total revenues increased \$635 million, or 11.4%. However, the State experienced a \$56 million net decline this fiscal year in other sources of revenues, reflecting a lower reliance on fees and on miscellaneous tax sources.

State government has vastly improved its financial condition during the past four years because of stronger fiscal discipline and a steadily expanding economy. **Yet, in spite of the many noteworthy improvements, unparalleled financial challenges remain.**

For instance, even though State debt had been historically modest, it is now unwisely high and is pushing against our Constitutional debt limits. Since the beginning of 1999, State government's general obligation debt has grown from \$243 per South Carolinian to \$545 per South Carolinian.

Also, the State's actuaries recently revealed in a surprising report that the State has an estimated \$9 billion unfunded liability for employee post-retirement health insurance coverage. The State has never recognized or disclosed this liability in the past, although new accounting standards will require the State to do so.

What's more, the actuaries project a \$9 billion funding shortfall in the State pension plans, jeopardizing the State's ability to grant future COLAs to retirees. *Using realistic actuarial assumptions, this funding shortfall would easily grow to \$15 billion or more if the entire projected costs of granting future COLAs were included.*

Yet, because of expected impacts on the budget, the State has been reluctant to recognize the entire projected costs of granting COLAs. Instead, it budgets for only a portion of those costs, thereby further worsening the State's pension funding shortfall year after year. This practice should end.

State leaders need to refocus and take full advantage of the opportunity created by the current strong economy to deal with these unparalleled financial challenges. Other nonessential spending should be curtailed.

The economy runs in cycles. To delay and miss the chance to deal with these existing major financial issues while the economy is strong would be unfair to the taxpayers of South Carolina. **State leaders should seize the current opportunity -- and they should do so immediately.**

Because of focused financial management and noteworthy cooperation, the State has made great strides in improving its financial condition during the last four years. The task is not complete. The promising future of South Carolina will be even more promising if State leaders continue their recent cooperation and progress.

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(For questions or comments, please contact Nat Kaminski, Chief of Staff, Office of Comptroller General, at 803-734-2120.)

State of South Carolina
BUDGETARY HIGHLIGHTS

BUDGETARY GENERAL FUND

Fiscal Year Ended June 30, 2006

FACTORS THAT PRODUCED THE FISCAL YEAR SURPLUS:

Actual Revenues Over Estimates Used in Appropriation Act.....	\$ 752,933,807
Appropriation Act Veto Sustained by General Assembly in June 2005.....	206,602
Agency Appropriations that Lapsed at Year-End.....	3,638,577
"Open-Ended" Appropriations ^a	(359,961)
Increased Tax Enforcement Collections Transferred from General Fund to Other Budgeted Funds ^b	<u>(131,825,824)</u>
NET BUDGETARY SURPLUS AVAILABLE FOR DISTRIBUTION.....	624,593,201

DISTRIBUTION OF SURPLUS:

Amount Already Designated by the General Assembly for Expenditure in FY07.....	<u>(453,052,098)</u>
SURPLUS AVAILABLE FOR APPROPRIATION ^c	<u>\$ 171,541,103</u>

^a Open-ended appropriations occur when the General Assembly mandates that items be fully funded yet fails to budget sufficient amounts to fund them completely. In these instances, appropriations are increased after the fact to allow for the additional expenditures.

^b Proviso 73.17 of the FY06 Appropriations Act required that tax collections in excess of \$300 million that are generated through stepped-up enforcement efforts by the S.C. Department of Revenue be moved to a fund separate from the State's General Fund and separately appropriated by the General Assembly.

^c Excess surplus funds are to be placed into a new Contingency Reserve Fund. These funds will be available for appropriation by the General Assembly for infrastructure improvements, schools, and expenses incurred as a result of natural disasters.

BUDGETARY GENERAL FUND
Changes in Budgetary Fund Balance
 Fiscal Year Ended June 30, 2006

	Reserved			Unreserved		Total
	General Reserve	Appropriations		Designated	Undesignated	
		Carried Forward	Capital Reserve			
Revenues.....	\$ —	\$ —	\$ —	\$ —	\$ 6,226,026,577	\$ 6,226,026,577
Expenditures.....	—	—	—	—	(5,540,438,129)	(5,540,438,129)
Transfer to General Reserve (Proviso 73.18).....	78,333,866	—	—	(78,333,866)	—	—
Transfer to Capital Reserve per Act.....	—	—	102,325,596	—	(102,325,596)	—
Appropriations:						
Brought Forward From Last Year ^a	—	(58,982,965)	—	—	58,982,965	—
Carried Forward to Next Year ^b	—	107,364,877	—	—	(107,364,877)	—
Supplemental Appropriations:						
FY05 Year-End Surplus (Proviso 73.18) Part 1A.....	—	—	—	(144,295,290)	144,295,290	—
FY05 Year-End Surplus (Proviso 73.18)	—	—	—	(64,148,191)	64,148,191	—
Transfer FY05 Capital Reserve Appropriations to Agencies.....	—	—	(99,356,026)	—	—	(99,356,026)
Increased Enforcement Tax Collections Transferred Out.....	—	—	—	—	(131,825,824)	(131,825,824)
Net Current Year Changes.....	78,333,866	48,381,912	2,969,570	(286,777,347)	611,498,597	454,406,598
Fund Balance—July 1, 2005.....	75,154,528	58,982,965	99,356,026	286,777,347	13,094,604	533,365,470
Amount Designated for Expenditure in FY07 ^c	—	—	—	453,052,098	(453,052,098)	—
Fund Balance—June 30, 2006.....	<u>\$ 153,488,394</u>	<u>\$ 107,364,877</u>	<u>\$ 102,325,596</u>	<u>\$ 453,052,098</u>	<u>\$ 171,541,103^d</u>	<u>\$ 987,772,068</u>

^a These represent current year expenditures that did not require current year budget appropriations.

^b These represent current year budget appropriations that will not be expended until next year.

^c Provisos 73.3 and 73.14 of the FY07 Appropriations Act designated this amount of FY06 budgetary surplus as a source for appropriations in FY07.

^d Balance to be placed into a new Contingency Reserve Fund to be appropriated during the next legislative session beginning in January 2007.

BUDGETARY GENERAL FUND
Revenue Analysis
 Fiscal Year Ended June 30, 2006

	Actual Revenue	Over (Under) Estimates Used in Appropriation Act		Increase (Decrease) from 2005 Actual	
		Amount	%	Amount	%
Individual Income Tax.....	\$ 2,608,227,193	\$ 449,810,277	20.8%	\$ 392,851,151	17.7%
Sales Tax.....	2,544,980,403	148,914,931	6.2%	226,505,555	9.8%
Corporation Income Tax.....	257,853,944	114,575,663	80.0%	71,585,348	38.4%
Beer, Wine, Liquor Taxes.....	149,945,318	(3,126,798)	(2.0%)	510,479	0.3%
Insurance Tax.....	139,035,763	(2,830,164)	(2.0%)	(8,562,905)	(5.8%)
Corporation License Tax.....	72,467,145	(5,581,053)	(7.2%)	(2,032,779)	(2.7%)
Earned on Investments.....	69,852,997	44,852,997	179.4%	43,778,505	167.9%
Documentary (Deed Stamp) Tax.....	64,015,113	18,572,987	40.9%	13,521,156	26.8%
Motor Vehicle License Fees.....	51,110,914	(5,647,401)	(9.9%)	(6,515,366)	(11.3%)
Departmental Revenue ^b	49,056,211	(6,411,486)	(11.6%)	(1,401,601)	(2.8%)
Business License (Tobacco) Tax.....	32,056,450	2,135,730	7.1%	2,446,343	8.3%
Bank and Savings & Loan Taxes.....	31,633,949	8,708,767	38.0%	30,974	0.1%
Admissions Tax.....	25,972,973	929,679	3.7%	(1,312,920)	(4.8%)
Indirect Cost Recoveries.....	18,009,419	(4,883,992)	(21.3%)	(43,400)	(0.2%)
Electric Power Tax.....	17,772,698	(9,118,975)	(33.9%)	(7,717,677)	(30.3%)
Public Service Authority (Excess Earnings).....	14,953,629	2,375,877	18.9%	2,530,419	20.4%
Nonrecurring Revenue ^a	13,589,652	93,726	0.7%	(76,685,428)	(84.9%)
Workers' Comp Insurance Tax.....	13,142,396	(1,014,014)	(7.2%)	(1,075,138)	(7.6%)
Circuit and Family Court Fines.....	9,655,254	(255,268)	(2.6%)	127,870	1.3%
Estate Tax.....	3,227,081	369,688	12.9%	(15,907,650)	(83.1%)
All Other Sources.....	39,468,075	462,636	1.2%	2,333,010	6.3%
Total Revenues.....	\$ 6,226,026,577	\$ 752,933,807	13.8%	\$ 634,965,946	11.4%

^a Nonrecurring revenue consists of various one-time revenues and transfers from other funds. For FY06, nonrecurring revenues consisted of a one-time contribution from the Department of Motor Vehicles and excess appropriations from two other agencies. For FY05, the major sources were federal funds received under the Federal Tax Relief Act of 2004 and a one-time contribution from the State's Public Service Authority (Santee Cooper).

^b Departmental revenue consists mostly of revenues charged by agencies for goods and services.

BUDGETARY GENERAL FUND
Appropriations and Expenditures
 Fiscal Year Ended June 30, 2006

Expenditures by Function	Final Appropriations	Expenditures	Disposition of Adjusted Appropriations	
			Appropriations Carried Forward to 2007	Lapsed
Adjutant General.....	\$ 7,758,357	\$ 5,698,646	\$ 2,059,711	\$ —
Administrative Law Judges.....	1,927,177	1,615,965	311,212	—
Agriculture.....	5,303,439	5,303,227	212	—
Aid to Local Government.....	244,597,233	244,187,023	410,210	—
Alcohol and Other Drug Abuse Services.....	8,573,820	8,479,878	93,942	—
Archives and History.....	3,718,142	3,708,054	10,088	—
Arts Commission.....	3,567,186	3,567,186	—	—
Attorney General.....	6,777,488	6,755,010	22,478	—
Budget and Control Board.....	43,388,618	34,755,430	8,579,355	53,833
Commerce.....	19,736,434	11,466,203	8,270,231	—
Commission for Minority Affairs.....	521,062	474,305	46,757	—
Commission for the Blind.....	3,103,059	2,783,413	277,881	41,765
Commission on Indigent Defense.....	6,180,737	6,153,715	27,022	—
Comptroller General.....	4,311,092	3,918,139	392,953	—
Consumer Affairs.....	1,750,818	1,731,116	19,702	—
Corrections.....	309,673,548	301,592,371	8,081,177	—
Debt Service.....	233,888,701	216,183,091	14,198,355	3,507,255
Disabilities and Special Needs.....	150,743,024	150,111,173	631,851	—
Education.....	2,056,669,521	2,045,622,575	11,046,946	—
Educational Television Commission.....	15,409,367	14,852,317	557,050	—
Election Commission.....	2,556,579	1,849,237	707,342	—
Employment Security Commission.....	130,724	127,033	3,691	—
Forestry Commission.....	14,727,409	14,393,147	334,262	—
Governor's Office.....	46,829,430	45,666,597	1,162,833	—
Health and Environmental Control.....	118,917,838	115,534,713	3,383,125	—
Health and Human Services.....	792,290,424	786,290,162	6,000,262	—
Higher Education.....	826,339,343	803,470,864	22,868,479	—
House of Representatives.....	14,358,855	11,627,137	2,731,718	—
Human Affairs Commission.....	1,874,919	1,830,674	44,245	—
Insurance.....	3,599,909	3,599,909	—	—
Jobs-Economic Development Authority.....	72,144	72,144	—	—
John De La Howe School.....	4,645,720	4,200,454	409,542	35,724
Judicial Department.....	34,129,444	33,958,409	171,035	—
Juvenile Justice.....	83,707,177	83,706,665	512	—
Labor, Licensing and Regulation.....	4,212,638	3,724,064	488,574	—
Legislative Audit Council.....	1,090,298	979,701	110,597	—
Legislative Support Agencies.....	7,105,333	6,019,683	1,085,650	—
Lieutenant Governor.....	4,547,459	4,036,498	510,961	—
Mental Health.....	179,568,397	179,347,514	220,883	—
Motor Vehicles.....	11,288,528	11,288,528	—	—
Museum Commission.....	4,597,758	4,597,758	—	—
Natural Resources.....	23,144,104	23,138,256	5,848	—
Parks, Recreation and Tourism.....	36,762,858	35,597,379	1,165,479	—
Ports Authority.....	35,078	35,078	—	—
Probation, Parole, and Pardon.....	18,045,907	17,741,869	304,038	—
Procurement Review Panel.....	120,115	119,961	154	—
Prosecution Coordination Commission.....	9,440,158	9,262,651	177,507	—
Public Safety.....	70,459,063	67,642,345	2,816,718	—
Revenue.....	44,564,487	42,886,945	1,677,542	—
School for the Deaf and Blind.....	12,238,998	12,215,244	23,754	—
Sea Grant Consortium.....	469,961	445,694	24,267	—
Secretary of State.....	899,918	899,918	—	—
Social Services.....	100,221,422	100,220,858	564	—
State Ethics Commission.....	372,824	372,824	—	—
State Library.....	13,159,529	13,117,798	41,731	—
State Treasurer.....	4,529,794	4,410,014	119,780	—
The Senate.....	13,999,422	8,922,882	5,076,540	—
Transportation.....	100,990	100,990	—	—
Vocational Rehabilitation.....	12,705,949	12,511,928	194,021	—
Wil Lou Gray Opportunity School.....	3,018,274	2,794,130	224,144	—
Workers' Compensation Commission.....	2,963,583	2,721,637	241,946	—
Total	\$ 5,651,441,583	\$ 5,540,438,129	\$ 107,364,877	\$ 3,638,577

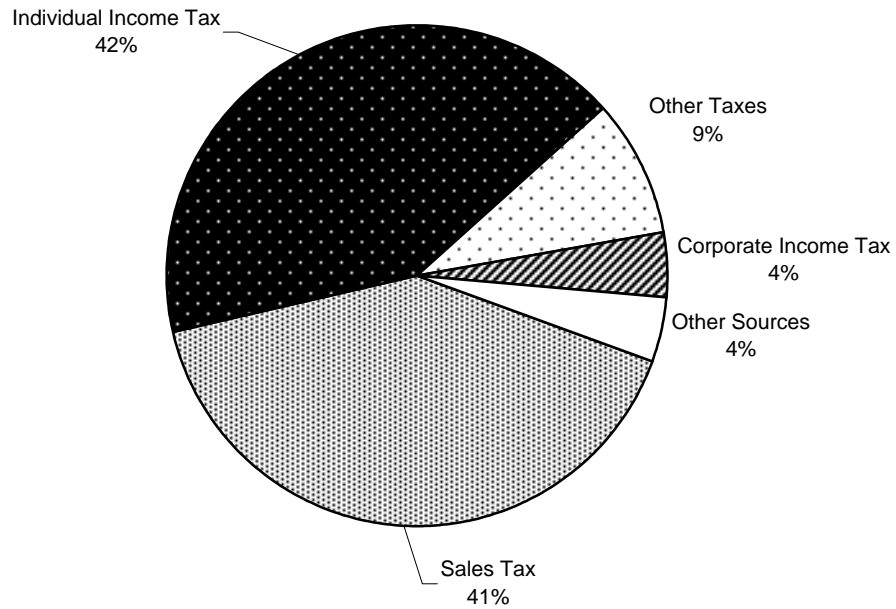
BUDGETARY GENERAL FUND
Appropriations Carried Forward to FY2006-07
Fiscal Year Ended June 30, 2006

Agency	Total	Carryforward		General Carryforward as % of Agency's Original Appropriation
		Special ^a	General ^b	
Commission for the Blind.....	\$ 277,881	\$ —	\$ 277,881	10.00 %
Comptroller General.....	392,953	—	392,953	9.95 %
John De La Howe School.....	409,542	23,147	386,395	9.94 %
Commission for Minority Affairs.....	46,757	—	46,757	9.60 %
Workers' Compensation Commission.....	241,946	—	241,946	8.50 %
Lieutenant Governor.....	510,961	214,975	295,986	7.34 %
Labor, Licensing and Regulation.....	488,574	271,000	217,574	6.57 %
Sea Grant Consortium.....	24,267	—	24,267	5.54 %
State Treasurer.....	119,780	—	119,780	4.55 %
Public Safety.....	2,816,718	—	2,816,718	4.37 %
Revenue.....	1,677,542	—	1,677,542	4.26 %
Administrative Law Judges.....	311,212	250,000	61,212	4.26 %
Educational Television Commission.....	557,050	46,190	510,860	3.93 %
Employment Security Commission.....	3,691	—	3,691	2.82 %
Department of Corrections.....	8,081,177	—	8,081,177	2.79 %
Commerce.....	8,270,231	7,987,349	282,882	2.78 %
Human Affairs Commission.....	44,245	—	44,245	2.59 %
Wil Lou Gray Opportunity School.....	224,144	157,675	66,469	2.43 %
Forestry Commission.....	334,262	—	334,262	2.42 %
Adjutant General.....	2,059,711	1,949,984	109,727	2.21 %
Prosecution Coordination Commission.....	177,507	—	177,507	2.03 %
Parks, Recreation and Tourism.....	1,165,479	519,927	645,552	2.00 %
Governor's Office.....	1,162,833	319,603	843,230	1.95 %
Probation, Parole, and Pardon.....	304,038	—	304,038	1.81 %
Vocational Rehabilitation.....	194,021	—	194,021	1.59 %
Budget and Control Board.....	8,579,355	6,547,592	2,031,763	1.43 %
Consumer Affairs.....	19,702	—	19,702	1.30 %
Alcohol and Other Drug Abuse Services.....	93,942	—	93,942	1.15 %
Higher Education.....	22,868,479	14,393,891	8,474,588	1.12 %
Election Commission.....	707,342	687,589	19,753	.90 %
Health and Human Services.....	6,000,262	—	6,000,262	.76 %
Judicial Department.....	171,035	—	171,035	.52 %
Health and Environmental Control.....	3,383,125	2,832,700	550,425	.51 %
Commission on Indigent Defense.....	27,022	—	27,022	.44 %
Disabilities and Special Needs.....	631,851	—	631,851	.44 %
Attorney General.....	22,478	—	22,478	.34 %
State Library.....	41,731	—	41,731	.33 %
Archives and History.....	10,088	—	10,088	.28 %
Aid to Local Government.....	410,210	—	410,210	.17 %
School for the Deaf and Blind.....	23,754	7,016	16,738	.14 %
Procurement Review Panel.....	154	—	154	.14 %
Education.....	11,046,946	8,400,579	2,646,367	.13 %
Mental Health.....	220,883	—	220,883	.13 %
Natural Resources.....	5,848	—	5,848	.03 %
Department of Agriculture.....	212	—	212	.00 %
Juvenile Justice.....	512	—	512	.00 %
Social Services.....	564	—	564	.00 %
Arts Commission.....	—	—	—	—
Debt Service.....	14,198,355	14,198,355	—	—
Department of Insurance.....	—	—	—	—
Department of Motor Vehicles.....	—	—	—	—
House of Representatives.....	2,731,718	2,731,718	—	—
Legislative Audit Council.....	110,597	110,597	—	—
Legislative Support Agencies.....	1,085,650	1,085,650	—	—
Museum Commission.....	—	—	—	—
Secretary of State.....	—	—	—	—
State Ethics Commission.....	—	—	—	—
The Senate.....	5,076,540	5,076,540	—	—
Transportation.....	—	—	—	—
Total.....	\$ 107,364,877	\$ 67,812,077	\$ 39,552,800	.72 %

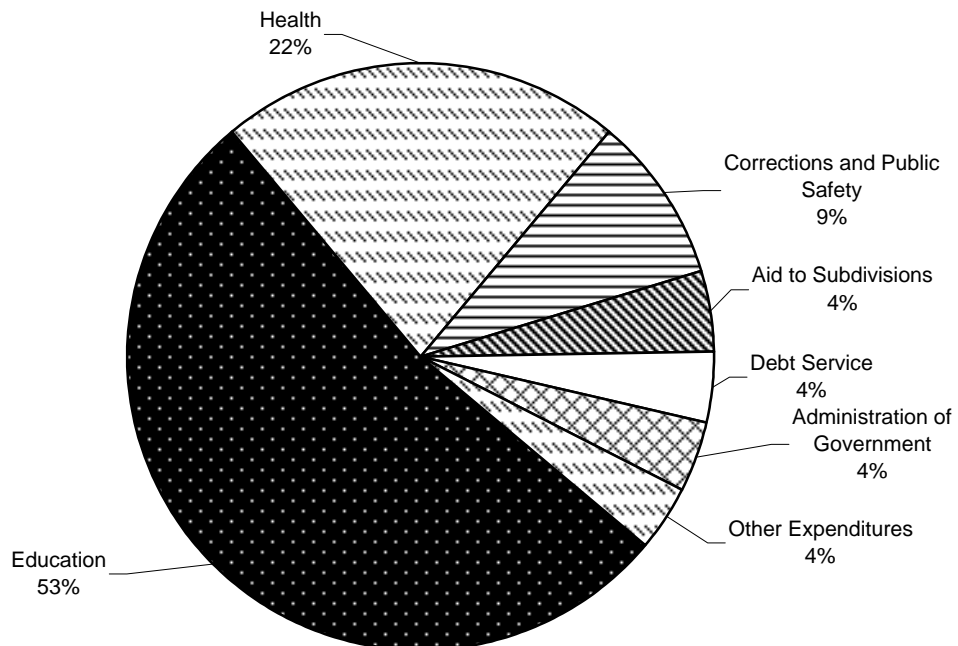
^a Provisos contained within Part 1B of the FY2005-06 Appropriations Act allow certain agencies to carry forward specific appropriation balances to FY2006-07 for expenditure.

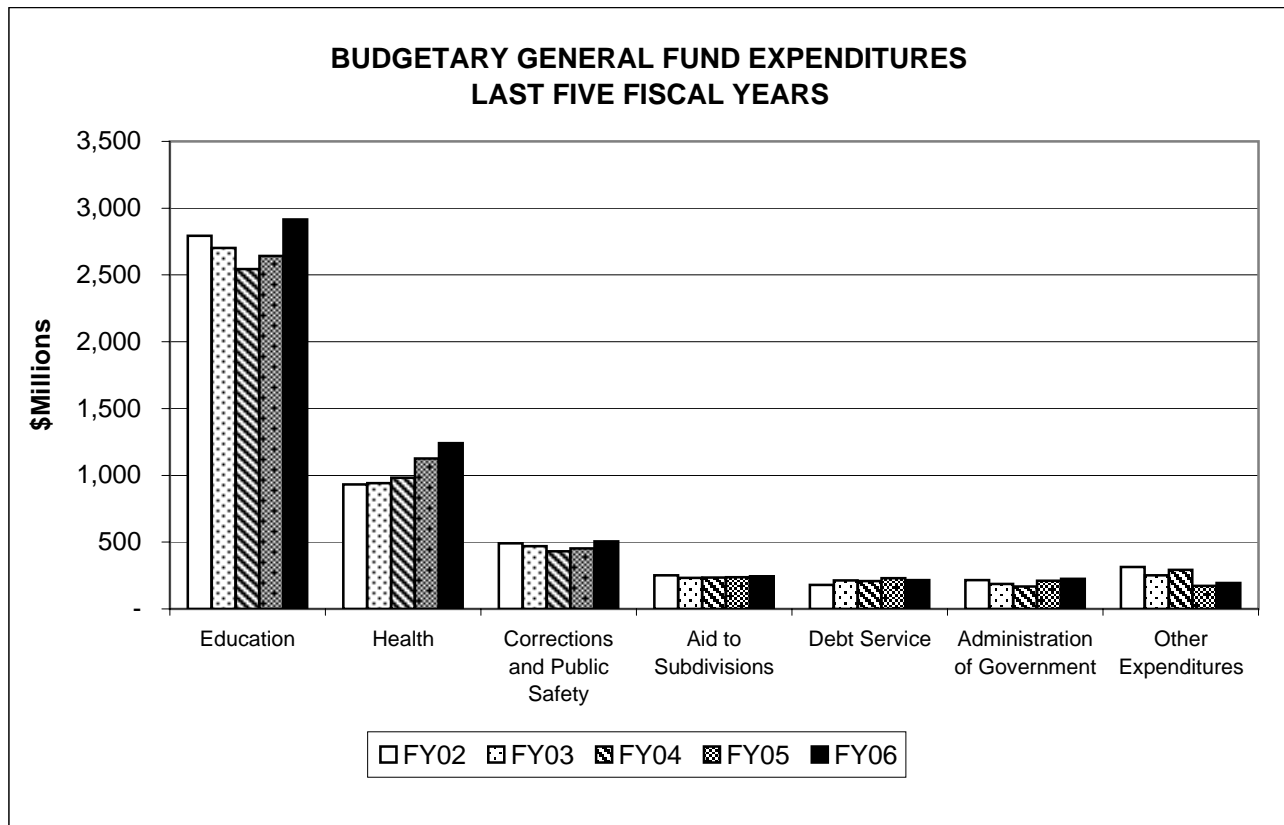
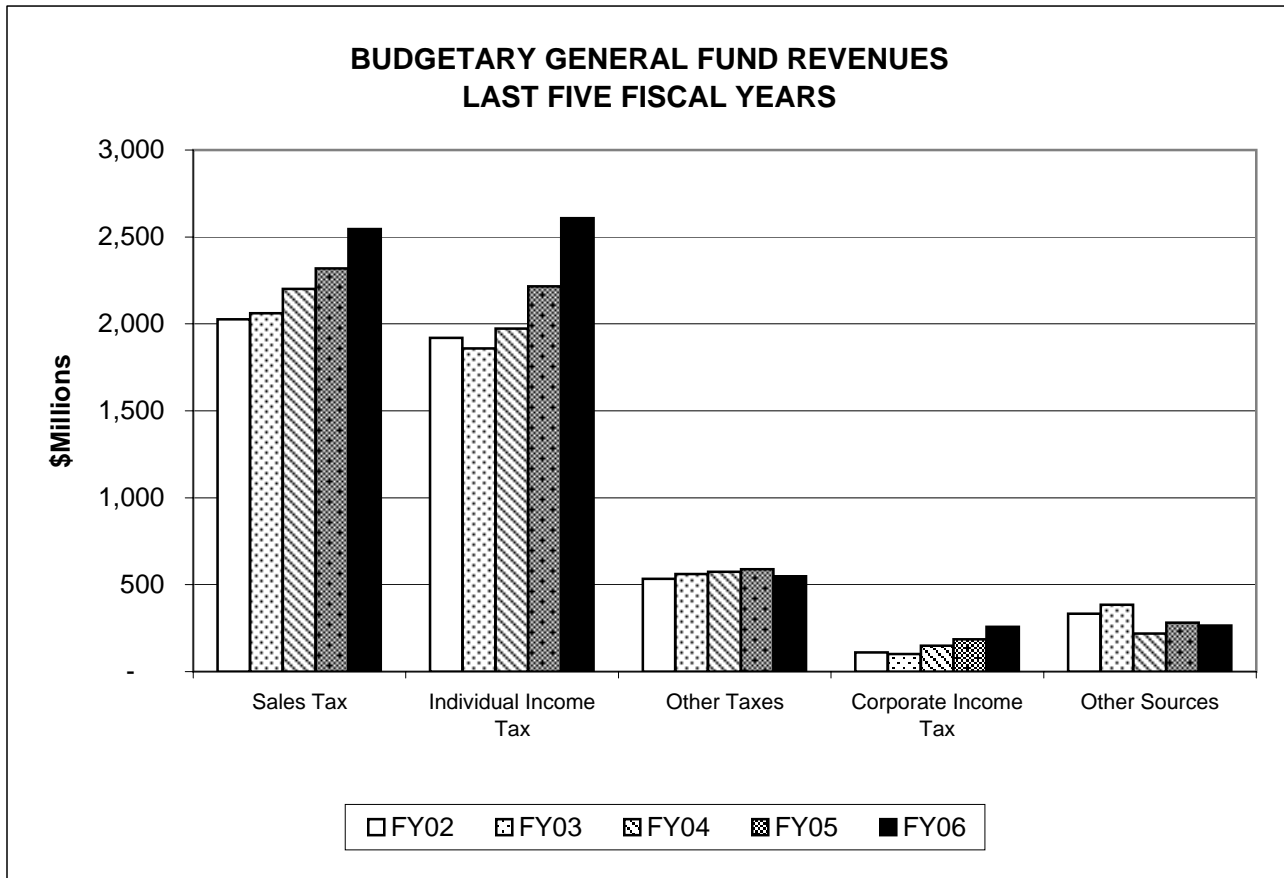
^b Proviso 72.30 of the FY2006-07 Appropriations Act allows agencies to carry forward up to ten percent of their General Fund appropriations to FY2006-07 for expenditure.

BUDGETARY GENERAL FUND REVENUES Fiscal Year 2006



BUDGETARY GENERAL FUND EXPENDITURES Fiscal Year 2006





General Reserve

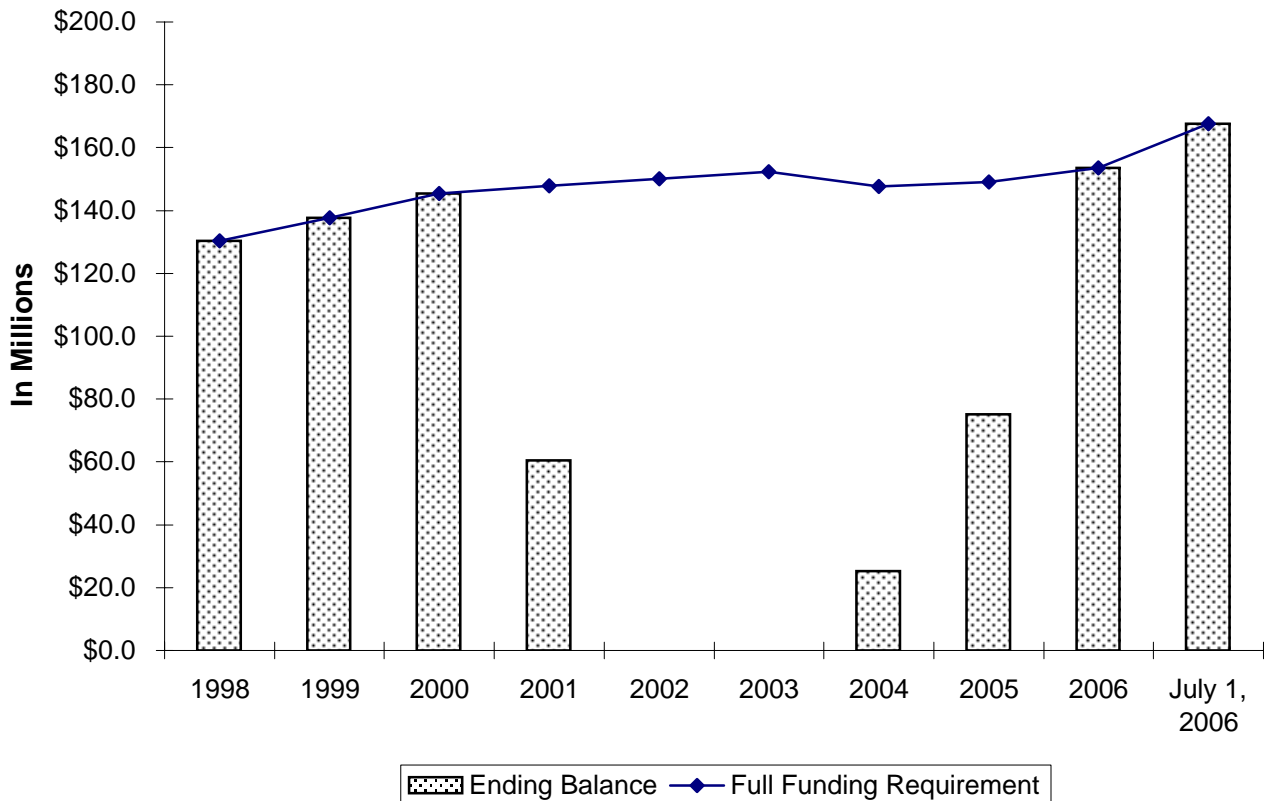
BUDGETARY GENERAL FUND

Fiscal Years Ended June 30

Year	Beginning Balance	Net Additions (Reductions)	Ending Balance	Full Funding Requirement	Over(Under) Funded
1998	\$ 130,379,733	\$ —	\$ 130,379,733	\$ 130,379,733	\$ —
1999	130,379,733	7,269,750	137,649,483	137,649,483	—
2000	137,649,483	7,721,564	145,371,047	145,371,047	—
2001	145,371,047	(84,847,657)	60,523,390	147,916,397	(87,393,007)
2002	60,523,390	(60,523,390)	—	150,202,108	(150,202,108)
2003	—	—	—	152,409,712	(152,409,712)
2004	—	25,154,528	25,154,528	147,707,970	(122,553,442)
2005	25,154,528	50,000,000	75,154,528	149,034,038	(73,879,510)
2006	75,154,528	78,333,866	153,488,394	153,488,394	—
2007	153,488,394	14,243,425 ^a	167,731,819 ^b	167,731,819	—

^a July 1, 2006 contribution mandated by FY07 Appropriation Act.

^b Balance as of July 2006.



Capital Reserve

BUDGETARY GENERAL FUND
For Fiscal Years Ended June 30

Year	Beginning Balance	Original Appropriations	Appropriation Reductions	Transfer to Agencies	Ending Balance	Full Funding Requirement
1998	\$ 83,566,797	\$ 86,919,822	\$ -	\$ (83,566,797)	\$ 86,919,822	\$ 86,919,822
1999	86,919,822	91,766,322	-	(86,919,822)	91,766,322	91,766,322
2000	91,766,322	96,914,031	-	(91,766,322)	96,914,031	96,914,031
2001	96,914,031	98,610,931	(98,610,931)	(96,914,031)	-	98,610,931
2002	-	100,134,739	(100,134,739)	-	-	100,134,739
2003	-	101,606,475	(101,606,475)	-	-	101,606,475
2004	-	98,599,197	(98,599,197)	-	-	98,599,197
2005	-	99,356,026	-	-	99,356,026	99,356,026
2006	99,356,026	102,325,596	-	(99,356,026)	102,325,596	102,325,596
2007	102,325,596	111,821,213 ^a		(102,325,596) ^b	111,821,213 ^c	111,821,213

^a July 1, 2006 contribution mandated by FY07 Appropriation Act.

^b Amount to be transferred to agencies upon completion of the State's Comprehensive Annual Financial Report for FY06.

^c Projected balance.

