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State of South Carolina: Fitch New Issue Report

South Carolina's revenue growth prospects are strong, reflecting an economy that is likely to grow broadly in line with, or above, the pace of U.S. GDP expansion. The state has an unlimited legal ability to adjust its sources of recurring revenue, including via base broadening, changes to tax rates and brackets and the enactment of new taxes and fees. The state has ample expenditure flexibility and the broad expense-cutting ability common to most U.S. states. Fitch expects the natural pace of spending growth, largely driven by education and Medicaid funding needs, to be in line with revenue growth. The fixed cost burden is low at less than 4% of governmental fund expenditures. South Carolina's combined burden of direct debt and net pension liabilities is below the U.S. state median and exerts a minimal burden on the resource base. The state is an infrequent issuer of debt and outstanding principal is rapidly amortized. Changes made over the past decade to address the state's low pension system funding are likely to support improved plan asset-to-liability ratios over the longer term. Fitch considers South Carolina well positioned to absorb the budgetary impacts of the ongoing economic volatility and related disruptions without materially affecting its long-term credit profile. The state has historically relied on multiple well-funded reserves and spending reductions in times of fiscal stress, rebuilding its financial position as conditions improve. Fiscal oversight remains strong.

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