



# State of South Carolina

## Unemployment Insurance Refinancing Update

January 18, 2012



RBC Capital Markets®

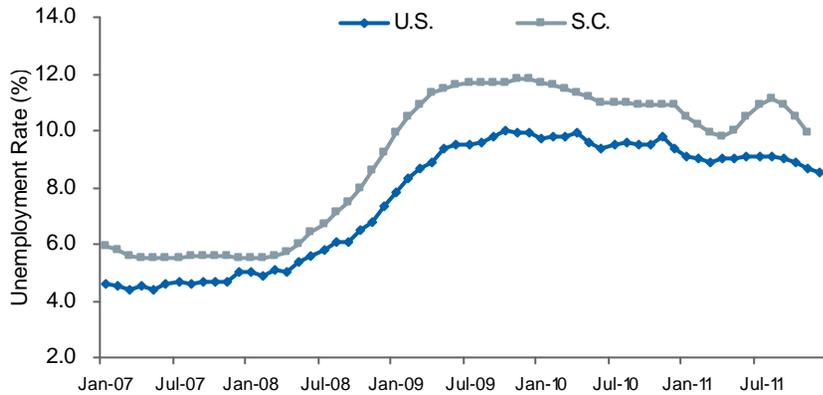
# Executive Summary

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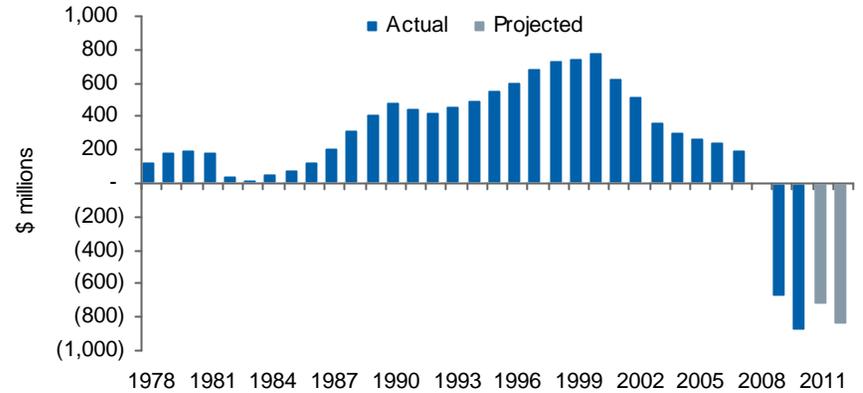
- As of January 10, twenty-eight States have borrowed \$37.3 billion from the Federal government to fund their unemployment insurance (UI) trust funds cumulative imbalance
  - In Q4 2008, the State of South Carolina (the “State”) fully depleted its UITF and has since had to borrow over \$782 million, 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)
  - West Virginia: \$258 million (1987)
  - Connecticut: \$1.0 billion (1993)
  - North Carolina: \$192 million (2003)
  - Texas: \$1.4 billion (2003)
  - North Carolina: \$269 million (2004)
  - Illinois: \$712 million (2004)
  - Texas: \$1.9 billion (2010)
  - Idaho: \$177 million (2011)
  - Michigan: \$3.5 billion (2011)
- 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

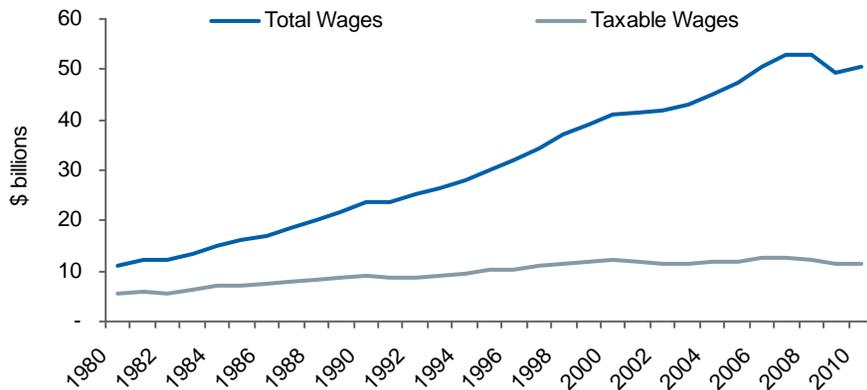
## South Carolina Unemployment Rate vs. National Average



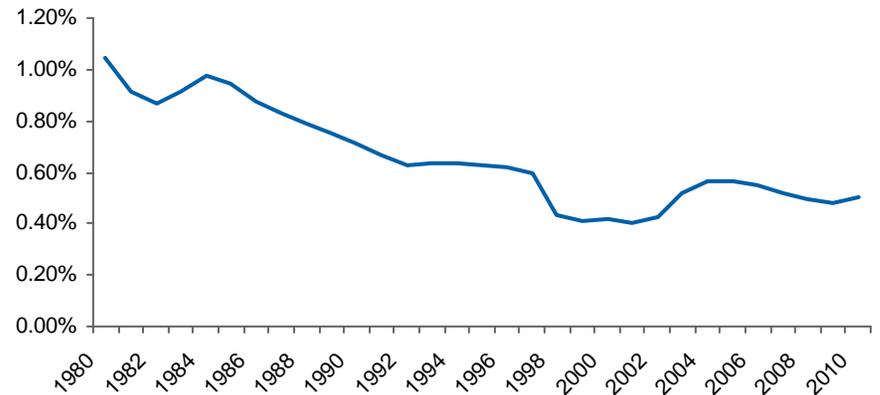
## Actual and Projected Trust Fund Balances



## Taxable Wages vs. Total Wages



## Contributions as Percentage of Total Wages



# Federal Advance Loan Balances

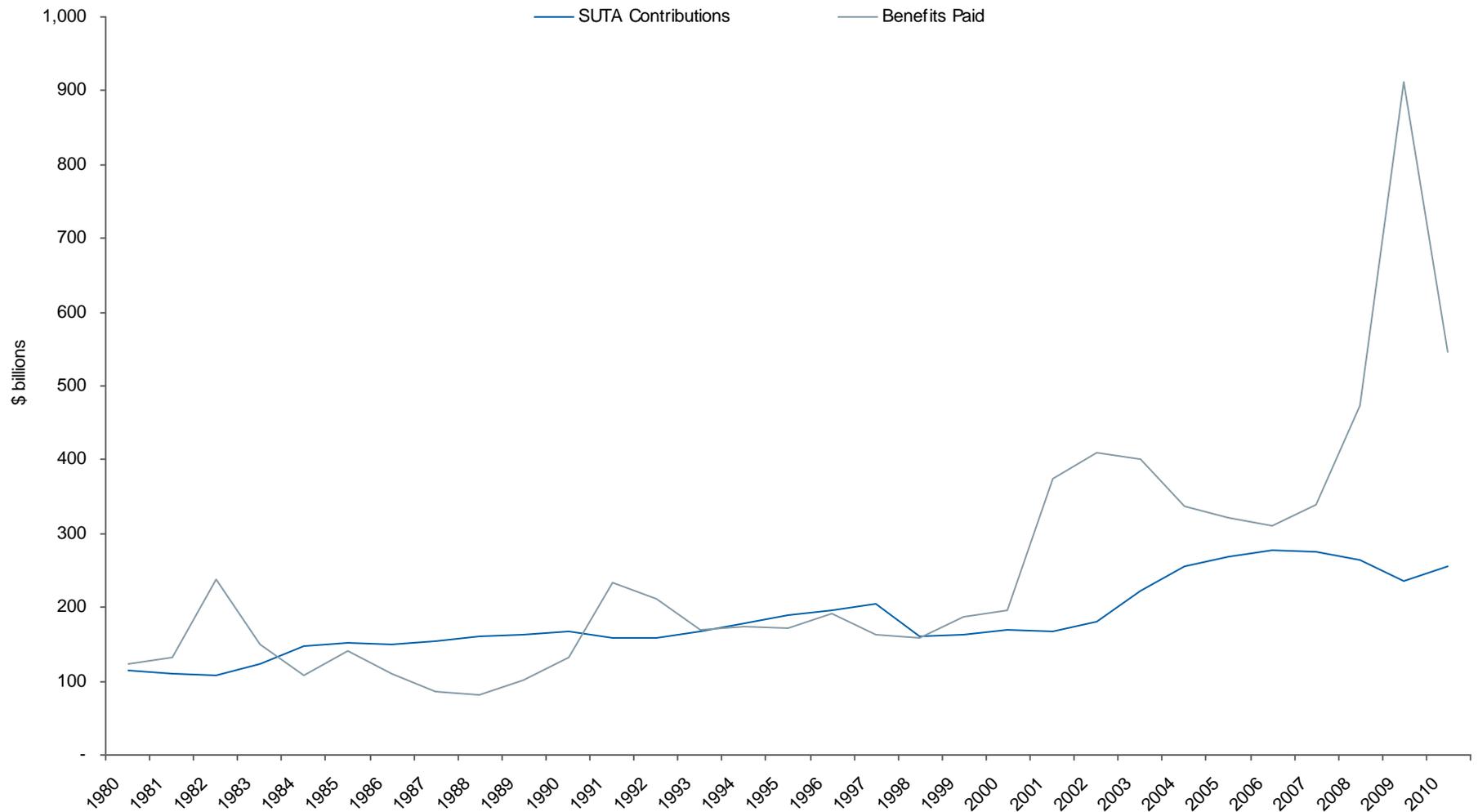
as of January 10, 2011

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
<b>Total</b>		<b>\$37,321,437,188</b>

# State Contributions and Benefits

## Contributions vs. Benefits Paid

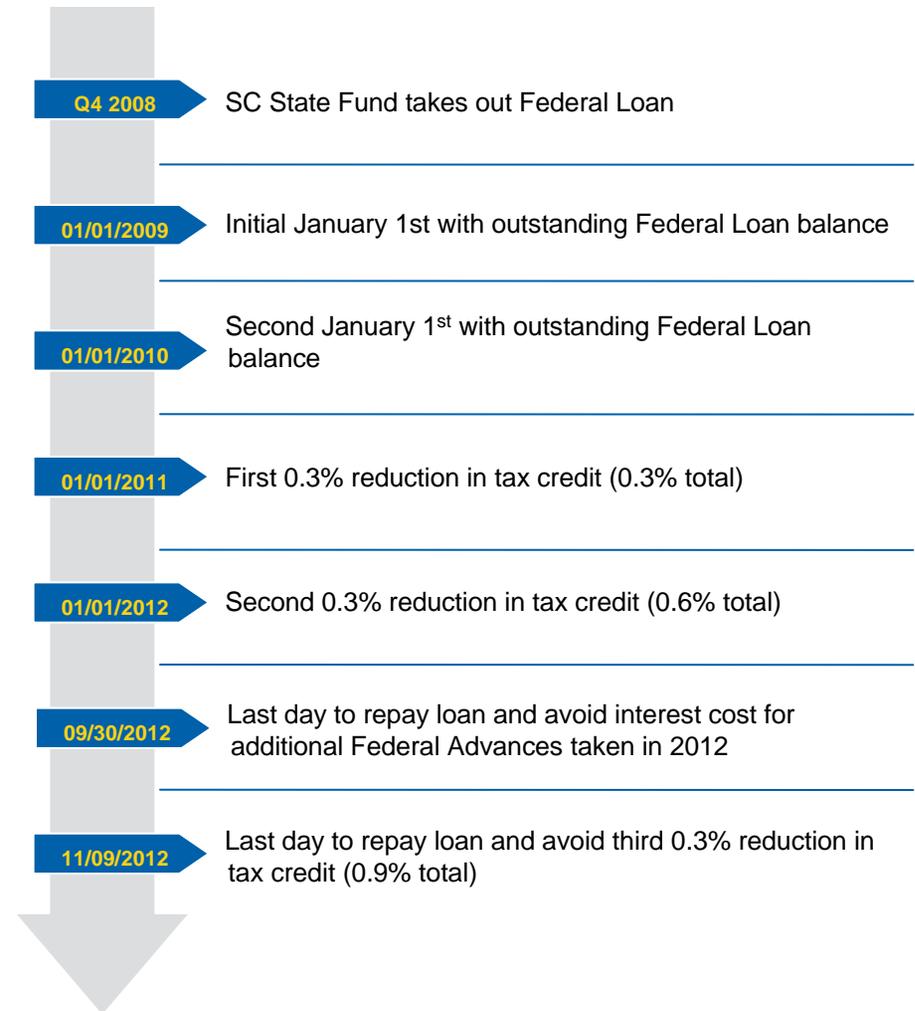


# Timeline and Workings of Federal UI Loan Program

## 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%	<b>South Carolina</b>	<b>0.60%</b>
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

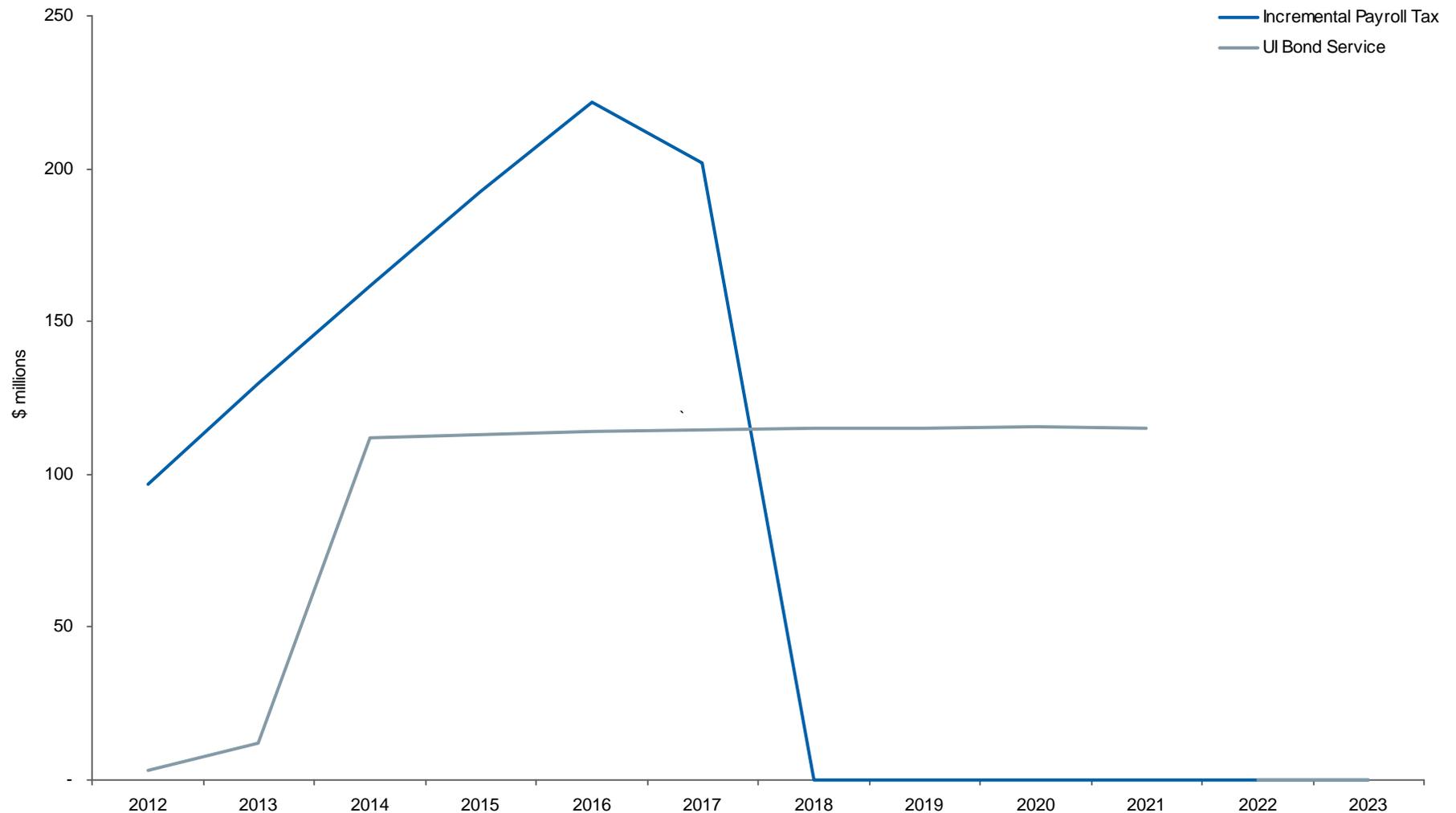
## Federal Loan Repayment Schedule

Period	(a) Mandatory Federal Tax Increase	(b) Federal Taxable Wage Base	(c) South Carolina Employment Base (millions)	(d) = (a) x (b) x (c) Incremental Payroll Tax (\$ millions)	(e) Loan Balance (\$ millions)	(f) Interest Assessment (\$ millions)	(g) = (d) + (f) Total Additional Payroll Tax (\$ millions)	(h) Level UI Bond Service (\$ millions)	(i) Level 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

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## Security

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

## Economic

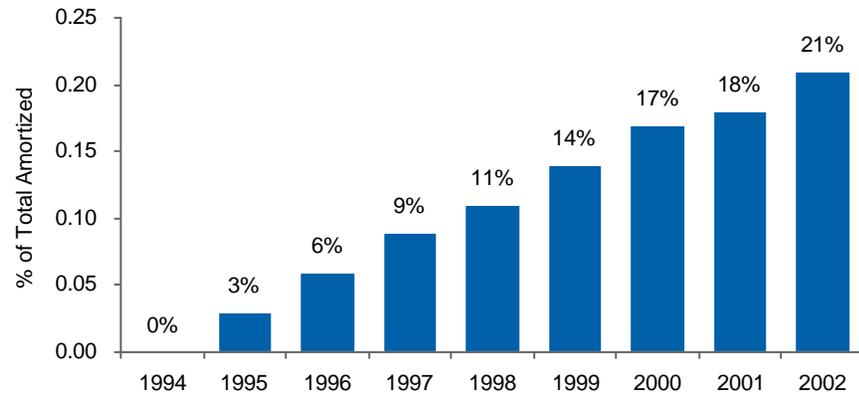
- Employer tax collections
- State employer base
- Demographics of State's employer base

## Legislation

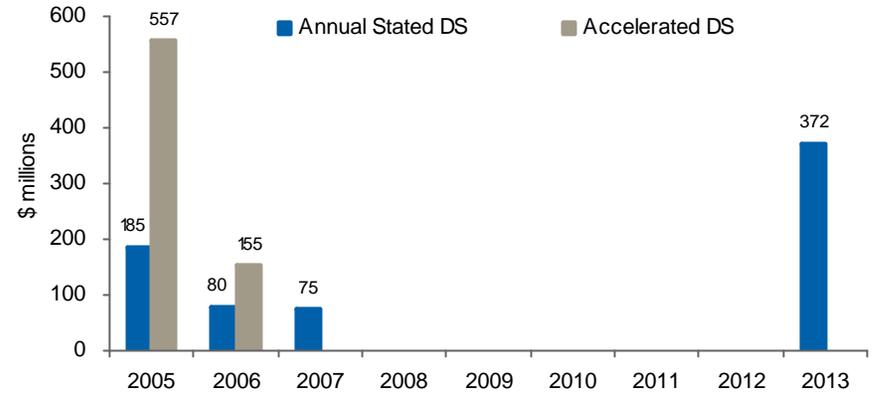
- Amount of bonds issued
- Bond obligation assessment
- Final maturity
- Non-impairment language

# Debt Service / Principal Amortization Precedents

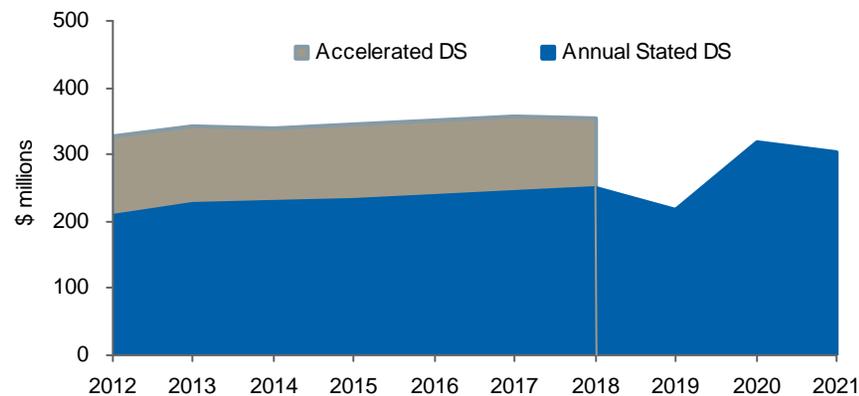
## CT 1993ABC "CURBs"



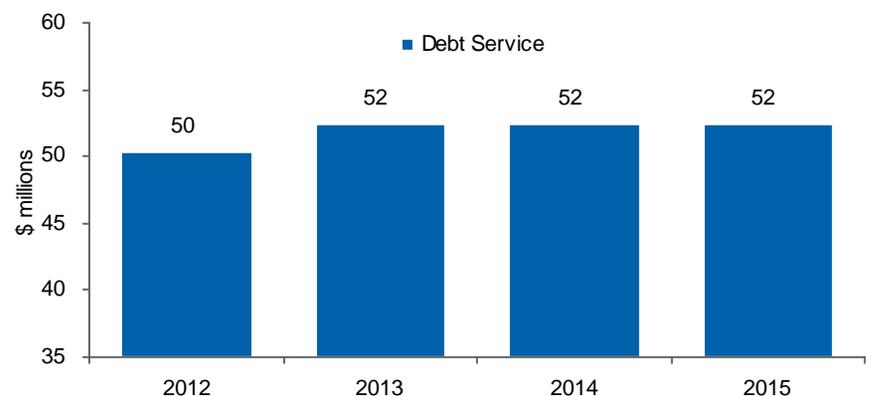
## IL 2004 UI Bonds



## TX 2010 ABC UI Bonds



## ID 2011 UI Bonds



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