



State of South Carolina

Unemployment Insurance Refinancing Update

January 18, 2012



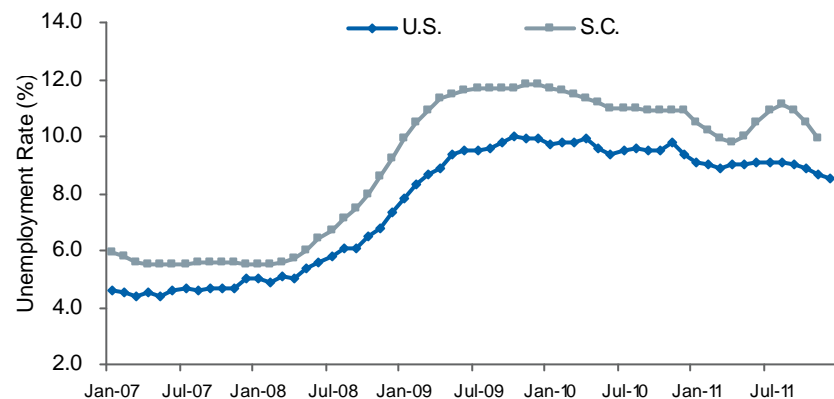
RBC Capital Markets®

Executive Summary

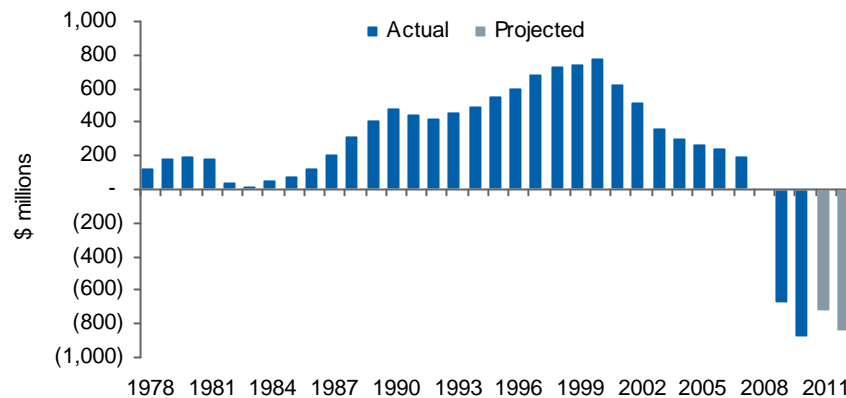
- As of January 10, twenty-eight States have borrowed \$37.3 billion from the Federal government to fund their unemployment insurance (UI) trust funds cumulative imbalance
 - In Q4 2008, the State of South Carolina (the “State”) fully depleted its UITF and has since had to borrow over \$782 million, one of the highest borrowing totals in the nation
- During previous downturns and recessions, some States have refinanced their Federal advances through the use of tax-exempt bond refinancings to lower the debt cost to the States’ business communities:
 - Louisiana: \$1.3 billion (1987)
 - Texas: \$1.4 billion (2003)
 - Idaho: \$177 million (2011)
 - West Virginia: \$258 million (1987)
 - North Carolina: \$269 million (2004)
 - Michigan: \$3.5 billion (2011)
 - Connecticut: \$1.0 billion (1993)
 - Illinois: \$712 million (2004)
 - North Carolina: \$192 million (2003)
 - Texas: \$1.9 billion (2010)
- The Federal Advance rate has been reset to 2.943% for 2012, a decrease from 4.087% in 2011
- Market tax-exempt rates are historically low, with 10-year yields having declined 84 basis points since August 1
- South Carolina employers stand to realize \$64 million in present value savings through a capital markets refinancing
- In December, the State of Michigan issued VRDNs as a form of bridge financing to refinance its Federal Advance
- Other states, including Pennsylvania, Colorado, and Illinois, are gearing up for unemployment insurance refinancings

Unemployment Compensation Overview

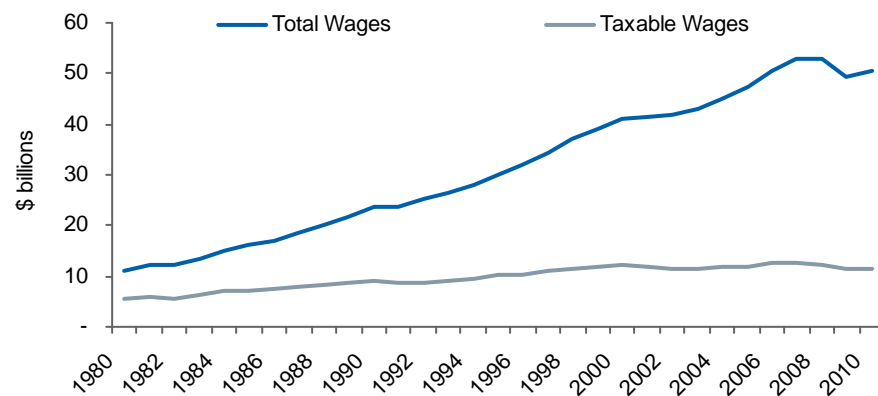
South Carolina Unemployment Rate vs. National Average



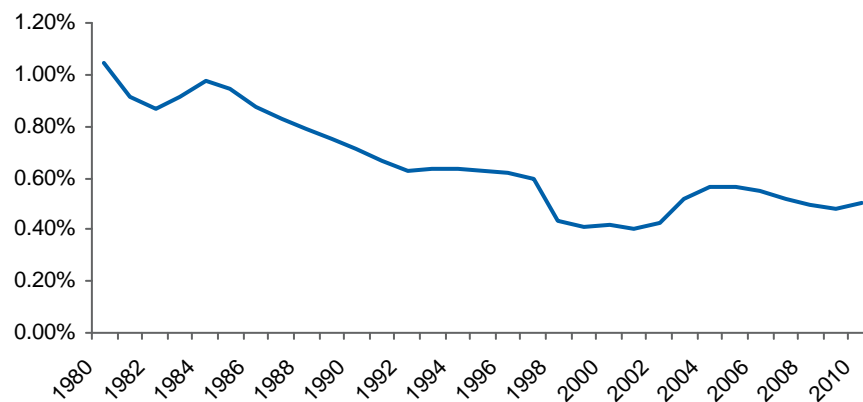
Actual and Projected Trust Fund Balances



Taxable Wages vs. Total Wages



Contributions as Percentage of Total Wages



Federal Advance Loan Balances

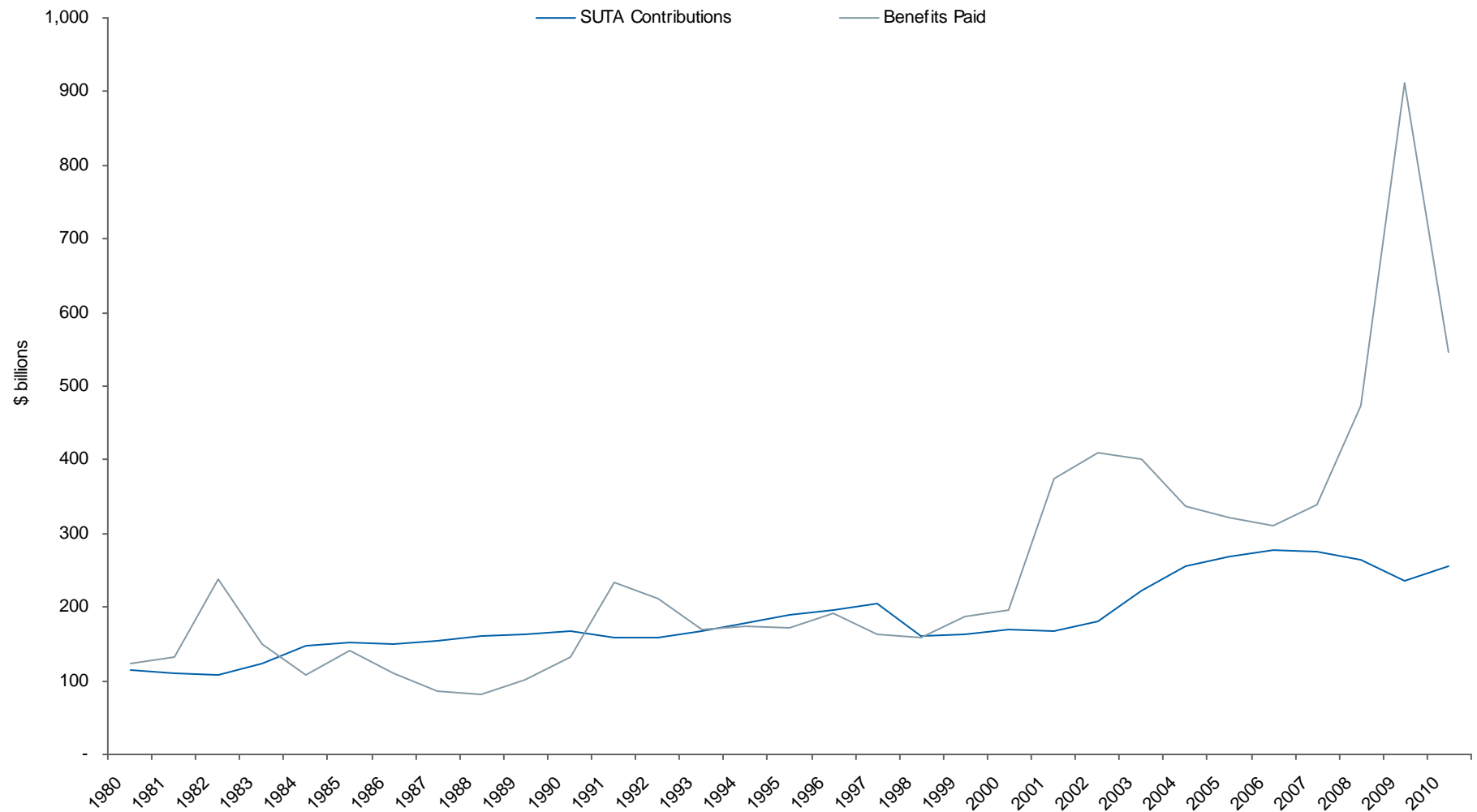
as of January 10, 2011

| Rank | State | UI Loan |
|------|----------------|------------------|
| 1 | California | \$10,022,377,229 |
| 2 | New York | 3,536,862,950 |
| 3 | Pennsylvania | 3,347,476,821 |
| 4 | North Carolina | 2,712,147,373 |
| 5 | Illinois | 2,202,225,588 |
| 6 | Ohio | 2,103,508,131 |
| 7 | Indiana | 1,998,486,210 |
| 8 | Florida | 1,794,800,000 |
| 9 | New Jersey | 1,527,230,383 |
| 10 | Wisconsin | 1,273,572,417 |
| 11 | Kentucky | 948,700,000 |
| 12 | Nevada | 784,165,954 |
| 13 | South Carolina | 782,456,437 |
| 14 | Missouri | 739,476,913 |

| Rank | State | UI Loan |
|-------|----------------|------------------|
| 15 | Georgia | \$721,080,472 |
| 16 | Connecticut | 709,875,583 |
| 17 | Arizona | 376,548,078 |
| 18 | Colorado | 353,527,081 |
| 19 | Arkansas | 330,853,383 |
| 20 | Virginia | 288,879,000 |
| 21 | Rhode Island | 238,433,040 |
| 22 | Minnesota | 206,358,735 |
| 23 | Vermont | 77,731,861 |
| 24 | Kansas | 77,449,361 |
| 25 | Delaware | 62,523,368 |
| 26 | Alabama | 46,391,459 |
| 27 | Virgin Islands | 30,799,691 |
| 28 | Michigan | 27,499,673 |
| Total | | \$37,321,437,188 |

State Contributions and Benefits

Contributions vs. Benefits Paid

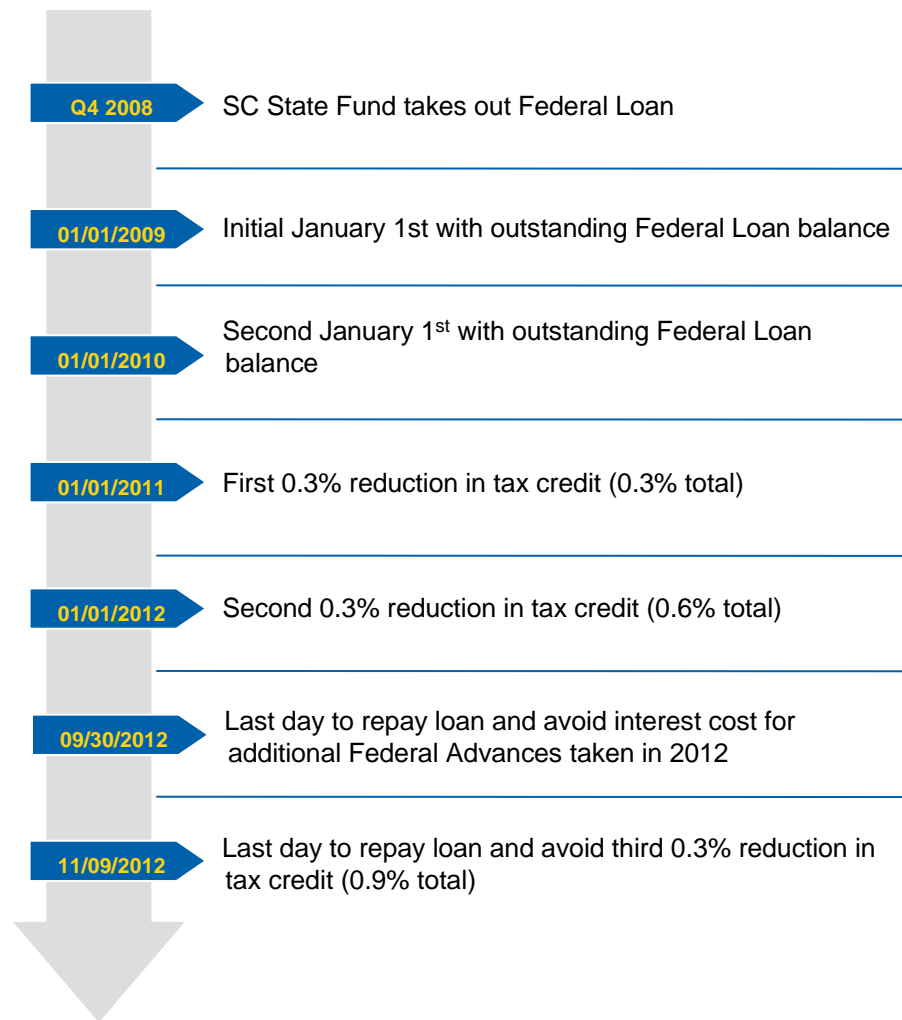


Timeline and Workings of Federal UI Loan Program

Summary of Program

- Federal Advances are made to a state when funds in a state's unemployment trust account are not sufficient to meet its obligations
- Federal Advances are charged a rate equal to the aggregate interest cost of all the outstanding debt of the U.S.
- The current interest rate (set quarterly) is approximately 2.94%
 - Interest is paid annually, but if Federal Advances made in any year are repaid before September 30 of the same year, no interest is charged as long as no other advances are taken during the remainder of the same year
- UI Program provides for an automatic repayment of Federal Advances
 - If a state has outstanding Federal Advances on January 1 of two consecutive years, which remain unpaid as of the November 9 following the second consecutive January 1, the credit on the Federal UI tax to employers within such state will be reduced by 0.3% for each year (and 0.3% for every year the loan is not repaid thereafter)
 - Revenue resulting from such reduction in the tax credit for employers is applied to repay the state's outstanding advances

Key Dates



Current FUTA Credit Reductions

| States with 2011 FUTA Credit Reductions | | | | | |
|---|-----------|----------------|-----------|----------------|-----------|
| State | Reduction | State | Reduction | State | Reduction |
| Alabama | 0.30% | Kentucky | 0.30% | Pennsylvania | 0.30% |
| Arkansas | 0.30% | Minnesota | 0.30% | Rhode Island | 0.30% |
| California | 0.30% | Missouri | 0.30% | South Carolina | 0.60% |
| Connecticut | 0.30% | North Carolina | 0.30% | Virginia | 0.30% |
| Florida | 0.30% | New Jersey | 0.30% | Virgin Islands | 0.30% |
| Georgia | 0.30% | Nevada | 0.30% | Wisconsin | 0.30% |
| Illinois | 0.30% | New York | 0.30% | | |
| Indiana | 0.60% | Ohio | 0.30% | | |

(1) These rates assume each state had a loan balance on November 10, 2011, and no state qualified for avoidance under FUTA, Section 3302(g) or cap under FUTA, Section 3302(f).

Illustration of Automatic Loan Repayment (Status Quo) versus UI Bonds

Assumptions

- Loan balance is \$782.5 million as of January 10, 2012 and is expected to total approximately \$850 million by September 1, 2012
- State employment base remains constant at 1,714,000
- First principal repayment date: 2014
- The interest rate charged on advances is assumed to be 2.943%
- Under the incremental payroll tax increase, advance would be repaid by 2017, assuming no additional draws beyond 2012

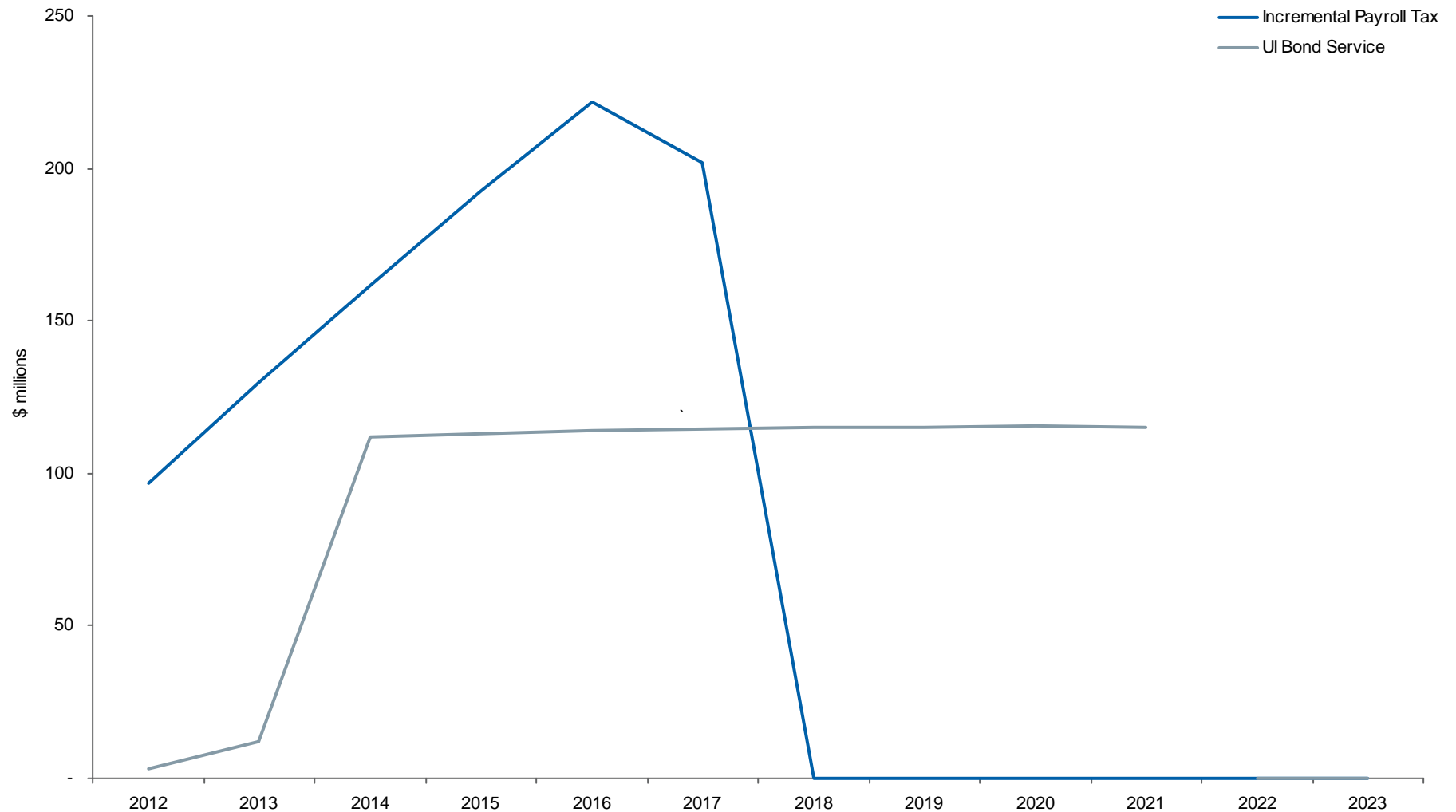
Federal Loan Repayment Schedule

| | (a) | (b) | (c) | (d) = (a) x (b) x (c) | (e) | (f) | (g) = (d) + (f) | (h) Level | (i) Level |
|--------|--------------------------------|---------------------------|---|---------------------------------------|----------------------------|-----------------------------------|--|-------------------------------|-----------------------|
| Period | Mandatory Federal Tax Increase | Federal Taxable Wage Base | South Carolina Employment Base (millions) | Incremental Payroll Tax (\$ millions) | Loan Balance (\$ millions) | Interest Assessment (\$ millions) | Total Additional Payroll Tax (\$ millions) | UI Bond Service (\$ millions) | Savings (\$ millions) |
| 2012 | 0.6% | \$7,000 | 1.714 | \$72 | \$850 | \$25 | \$97 | \$3 | - |
| 2013 | 0.9% | 7,000 | held constant at | 108 | 742 | 22 | 130 | 12 | 118 |
| 2014 | 1.2% | 7,000 | Q3 2011 levels for | 144 | 598 | 18 | 162 | 112 | 50 |
| 2015 | 1.5% | 7,000 | projection purposes | 180 | 418 | 12 | 192 | 113 | 79 |
| 2016 | 1.8% | 7,000 | | 216 | 202 | 6 | 222 | 114 | 108 |
| 2017 | 2.1% | 7,000 | | 202 | - | - | 202 | 115 | 88 |
| 2018 | 2.4% | 7,000 | | - | - | - | - | 115 | (115) |
| 2019 | 2.7% | 7,000 | | - | - | - | - | 115 | (115) |
| 2020 | 3.0% | 7,000 | | - | - | - | - | 115 | (115) |
| 2021 | 3.3% | 7,000 | | - | - | - | - | 115 | (115) |
| 2022 | 3.6% | 7,000 | | - | - | - | - | - | - |
| 2023 | 3.9% | 7,000 | | - | - | - | - | - | - |
| | | | | \$922 | | \$83 | \$1,005 | \$930 | (\$19) |
| | | | | | | | | Present Value = | \$64 |
| | | | | | | | | at | 5.0% |

Calculations assume bond transaction will close on September 1, 2012.

UI Bonds Would Smooth Out Loan Repayment versus Status Quo

PV savings of \$64 million from lower borrowing cost underestimates the true economic benefit to employers given their higher cost of capital



Bond Credit Considerations

Security

- Pledge of tax revenues
- Bond assessment structure
- Debt service coverage (1.5x)
- Debt service reserve fund
- Bond redemption provisions
- Securitization structure

Economic

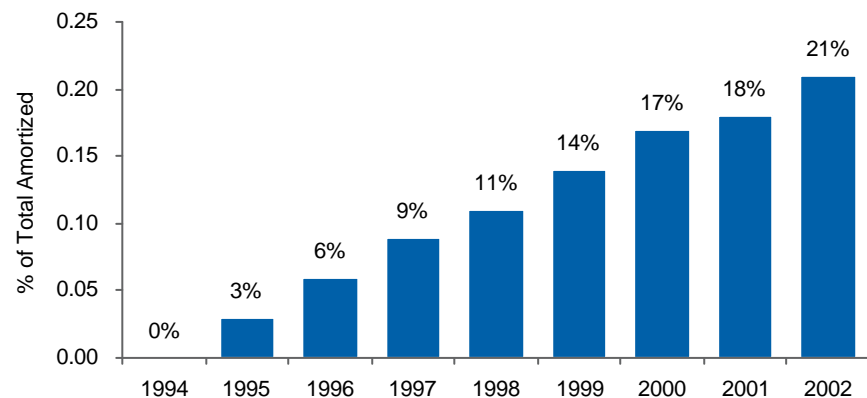
- Employer tax collections
- State employer base
- Demographics of State's employer base

Legislation

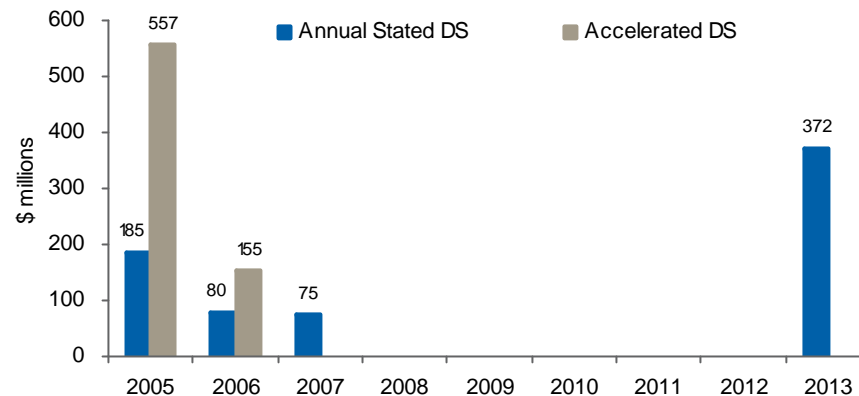
- Amount of bonds issued
- Bond obligation assessment
- Final maturity
- Non-impairment language

Debt Service / Principal Amortization Precedents

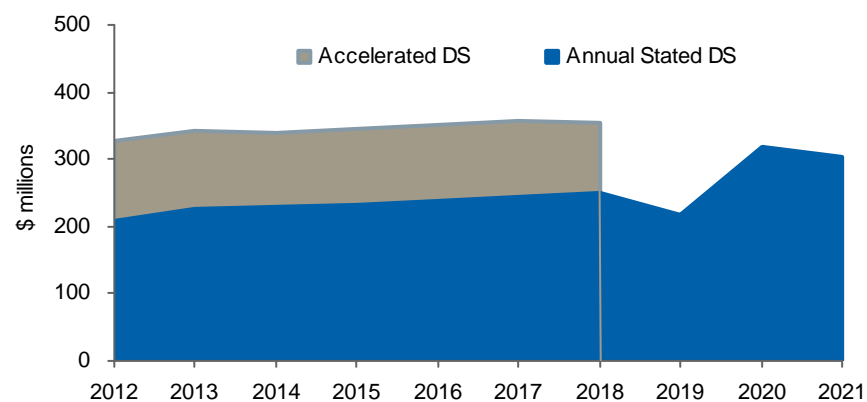
CT 1993ABC "CURBs"



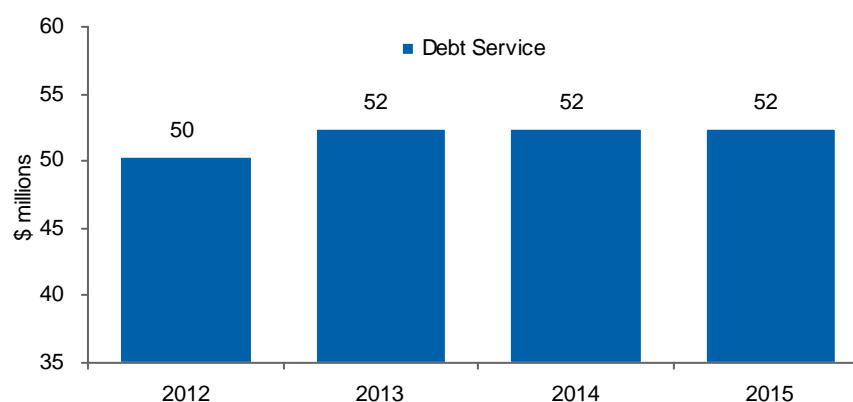
IL 2004 UI Bonds



TX 2010 ABC UI Bonds



ID 2011 UI Bonds



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