

NEW ISSUE

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 6, 1999

In the opinion of Bond Counsel, assuming the State's continued compliance with certain covenants, interest on the Series 1999MB Bonds is excludable from gross income of the Registered Holder for federal income tax purposes under existing statutes, regulations, and court decisions. The Series 1999MB Bonds and the interest thereon will also be exempt from all State, county, municipal, school district and other taxes and assessments imposed thereon within the State of South Carolina, except inheritance, estate, transfer and certain franchise fees or taxes. Interest on the Series 1999MB Bonds is not an item of preference for purposes of an individual's or corporation's alternative minimum tax.

PRELIMINARY OFFICIAL STATEMENT
Relating To The Issuance Of
NOT EXCEEDING
\$25,000,000
GENERAL OBLIGATION STATE CAPITAL IMPROVEMENT BONDS
SERIES 1999MB
OF THE
STATE OF SOUTH CAROLINA

Secured by a pledge of the full faith, credit, and
taxing power of the State of South Carolina



Dated: November 15, 1999

The General Obligation State Capital Improvement Bonds, Series 1999MB (the "Series 1999MB Bonds") will be issued as Current Interest Bearing Bonds and Capital Appreciation Bonds in the principal amounts subscribed for (not exceeding \$25,000,000 in the aggregate), bearing interest at, or yielding the equivalent of, the rates, and maturing on the dates, as set forth below.

Current Interest Bearing Bonds Due December 1, 2004 bearing interest, payable semiannually, at 4.48% per annum.
Capital Appreciation Bonds Due December 1, 2004 yielding the equivalent of 4.48% per annum, payable at maturity.
Current Interest Bearing Bonds Due December 1, 2009 bearing interest, payable semiannually, at 4.98% per annum.
Capital Appreciation Bonds Due December 1, 2009 yielding the equivalent of 4.98% per annum, payable at maturity.

The Series 1999MB Bonds are being issued to provide funds which will be used to pay costs of projects authorized by Act 1377 and to pay the costs of issuance of the Series 1999MB Bonds.

The Series 1999MB Bonds are secured by a pledge of the full faith, credit, and taxing power of the State of South Carolina.

Current Interest Bearing Bonds

The Current Interest Bearing Bonds will be issued in registered form without coupons in denominations of \$500 or integral multiples thereof.

Interest on the Current Interest Bearing Bonds will be payable June 1, 2000 and each June 1 and December 1 thereafter until maturity, and will be payable by check or draft mailed to the registered owners thereof by First Union National Bank (the "Registrar" and the "Paying Agent").

The principal of the Current Interest Bearing Bonds will be payable only at maturity upon presentation and surrender thereof at the Corporate Trust Office of the Paying Agent.

Capital Appreciation Bonds

The Capital Appreciation Bonds will be issued in registered form without coupons in denominations of \$200 original principal amount or integral multiples thereof.

The accretion of value on the Capital Appreciation Bonds will be compounded semiannually commencing on June 1, 2000 and each June 1 and December 1 thereafter and will be payable only at maturity.

The original principal amounts of the Capital Appreciation Bonds and accreted value thereon (together, the final maturing "Accreted Value") will be payable at maturity upon presentation and surrender thereof at the Corporate Trust Office of the Paying Agent.

This Preliminary Official Statement prepared under the supervision of
Grady L. Patterson, Jr., State Treasurer of the State of South Carolina

The Series 1999MB Bonds are offered when, as and if issued and are subject to the approval of legality by Nexsen Pruet Jacobs & Pollard, LLP, Bond Counsel. It is expected that the Series 1999MB Bonds will be available for delivery to the purchasers on or about December 15, 1999.

STATE OF SOUTH CAROLINA
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PRELIMINARY OFFICIAL STATEMENT

Relating to the Issuance of

NOT EXCEEDING \$25,000,000

**GENERAL OBLIGATION STATE CAPITAL IMPROVEMENT BONDS
SERIES 1999MB**

OF THE STATE OF SOUTH CAROLINA

INTRODUCTION

This Preliminary Official Statement, including the cover page, is intended to furnish information in connection with the offer for sale of not exceeding \$25,000,000 General Obligation State Capital Improvement Bonds, Series 1999MB (the "Series 1999MB Bonds"), of the State of South Carolina (the "State"). The Series 1999MB Bonds are general obligations of the State as hereinafter described and are being issued to provide funds which will be used to pay costs of projects authorized by Act No. 1377 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina, Regular Session of 1968, as amended ("Act 1377"), and to pay the costs of issuance of the Series 1999MB Bonds. The Series 1999MB Bonds are offered when, as and if issued and are subject to the approval of legality by Nexsen Pruet Jacobs & Pollard, LLP, Bond Counsel. It is expected that the Series 1999MB Bonds in definitive form will be available for delivery to the purchasers thereof on or about December 15, 1999.

The Series 1999MB Bonds are issued pursuant to the provisions of Article X of the Constitution of the State of South Carolina 1895, as amended (the "South Carolina Constitution"); Act 1377; Title 11, Chapter 38 of the Code of Laws of South Carolina 1976, as amended (the "Enabling Act"); and by a Resolution adopted by the South Carolina State Budget and Control Board on September 14, 1999, as amended by an amendatory Resolution adopted by the South Carolina State Budget and Control Board on October 1, 1999 (collectively, the "Bond Resolution").

DESCRIPTION OF THE SERIES 1999MB BONDS

General

The Series 1999MB Bonds will be issued as Current Interest Bearing Bonds and Capital Appreciation Bonds, will be dated November 15, 1999, and will mature on December 1 in the years, in the principal amounts subscribed for (not exceeding \$25,000,000 in the aggregate), and bear interest at, or yield equivalent to, the rates per annum, set forth on the cover page hereof.

The Series 1999MB Bonds may be transferred only on the books of the State at the Corporate Trust Office of First Union National Bank, Columbia, South Carolina (the "Paying Agent" and the "Registrar"). Neither the State nor the Registrar will be required to transfer or exchange any Series 1999MB Bonds for a period beginning 15 days next preceding any interest payment date or maturity date therefor. Interest on any Current Interest Bearing Bond will be paid to the person in whose name such Current Interest Bearing Bond is registered at the close of business 15 days next preceding the respective bond payment date at the address shown on the registration books (the "Registered Holder"). The principal of all Current Interest Bonds and the final maturing Accreted Value of all Capital Appreciation Bonds will be payable at the Corporate Trust Office of the Paying Agent upon presentation and surrender thereof for cancellation of the Current Interest Bearing Bonds and Capital Appreciation Bonds then due and payable.

The Series 1999MB Bonds are not subject to redemption prior to maturity.

Description of Current Interest Bearing Bonds

Current Interest Bearing Bonds will be issued as registered bonds without coupons in denominations of five hundred dollars (\$500) and integral multiples thereof. Interest on Current Interest Bearing Bonds will be paid June 1, 2000 and each June 1 and December 1 thereafter (the "Bond Payment Dates" with respect to the Current Interest Bearing Bonds) until maturity by check or draft mailed by the Paying Agent, to the Registered Holders thereof as shown on the registration books 15 days prior to each Bond Payment Date. The Current Interest Bearing Bonds shall bear interest on the basis of a 360-day year consisting of twelve (12) thirty (30) day months. The principal of Current Interest Bearing Bonds will be payable only at maturity at the Corporate Trust Office of the Paying Agent upon presentation and surrender thereof. Current Interest Bearing Bonds may be transferred to another owner but only on the registration books of the State held by the Registrar.

Description of Capital Appreciation Bonds

Capital Appreciation Bonds will be issued as registered bonds without coupons in denominations of two hundred dollars (\$200) original principal amount and integral multiples thereof. Capital Appreciation Bonds will accrete value on the original principal amounts thereof, compounded semiannually on June 1 and December 1 of each year commencing June 1, 2000, and will be payable only upon maturity thereof (the maturity date being the only "Bond Payment Date" with respect to the Capital Appreciation Bonds), upon presentation and surrender thereof, at the Corporate Trust Office of the Paying Agent. Capital Appreciation Bonds may be transferred to another owner but only on the registration books of the State held by the Registrar.

Capital Appreciation Bonds are payable in an amount (the "final maturing Accreted Value") equal to the original principal amount of such Capital Appreciation Bonds plus the accreted value thereon from November 15, 1999, at the yield equivalent shown on the cover hereof, and compounded semi-annually on June 1 and December 1 of each year commencing on June 1, 2000, on their respective maturity dates.

Accreted Value

The Accreted Value amount due at maturity of each \$200 original principal amount of Capital Appreciation Bonds maturing December 1, 2004 will be \$250.09.

The Accreted Value amount due at maturity of each \$200 original principal amount of Capital Appreciation Bonds maturing December 1, 2009 will be \$327.80.

For purposes of valuation only, the Accreted Value of each \$200 original principal amount of any Capital Appreciation Bond on any other date will be calculated on the assumption that such Accreted Value increases in equal daily amounts on the basis of twelve 30-day months each year.

Redemption

The Series 1999MB Bonds are not subject to redemption prior to maturity.

Security

The Series 1999MB Bonds are general obligations of the State and are secured as to principal and interest by a pledge of the full faith, credit, and taxing power of the State.

Article X, Section 13, Paragraph 4 of the South Carolina Constitution requires that the General Assembly allocate on an annual basis sufficient tax revenues to provide for the punctual payment of the principal of and interest on general obligation debt. Paragraph 4 of said Section 13 further provides that if at any time any payment due as the principal of or interest on any general obligation debt of the State shall not be paid as and when the same becomes due and payable, the State Comptroller General shall forthwith levy and the State Treasurer shall collect an *ad valorem* tax without limit as to rate or amount upon all taxable property in the State sufficient to meet the payment of the principal of and interest on such general obligation debt then due. Section 11-29-10 of the Code of Laws of South Carolina, 1976, as amended (the "South Carolina Code"), implements this mandate and requires the State Treasurer to set aside so much

of the general tax revenues received in each Fiscal Year as may be necessary to pay the principal of and interest on all State Capital Improvement Bonds due in such year and to apply the same to the punctual payment of such principal and interest.

Form and Authentication of Series 1999MB Bonds

The Series 1999MB Bonds will be issued in the form of fully-registered typewritten or printed Bonds without coupons. All Series 1999MB Bonds will be registered on the registration books of the State which are to be kept for that purpose at the Corporate Trust Office of the Registrar. Each Series 1999MB Bond will be identified in such fashion as to maintain a proper record thereof.

The Current Interest Bearing Bonds will be issued in denominations of \$500 and any integral multiple thereof. The Capital Appreciation Bonds will be issued in denominations of \$200 and any integral multiple thereof.

The Series 1999MB Bonds will be authenticated on the date they are delivered. Each Current Interest Bearing Bond will bear interest from November 15, 1999, if no interest has yet been paid; otherwise from the last Bond Payment Date to which interest has been paid and which Bond Payment Date is on or prior to the authentication date thereof. Interest on the Current Interest Bearing Bonds will be payable June 1, 2000, and semiannually each June 1 and December 1 of each year thereafter until the payment of the principal thereof at maturity. The interest to be paid on any June 1 or December 1 shall be paid to the Registered Holder in whose name such Current Interest Bearing Bond is registered at the close of business 15 days next preceding such Bond Payment Date (the "Record Date"). Each Capital Appreciation Bond shall accrete value from November 15, 1999, at the yield shown on the cover hereof to maturity; and the final maturing Accreted Value thereof is payable only on the maturity date to the Registered Holder of the Capital Appreciation Bond at the close of business on the Record Date next preceding such maturity date.

Exchange and Transfer of Series 1999MB Bonds

All Series 1999MB Bonds are transferrable at the Corporate Trust Office of the Registrar, upon presentation and surrender thereof together with a written transfer satisfactory to the Registrar, duly executed by the Registered Holder or his or her duly authorized attorney. Upon surrender for transfer of any such Series 1999MB Bonds, the Registrar will authenticate and deliver in the name of the transferee, one or more Series 1999MB Bonds in the same aggregate principal amount, maturity, and rate of interest.

All Series 1999MB Bonds surrendered in any exchange or transfer shall be immediately cancelled by the Registrar, and the State shall execute and the Registrar shall authenticate and deliver, in the name of the Person who is the transferee, one or more new Bonds of the same aggregate principal amount, maturity, and rate of interest as the surrendered bond. For each such exchange or transfer of Series 1999MB Bonds, the Registrar may make a charge sufficient to reimburse it for any tax, fee, or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the Registered Holder requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The State is not obligated to issue, exchange, or transfer any Current Interest Bearing Bond during the fifteen (15) days next preceding any Bond Payment Date, and is not obligated to issue, exchange, or transfer any Capital Appreciation Bond during the fifteen (15) days next preceding the applicable maturity date.

Constitutional and Statutory Debt Limitation

The aggregate of General Obligation State Capital Improvements Bonds which may be issued pursuant to the Enabling Act and Act 1377 is fixed at \$2,445,465,475.10; exclusive of such General Obligation State Capital Improvement Bonds issued on behalf of the Mental Health Commission as provided in Acts 1276 and 1272 of 1970, bonds issued on behalf of the Commission of Disabilities and Special Needs (formerly known as the Commission of Mental Retardation) as provided in Act 1087 of 1970 and General Obligation State Capital Improvement Bonds issued on behalf of the South Carolina Fire Academy as provided in Act 523 of 1992. However, of the General Obligation State Capital Improvement Bonds authorized, projects aggregating \$6,016,648.87 were paid from the General Fund and \$12,741,076.00 were paid from the Capital Reserve Fund, thus, in effect, reducing the authorization set forth in the preceding sentence by the amount of \$18,757,724.87 to \$2,426,707,750.23.

In addition to the provisions set forth in the Enabling Act and Act 1377, which limits the principal amount which may be issued, General Obligation State Capital Improvement Bonds must be issued in compliance with the applicable constitutional and statutory provisions relating to maximum annual debt service. Subparagraph (c) of Paragraph 6 of Section 13 of Article X of the Constitution of South Carolina, as amended, provides that the maximum annual debt service on all general obligation debt of the State (excluding State Highway Bonds, State Institution Bonds, tax anticipation notes, and bond anticipation notes) must not exceed five percent (5%) of the

general revenues of the State for the fiscal year next preceding the fiscal year in which the debt is incurred (excluding revenues which are authorized to be pledged for State Highway Bonds and State Institution Bonds). Act 1377 also contains the limit of five percent (5%).

Heretofore, \$2,003,979,400 General Obligation State Capital Improvement Bonds have been issued for the construction of capital improvements authorized by Act 1377 and the State has sold and will issue an additional series of General Obligation State Capital Improvement Bonds in the principal amount of \$75,000,000 (the "Series 1999A Capital Improvement Bonds") prior to the issuance of the Series 1999MB Bonds; but from the proceeds of those General Obligation State Capital Improvement Bonds which have been issued, \$54,313,717.05 were expended on behalf of the Mental Health Commission and the Commission of Disabilities and Special Needs as provided in the Acts of 1970 above recited and on behalf of the South Carolina Fire Academy as provided in Act 523 of 1992. Thus, the remaining authorization under the Enabling Act and Act 1377 to issue General Obligation State Capital Improvement Bonds, exclusive of such General Obligation State Capital Improvement Bonds issued on behalf of the Mental Health Commission, the Commission of Disabilities and Special Needs and the South Carolina Fire Academy is now \$402,042,067.28 and thus, the sum of \$25,000,000 may be issued within the dollar limitation of the Enabling Act and the Act 1377. Insofar as the constitutional and statutory limitation on the issuance of General Obligation State Capital Improvement Bonds is concerned during the fiscal year to end June 30, 2000, the five percent (5%) limitation referred to above is applied to General Fund Revenues for the fiscal year ended June 30, 1999 (excluding revenues authorized to be pledged to State Highway Bonds and State Institution Bonds). The State Auditor, prior to the issuance of the Series 1999B Bonds, will certify pursuant to Section 11-27-70 of the South Carolina Code, that 5% of the General Fund Revenues of the State for the fiscal year ended June 30, 1999 (excluding revenues authorized to be pledged to State Highway Bonds and State Institution Bonds) exceeds the maximum annual debt service on all outstanding General Obligation State Capital Improvement Bonds, including the Series 1999MB Bonds.

DEBT OF THE STATE OF SOUTH CAROLINA

Constitutional Provisions

The following is a summary of the provisions of Article X, Section 13 of the South Carolina Constitution as they relate to the general obligation debt of the State:

1. "General obligation debt" shall mean any indebtedness of the State which shall be secured in whole or in part by a pledge of the full faith, credit and taxing power of the State.
2. General obligation debt may not be incurred except for a public purpose and all general obligation debt shall mature not later than thirty (30) years from the time such indebtedness shall be incurred.
3. In each act authorizing the incurring of general obligation debt, the General Assembly shall allocate on an annual basis sufficient tax revenues to provide for the punctual payment of the principal of and interest on such general obligation debt.
4. If at any time any payment due as the principal of or interest on any general obligation debt shall not be paid as and when the same becomes due and payable, the State Comptroller General shall forthwith levy and the State Treasurer shall collect an *ad valorem* tax without limit as to rate or amount upon all taxable property in the State sufficient to meet the payment of the principal of and interest on such general obligation debt then due.
5. General obligation debt authorized by (a) two-thirds of the members of each House of the General Assembly, or (b) a majority vote of the qualified electors of the State voting in a referendum called by the General Assembly, is subject to no restrictions or limitations other than those imposed in the authorization to incur such indebtedness and as set forth in paragraph 2, above.
6. General obligation debt may also be incurred on such terms and conditions as the General Assembly may by law prescribe subject to the following limitations:
 - (a) General obligation debt may be incurred for highway purposes ("State Highway Bonds") if such bonds shall be additionally secured by so much of the revenues as may be made applicable by the General Assembly for State highway purposes from any and all taxes or licenses imposed upon individuals or vehicles for the privilege of using the public highways of the State; provided, that the maximum annual debt service on all State Highway Bonds so additionally secured which shall be outstanding shall not exceed fifteen percent (15%) of the proceeds received from such sources of revenue for the Fiscal Year next preceding.

(b) General obligation debt may be incurred for any State institution of higher learning designated by the General Assembly ("State Institution Bonds") if such bonds shall be additionally secured by a pledge of the revenues derived from the tuition fees received by the particular institution of higher learning for which such State Institution Bonds are issued; provided, that the maximum annual debt service on issues of State Institution Bonds for such State institution of higher learning to be outstanding shall not exceed ninety percent (90%) of the sums received by such State institution of higher learning from tuition fees for the Fiscal Year next preceding.

(c) General obligation debt may be incurred for any public purpose including those purposes set forth in (a) and (b); provided, that the maximum annual debt service on all general obligation bonds of the State henceforth to be outstanding (excluding State Highway Bonds, State Institution Bonds, tax anticipation notes and bond anticipation notes) shall not exceed five percent (5%) of the general revenues of the State for the Fiscal Year next preceding (excluding revenues which are authorized to be pledged for State Highway Bonds and State Institution Bonds). The rate of five percent (5%) may be reduced to four percent (4%) or increased to seven percent (7%) by legislative enactment passed by a vote of two-thirds of the total membership of the Senate and a two-thirds vote of the total membership of the House of Representatives.

7. General obligation debt may also be incurred or issued in anticipation of State tax collections and in anticipation of the proceeds of State general obligation bonds. Tax anticipation notes must mature not later than ninety (90) days from the end of the Fiscal Year in which such notes are issued. Bond anticipation notes must mature not later than one year following their date of issuance, but may be refunded or renewed.

The constitutional restrictions on general obligation debt may not be relaxed except by amendment to the South Carolina Constitution approved by a majority of the qualified electors voting at a general election for State representatives; such restrictions, however, do not preclude more stringent statutory limitations.

Categories of General Obligation Debt; Amounts Outstanding

The South Carolina General Assembly has, by statute, authorized six categories of State general obligation bonds, as follows:

1. *State School Bonds*: Sections 59-71-410 et seq. of the South Carolina Code, as continued and amended by Section 11-27-30 thereof (the "State School Bond Act"), authorizes the issuance of general obligation State School Bonds for capital improvements, school bus equipment and other purposes. Section 11-27-30 provides that the debt limit for State School Bonds is the lesser of (a) the dollar limitation contained in the State School Bond Act (presently \$137,500,000 for capital improvements and \$9,000,000 for school buses) or (b) the amount resulting from the limit described under "Constitutional Provisions", paragraph 6(c), above. There are no State School Bonds outstanding at this time.

2. *State Capital Improvement Bonds*: Act 1377, as continued and amended by Section 11-27-30 of the South Carolina Code, authorizes the issuance of general obligation State Capital Improvement Bonds for State capital projects generally, specific capital projects for various institutions and agencies and for refunding prior bonds. Section 11-27-30 provides that the debt limit for State Capital Improvement Bonds is the lesser of (a) the dollar amount from time to time authorized by Act 1377 or (b) the amount resulting from the limit described under "Constitutional Provisions", paragraph 6(c), above. As of November 15, 1999 and including the Series 1999A Capital Improvements Bonds but prior to the issuance of the Series 1999MB Bonds, there will be outstanding \$860,199,400 principal amount of State Capital Improvement Bonds. Following the issuance of the Series 1999MB Bonds there will be outstanding \$885,199,400 principal amount of State Capital Improvement Bonds.

3. *State Highway Bonds*: Sections 57-11-210 et seq. of the South Carolina Code (the "State Highway Bond Act"), as continued and amended by Section 11-27-30 thereof, authorizes the issuance of general obligation State Highway Bonds for highway construction and related purposes. State Highway Bonds are additionally secured by a pledge of so much of the revenues as may be made applicable by the General Assembly for State highway purposes from any and all taxes or licenses imposed upon individuals or vehicles for the privilege of using the public highways of the State. Such taxes include the Gasoline Tax, the Fuel Oil Tax, the Road Tax, and the Motor Vehicle License Tax described herein. See "FISCAL ADMINISTRATION AND PLANNING -- Certain Taxes", below. So long as any State Highway Bonds are outstanding the amount of revenues made applicable thereto by the General Assembly may not be less than the amounts needed to fund the general operations budget of the South Carolina Department of Transportation and meet debt service requirements for annual principal and interest payments on such bonds. Section 57-11-240 provides that the debt limit for State Highway Bonds is the maximum annual debt service limitation which results from the application of the constitutional limitation imposed by said Paragraph 6(a) of Section 13 of Article X of the South Carolina Constitution and described in paragraph 6(a) under the heading

"Constitutional Provisions", above. As of November 15, 1999, there will be outstanding \$330,960,000 principal amount of State Highway Bonds.

4. *State Institution Bonds*: Sections 59-107-10 et seq. of the South Carolina Code (the "State Institution Bond Act"), as continued and amended by Section 11-27-30 thereof, authorizes the issuance of general obligation State Institution Bonds for permanent improvements and related purposes at State-supported institutions of higher learning. State Institution Bonds are additionally secured by the respective special funds created at each State institution of higher learning from the tuition fees imposed at such institution. The State Institution Bond Act and Section 11-27-30 provide that the debt limit for State Institution Bonds is the amount resulting from the application of the constitutional limitation imposed by Paragraph 6(b) of Section 13 of Article X of the South Carolina Constitution relating to State Institution Bonds and described in paragraph 6(b) under the heading "Constitutional Provisions", above. As of November 15, 1999, there will be outstanding \$78,190,000 principal amount of State Institution Bonds.

5. *Transportation Infrastructure Bonds*: Sections 11-43-510 et seq. of the South Carolina Code (Article 5 of the "South Carolina Transportation Infrastructure Bank Act") authorizes the issuance of general obligation Transportation Infrastructure Bonds for highways and transit projects. Transportation Infrastructure Bonds may be further secured by a pledge of so much of the revenues as may be made available to the South Carolina Transportation Infrastructure Bank Board. Transportation Infrastructure Bonds may be issued only upon the approval of the Budget and Control Board after the review and approval of the Joint Bond Review Committee. No Transportation Infrastructure Bonds may be issued unless the South Carolina Transportation Infrastructure Bank Board has sources of revenue to reimburse the general fund of the State for the principal and interest on the Series 1999MB Bonds. The issuance of Transportation Infrastructure Bonds is limited pursuant to Article X, Section 13(6)(c) of the South Carolina Constitution as described under "Constitutional Provisions" above. As of November 15, 1999, there will be no outstanding Transportation Infrastructure Bonds.

6. *State School Facilities Bonds*: Sections 59-146-10 et seq. of the South Carolina Code (the "State School Facilities Bond Act") authorizes the issuance of general obligation State School Facilities Bonds for the purpose of assisting school districts in the State to provide adequate educational facilities. The maximum principal amount of State School Facilities Bonds shall not exceed \$750,000,000 except that this limitation does not apply to any State School Facilities Bonds issued for the purpose of refunding prior issues of State School Facilities Bonds. The State School Facilities Bond Act further provides for the issuance of not more than \$250,000,000 State School Facilities Bonds in Fiscal Year 1999-2000. Section 59-146-80 further provides that the State Budget and Control Board adopt a resolution providing for the issuance of such State School Facilities Bonds which requires compliance with the provisions of Article X, Section 13(6)(c) of the South Carolina Constitution. As of November 15, 1999, there will be no outstanding State School Facilities Bonds. The authority to issue bonds under the State School Facilities Bond Act expires four years from the effective date of the State School Facilities Bond Act (July 1, 1999).

TABLES RELATING TO GENERAL OBLIGATION DEBT

Outstanding General Obligation Debt After Issuance of the Series 1999MB Bonds

State Capital Improvement Bonds	\$ 885,199,400
State Institution Bonds	78,190,000
State Highway Bonds	<u>330,960,000</u>
Total	<u>\$1,294,349,400</u>

**Debt Service Requirements for
All State Capital Improvement Bonds
After Issuance of the Series 1999MB Bonds⁽¹⁾⁽²⁾**

<u>Fiscal Year Ending June 30</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Principal and Interest</u>
2000	\$ 70,720,000.00	\$21,509,615.01	\$ 92,229,615.01
2001	105,302,500.00	39,249,965.55	144,552,465.55
2002	86,385,000.00	32,086,231.52	118,471,231.52
2003	101,813,500.00	28,833,724.15	130,647,224.15
2004	80,085,000.00	23,055,593.03	103,140,593.03
2005	101,660,000.00	25,621,802.61	127,281,802.61
2006	72,785,000.00	15,083,075.53	87,868,075.53
2007	62,675,000.00	11,476,991.78	74,151,991.78
2008	59,749,700.00	9,884,984.03	69,634,684.03
2009	55,528,000.00	10,239,974.52	65,767,974.52
2010	26,400,000.00	3,324,087.52	29,724,087.52
2011	20,285,700.00	4,691,347.31	24,977,047.31
2012	15,040,000.00	1,473,365.00	16,513,365.00
2013	13,265,000.00	838,127.50	14,103,127.50
2014	6,580,000.00	410,245.00	6,990,245.00
2015	<u>6,925,000.00</u>	<u>138,500.00</u>	<u>7,063,500.00</u>
TOTAL	<u>\$885,199,400.00</u>	<u>\$227,917,630.06</u>	<u>\$1,113,117,030.06</u>

¹Includes a *pro forma* debt service schedule for the Series 1999MB Bonds assuming an interest rate of 5.25% per annum and the debt service schedule for the Series 1999A Capital Improvement Bonds.

²Under the limitation imposed by subparagraph (c) of paragraph 6 of Section 13 of Article X of the South Carolina Constitution and the implementing legislation, maximum annual debt service of general obligation debt (excluding State Highway Bonds, State Institution Bonds, tax anticipation notes and bond anticipation notes) cannot exceed five percent (5%) of general revenues of the State for the Fiscal Year next preceding (excluding revenues authorized to be pledged for State Highway Bonds and State Institution Bonds). General revenues subject to the maximum annual debt service limitation for the Fiscal Year ended June 30, 1999, shall, prior to delivery of the Series 1999MB Bonds, be certified to be not less than \$4,815,095,062, providing a maximum annual debt service limit of not less than \$240,754,753. State School Bonds, State Capital Improvement Bonds, Transportation Infrastructure Bonds and State School Facilities Bonds are the four categories of general obligation debt subject to the five percent (5%) limitation; however, only State Capital Improvement Bonds are currently outstanding.

**Debt Service Requirements of
All State Institution Bonds
As of November 15, 1999**

Fiscal Year Ending <u>June 30</u>	Total <u>Principal</u>	Total <u>Interest</u>	Total Principal <u>and Interest</u>
2000	\$ 6,245,000.00	\$2,541,713.14	\$ 8,786,713.14
2001	6,755,000.00	3,769,185.02	10,524,185.02
2002	6,565,000.00	3,420,920.02	9,985,920.02
2003	6,570,000.00	3,063,458.77	9,633,458.77
2004	4,925,000.00	2,713,813.76	7,638,813.76
2005	5,200,000.00	2,427,058.76	7,627,058.76
2006	5,505,000.00	2,122,645.01	7,627,645.01
2007	5,365,000.00	1,831,300.00	7,196,300.00
2008	4,780,000.00	1,555,250.00	6,335,250.00
2009	4,760,000.00	1,315,872.50	6,075,872.50
2010	4,280,000.00	1,077,242.50	5,357,242.50
2011	2,760,000.00	867,180.00	3,627,180.00
2012	2,600,000.00	726,065.00	3,326,065.00
2013	2,740,000.00	594,055.00	3,334,055.00
2014	2,910,000.00	454,915.00	3,364,915.00
2015	2,650,000.00	307,135.00	2,957,135.00
2016	2,815,000.00	175,640.00	2,990,640.00
2017	375,000.00	35,955.00	410,955.00
2018	<u>390,000.00</u>	<u>18,330.00</u>	<u>408,330.00</u>
TOTAL	<u>\$78,190,000.00</u>	<u>\$29,017,734.48</u>	<u>\$107,207,734.48</u>

**Debt Service Requirements of
All State Highway Bonds
As of November 15, 1999**

<u>Fiscal Year Ending June 30</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Principal and Interest</u>
2000	\$4,020,000.00	\$ 7,935,922.50	\$11,955,922.50
2001	6,805,000.00	15,601,007.50	22,406,007.50
2002	9,235,000.00	15,273,476.25	24,508,476.25
2003	9,765,000.00	14,831,637.50	24,596,637.50
2004	12,220,000.00	14,362,758.75	26,582,758.75
2005	12,680,000.00	13,778,160.00	26,458,160.00
2006	13,305,000.00	13,149,166.25	26,454,166.25
2007	15,730,000.00	12,489,391.25	28,219,391.25
2008	20,285,000.00	11,725,616.25	32,010,616.25
2009	21,850,000.00	10,740,072.50	32,590,072.50
2010	22,320,000.00	9,692,022.50	32,012,022.50
2011	23,025,000.00	8,628,922.50	31,653,922.50
2012	18,775,000.00	7,583,810.00	26,358,810.00
2013	20,060,000.00	6,676,877.50	26,736,877.50
2014	17,360,000.00	5,783,402.50	23,143,402.50
2015	17,505,000.00	4,953,100.00	22,458,100.00
2016	17,645,000.00	4,114,967.50	21,759,967.50
2017	17,790,000.00	3,269,250.00	21,059,250.00
2018	17,935,000.00	2,414,812.50	20,349,812.50
2019	18,085,000.00	1,552,112.50	19,637,112.50
2020	4,240,000.00	680,887.50	4,920,887.50
2021	4,490,000.00	447,637.50	4,937,637.50
2022	4,625,000.00	204,368.75	4,829,368.75
2023	<u>1,210,000.00</u>	<u>54,450.00</u>	<u>1,264,450.00</u>
TOTAL	<u>\$330,960,000.00</u>	<u>\$185,943,830.00</u>	<u>\$516,903,830.00</u>

**Debt Service Requirements¹ Of
All State General Obligation Debt
To Be Outstanding Following the Issuance
Of The Series 1999MB Bonds Offered Herein**

<u>Fiscal Year Ending June 30</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Principal and Interest</u>
2000	\$ 80,985,000.00	\$31,987,250.65	\$112,972,250.65
2001	118,862,500.00	58,620,158.07	177,482,658.07
2002	102,185,000.00	50,780,627.79	152,965,627.79
2003	118,148,500.00	46,728,820.42	164,877,320.42
2004	97,230,000.00	40,132,165.54	137,362,165.54
2005	119,540,000.00	41,827,021.37	161,367,021.37
2006	91,595,000.00	30,354,886.79	121,949,886.79
2007	83,770,000.00	25,797,683.03	109,567,683.03
2008	84,814,700.00	23,165,850.28	107,980,550.28
2009	82,138,000.00	22,295,919.52	104,433,919.52
2010	53,000,000.00	14,093,352.52	67,093,352.52
2011	46,070,700.00	14,187,449.81	60,258,149.81
2012	36,415,000.00	9,783,240.00	46,198,240.00
2013	36,065,000.00	8,109,060.00	44,174,060.00
2014	26,850,000.00	6,648,562.50	33,498,562.50
2015	27,080,000.00	5,398,735.00	32,478,735.00
2016	20,460,000.00	4,290,607.50	24,750,607.50
2017	18,165,000.00	3,305,205.00	21,470,205.00
2018	18,325,000.00	2,433,142.50	20,758,142.50
2019	18,085,000.00	1,552,112.50	19,637,112.50
2020	4,240,000.00	680,887.50	4,920,887.50
2021	4,490,000.00	447,637.50	4,937,637.50
2022	4,625,000.00	204,368.75	4,829,368.75
2023	<u>1,210,000.00</u>	<u>54,450.00</u>	<u>1,264,450.00</u>
TOTAL	<u>\$1,294,349,400.00</u>	<u>\$442,879,194.54</u>	<u>\$1,737,228,594.54</u>

¹Includes a *pro forma* debt service schedule for the Series 1999MB Bonds assuming an interest rate of 5.25% per annum and the debt service schedule for the Series 1999A Capital Improvement Bonds.

FISCAL ADMINISTRATION AND PLANNING

The Budgeting Process

Article X, Section 7(a) of the South Carolina Constitution requires that the General Assembly provide for a budgetary process to ensure that annual expenditures of State government may not exceed annual State revenues. Subsection (c) of Section 7 of Article X requires that the General Assembly prescribe by law a spending limitation on appropriations for the operation of State government such that annual increases in appropriations may not exceed the annual growth rate of the economy of the State; provided, however, that this limitation is subject to suspension by an affirmative vote in each House of the General Assembly by two-thirds of the members present and voting, but not less than three-fifths of the total membership in each House. Subsection (d) of Section 7 of Article X requires that the General Assembly shall prescribe by law a limitation on the number of the State employees such that the annual increase in such number may not exceed the average growth rate of the population of the State; provided, however, that this limitation is subject to suspension by an affirmative vote in each house of the General Assembly by two-thirds of the members present and voting, but not less than three-fifths of the total membership in each House.

Article III, Section 36 of the Constitution requires the establishment of a General Reserve Fund for the purpose of covering operating deficits of State government and a separate and distinct Capital Reserve Fund for the purpose of providing capital improvements or for retiring State bonds previously issued. Amounts in the Capital Reserve Fund may, as hereinafter described, be used to fund a year end deficit. The General Reserve Fund is required to be funded in an amount equal to three percent (3%) of the general fund revenue of the latest completed Fiscal Year. Funds may be withdrawn from the General Reserve Fund only for the purpose of covering operation deficits. The General Assembly is required to provide for the orderly restoration of funds withdrawn from the General Reserve Fund. The Constitutional provisions with respect to the General Reserve Fund require that the General Assembly provide for a procedure to survey the progress of the collection of revenue and the expenditure of funds and require the General Assembly to authorize and direct reduction of appropriations as may be necessary to prevent a deficit. Such provisions require that, should a year-end operating deficit occur, so much of the General Reserve Fund as may be necessary must be used to cover the deficit. The amounts so used must be restored to the General Reserve Fund within three Fiscal Years until the three percent (3%) requirement is again reached.

The Capital Reserve Fund is required to be funded in an amount equal to two percent (2%) of the prior Fiscal Year's general fund revenues. The Constitution requires that the General Assembly provide that, if revenue forecasts before April 1 project that revenues for the current Fiscal Year will be less than expenditures authorized by appropriation for that Fiscal Year, the current Fiscal Year's appropriation to the Capital Reserve Fund shall be reduced to the extent necessary before any reduction is made in operating appropriations. If it is determined that the Fiscal Year has ended with an operating deficit, the Constitution requires that funds in the Capital Reserve Fund shall be applied, to the extent necessary, to the Fiscal Year's end operating deficit before withdrawing moneys from the General Reserve Fund for such purpose.

Fiscal responsibility in the State lies with the Budget and Control Board. The Governor is required to submit an Executive Budget to the General Assembly within five (5) days after the beginning of each regular session. Such budget is required to conform to the funding requirements contained in Article III, Section 36 of the Constitution. Regular sessions of the General Assembly begin on the second Tuesday of January in each year. In order to enable the Governor to present his budget to the General Assembly at the time required, the Governor is required, by law, to complete a survey of all departments, bureaus, divisions, offices, boards, commissions, institutions, and other agencies to obtain information upon which to base his budget recommendations no later than November 1 of each year. In this connection, each of several State departments, bureaus, divisions, offices, boards, commissions, institutions, and other agencies receiving or requesting financial aid from the State are required to report to the Governor in itemized form, no later than November 1, of each year, the amount needed or requested in the succeeding Fiscal Year. In addition, on or before November 1 of each year the State Comptroller General is required to furnish to the Governor detailed statements as to appropriations and expenditures for certain prior Fiscal Years and appropriation years. The State Comptroller General is also required to furnish to the Governor on or before December 1 of each year an estimate of the financial needs of the State itemized in accordance with the budget classifications adopted by the Budget and Control Board.

The budget presented to the General Assembly by the Governor must be accompanied by detailed statements of prior years' revenues and expenditures, a statement of current assets and liabilities and other information with respect to the State's finances and economic condition. The General Assembly is authorized by law to increase or decrease items in the budget bill. The Constitution mandates the General Assembly to provide a balanced budget and provides that if there be a casual deficit, such deficit shall be provided for in the succeeding Fiscal Year.

As noted above, the Constitution requires a procedure for the monitoring of revenues and expenditures with a view to a reduction of appropriations as may be necessary to prevent a deficit. For the purpose of providing projections and forecasts of revenues and expenditures and advising the Budget and Control Board on economic trends, the General Assembly established the Board of Economic Advisors. In particular with respect to the Constitutional requirement of monitoring revenues, statutory provisions require that the Board of Economic Advisors provide to the Budget and Control Board quarterly estimates of State revenues. If at the end of the first or second quarter of any Fiscal Year quarterly revenue collections are four percent or more below the amount projected for such quarter by the Board of Economic Advisors, the State Board is required, within fifteen days of such determination, to take action to avoid a Fiscal Year end deficit.

In 1993 the General Assembly provided that beginning with appropriations for Fiscal Year 1994-95, appropriations in the annual general Appropriations Act may not exceed the base revenue estimate. The base revenue estimate is defined as the lesser of (i) the total of recurring general fund revenues collected in the latest completed Fiscal Year before the General Assembly first considers the annual general appropriations bill plus an increase of seventy-five percent of the difference between the general fund revenue estimate of the Board of Economic Advisors for the upcoming Fiscal Year and the actual revenue collections from the latest completed Fiscal Year; or (ii) the Board of Economic Advisors' general fund revenue estimate for the upcoming Fiscal Year.

For many years, each annual Appropriations Act has contained a provision requiring the Budget and Control Board to monitor the collection of revenues and the expenditure of funds. The Appropriations Act for Fiscal Year 1994-95, Act 497 of 1994, Part I, section 17G.36, provides that if, because of an inaccurate estimate of revenues, a deficit appears likely, the State Board shall effect such reductions of appropriations as may be necessary to prevent a deficit.

For the Fiscal Year ended June 30, 1994, the State had a budgetary surplus of \$273.48 million. The General Assembly designated the application of most of this surplus, including a transfer to the Capital Reserve Fund in the amount of \$66.83 million.

For the Fiscal Year ended June 30, 1995, the State had a budgetary surplus of \$393 million. The General Assembly designated the application of all of this surplus, including a transfer to the Capital Reserve Fund in the amount of \$73.4 million.

For the Fiscal Year ended June 30, 1996, the State had a budgetary surplus of \$316.7 million. The General Assembly designated the application of all of this surplus, including a transfer to the Capital Reserve Fund in the amount of \$80.5 million.

For the Fiscal Year ended June 30, 1997, the State had a budgetary surplus of \$297.8 million. The General Assembly designated the application of all of this surplus, including a transfer to the Capital Reserve Fund in the amount of \$83.6 million.

For the Fiscal Year ended June 30, 1998, the State had a budgetary surplus of \$254 million. The General Assembly designated the application of all of this surplus, including a transfer to the Capital Reserve Fund in the amount of \$86.9 million.

For the Fiscal Year ended June 30, 1999, the State had a budgetary surplus of \$410 million. The General Assembly designated the application of \$322 million of this surplus, including a transfer to the Capital Reserve Fund in the amount of \$92 million.

Certain Taxes

General Fund Revenues are derived by the State from the various taxes imposed and collected by the State. Following is a description of the taxes which provide the major portion of the State's revenues.

Income Tax: The State imposes an income tax on individuals and certain corporations. For purposes of imposing such tax, gross income, adjusted gross income and taxable income are determined generally in accordance with the Internal Revenue Code of 1986, as amended. The individual income tax is on a graduated scale from 2.5% to 7%, based on the taxpayer's taxable income. Corporations (other than banks, building and loan associations and insurance companies) are taxed at the rate of 5% of net income attributable to business done in South Carolina.

Individual income taxes are collected primarily through the withholding process and the filing of declarations of estimated tax. Corporations are required to file declarations of estimated tax and to make quarterly advance payment of taxes.

Estate Tax: The South Carolina Estate Tax Act imposes on the estates of residents of the State, and that portion of the estate of a nonresident which is located in the State, a tax in the amount of the maximum amount of the "federal credit" for state death taxes allowable by the Internal Revenue Code of 1986, as amended, with respect to the estate or such portion thereof.

Stamp and Business License Tax: The Stamp and Business License Tax includes several major sources of tax revenues. Among these are taxes relating to sales of cigarettes and other tobacco products, beer and wine, soft drinks, and the operation of certain coin-operated devices.

Cigarettes--A tax of three and one-half mills (.35¢) is imposed on each cigarette. The "license tax" imposed on the sale of cigarettes is paid by means of stamps affixed to packages sold by manufacturers, wholesale dealers, distributors, or retail dealers. The South Carolina Code assigns liability for the payment of the tax to distributors. Distributors must file monthly returns showing the quantity and wholesale price of all tobacco products transported into the State or manufactured in the State for sale by the distributor. Payment of the tax must be made on a monthly basis. A 2% deduction is allowed to distributors for timely payment of the tax.

Beer and Wine--All beer offered for sale in the State is subject to a tax of six-tenths of a cent (.6¢) per ounce or fractional quantity thereof. Wines sold in containers of one (1) gallon or more are subject to a tax of 90¢ per gallon or fractional quantity thereof; wines sold in containers of less than one (1) gallon are subject to a tax of 6¢ for each eight ounces or fractional quantity thereof; wines sold in liter containers are subject to a tax of 25.35¢ per liter. Any "domestic" wine, as defined in the tax statutes, is subject to a tax of 45¢ per gallon, or 3.6¢ for each eight ounces or fractional quantity thereof if sold in containers of less than one gallon.

Each wholesaler must make a report to the Department of Revenue not later than the twentieth day of the month following any sale of beer or wine and pay at that time the prescribed tax thereon.

Failure to pay such taxes may result in a penalty of 1/4% per day.

Soft Drinks--A tax of one cent (1¢) for every twelve ounces or fractional part thereof is imposed on soft drinks offered for sale in sealed containers. Syrup for use in mixing soft drinks is taxed at the rate of 95¢ per gallon.

Coin-Operated Devices--License taxes are imposed on certain coin-operated devices or machines operated within the State. These license taxes are payable bi-annually and are as follows:

- (1) \$50.00 for "juke boxes" or "kiddy rides";
- (2) \$200.00 for any machine for the playing of amusements or video games (without free play feature) and any pin table type machine with levers or flippers; and
- (3) \$4,000.00 for any video game or pin table game (without levers or flippers) with a free play feature.

Gasoline Tax: Subject to certain exceptions, a tax of sixteen cents (16¢) per gallon is imposed on all gasoline used or consumed in the State in producing or generating power for propelling motor vehicles. This tax is in lieu of all other sales, use, or other excise taxes which might otherwise be imposed by any municipality, county or other local subdivision. The first \$18,000,000 of revenue generated from the per gallon tax is deposited to an economic development fund for the State. Two and sixty-six one-hundredths cents (2.66¢) per gallon are deposited in the County Transportation Committee Fund for use on State secondary road system improvements. One percent of the proceeds from thirteen cents (13¢) is transmitted to the Department of Natural Resources of the State for deposit in a special water recreational resources fund. Twenty-five hundredths of a cent (0.25¢) per gallon must be used by the Department of Mass Transit of the State. Other amounts are appropriated to certain allocated State administrative costs.

Monthly reports, on forms prescribed and furnished by the Department of Revenue, must be filed with the Department of Revenue on or before the twenty-second day of each month, setting forth the number of gallons of gasoline sold, used, shipped, or distributed for the purpose of sale within the State during the previous month, and there must be remitted therewith the amount of tax provided for. Failure to make the required return or to pay the required taxes may result in a penalty to be determined in accordance with Chapter 54

of Title 12 of the South Carolina Code as well as various civil penalties in accordance with Chapter 28 of Title 12 of the South Carolina Code.

Fuel Oil Tax: Subject to certain exceptions, a tax of sixteen cents (16¢) per gallon is imposed upon all diesel fuel used or consumed in the State in producing or generating power for propelling motor vehicles.

Monthly reports, on forms prescribed and furnished by the Department of Revenue, must be filed with the Department of Revenue on or before the twenty-second day of each month, setting forth the number of gallons of gasoline sold, used, shipped, or distributed for the purpose of sale within the State during the previous month, and there must be remitted therewith the amount of tax provided for. Failure to make the required return or to pay the required taxes may result in a penalty to be determined in accordance with Chapter 54 of Title 12 of the South Carolina Code as well as various civil penalties in accordance with Chapter 28 of Title 12 of the South Carolina Code.

Road Tax: All "motor carriers" (as statutorily defined) operating on the streets and highways of the State must pay a tax equivalent to sixteen cents (16¢) per gallon calculated on the amounts of gasoline or other motor fuel used by such motor carrier in its operations within the State. Motor carriers are entitled to a credit on such tax equivalent to sixteen cents (16¢) per gallon on all gasoline or other motor fuel purchased by such carrier within the State on which a gasoline or other motor fuel tax imposed by the laws of South Carolina has been paid.

Motor carriers are required to file quarterly reports and to pay the necessary road tax at the time of filing such report. Failure to pay such taxes may result in a penalty of twenty-five percent (25%) thereof plus interest at the rate of one-half percent ($\frac{1}{2}\%$) per month.

Motor Vehicle License Tax: Annual and biennial registration and license fees are imposed on vehicles operating on South Carolina streets and highways. These annual and biennial fees include the following: the biennial fee for private passenger vehicles of persons 65 years of age or older is \$20; for private passenger vehicles for persons under the age of 65 is \$24; for private passenger vehicles of persons 64 years of age is \$22; for property-carrying vehicles with a gross weight of 5,000 pounds or less for persons 65 years of age or older is \$30; common carrier passenger vehicles are subject to a biennial fee of \$18 plus \$6 for every 500 pounds in excess of 2,000 pounds; inter-city bus companies with a fleet of ten or more buses may, at their option, pay an annual fee of \$200 per vehicle; self-propelled property carrying vehicles such as trucks, truck tractors and road tractors are subject to a biennial fee ranging from \$30 to \$1600 depending on weight; farm trucks are subject to biennial registration fees ranging from \$12 to \$120 depending on the weight; a biennial fee of \$20 for certain trailers, semitrailers or pole trailers; camper trailers are subject to a registration fee of \$10; house trailers are subject to a biennial fee of \$12; utility trailers are subject to a fee of \$5; carriers engaged in the transportation of house trailers are required to purchase license plates at a rate of \$12.50 for the first such plate and \$6 for each additional plate; and fees ranging from \$2 to \$200 for personalized license plates, dealer and manufacturing license plates, special commemorative and award-related license plates, and temporary license plates. A motor vehicle dealer must obtain a license, the fee for which is \$50. All of the proceeds of the motor vehicle license tax are remitted to the State General Fund except for the truck and farm truck fees which are to be remitted to the state highway account of the South Carolina Transportation Infrastructure Bank.

Alcoholic Liquors Tax: The State imposes license and sales taxes on the manufacture and wholesale and retail sales of alcoholic beverages. License taxes are as follows: manufacturer, \$25,000; wholesaler, \$10,000; retailer, \$600. There is a license tax in the aggregate amount of 17¢ on each eight ounces or fractional quantity of alcoholic liquors sold. There is a license tax in the aggregate amount of 71.825¢ on each liter of alcoholic liquors sold. Additional taxes are imposed upon wholesale and retail sales in an aggregate amount of \$5.36 on each standard case of alcoholic liquors sold (a "standard case" is a package or case containing not more than three gallons and not less than 2.4 gallons). Alcoholic liquors sold in two ounces or less are subject to a tax of 25¢ per container. Alcoholic liquors sold in such containers are also subject to the wholesale per case tax above described but are not subject to the above described 17¢ license tax. In addition there is levied a surtax of (9%) on all taxes imposed upon alcoholic liquors sold in South Carolina. This surtax is collected at the wholesaler level.

Returns for the above taxes are required to be made monthly to the Department of Revenue and such returns are to be accompanied by payment of the tax on the amount of alcoholic liquors sold in the previous month. Failure to file such return results in a penalty of not more than \$1,000, and failure to pay the tax within the time allotted may result in a penalty to be determined in accordance with Sections 6621 and 6622 of the Internal Revenue Code.

Sales and Use Tax: The State imposes a five percent (5%) sales tax on the gross proceeds of all retail sales of tangible personal property within the State. There is also a complementary five percent (5%) use tax on tangible personal property purchased at retail on which the sales tax was not paid. Various items are exempted from the sales and use tax, among these items are: textbooks used in elementary schools, high schools, and institutions of higher learning; livestock; feed for use in the production and maintenance of poultry or livestock; insecticides, chemicals, fertilizers and seeds for use solely on the farm, etc. in the production for sale of products on the farm; newspapers; fuel to manufacturers; meals to school children; telephone toll charges; gasoline or other motor fuels taxed at the same rate as gasoline; machinery used in planting or cultivating of farm crops; machines used in mining, quarrying, compounding, processing and manufacturing of tangible personal property; railroad cars and locomotives; fuel used in the curing of agricultural products; electricity used in manufacturing tangible personal property for sale; sales of motor vehicles and certain trailers to nonresidents for immediate transportation to and use in another state; sales of automobiles and motorbikes to a person domiciled in or resident of another state, who is located in South Carolina by reason of orders of the Armed Forces of the United States; library books; sales of medicine and prosthetic devices sold by prescription; sales of electricity and combustibles for residential purposes; 35% of the gross proceeds of sales of mobile and modular homes; and sales of tangible personal property of the Federal Government. Of the 5% tax, 1% is dedicated to the Education Improvement Act and the remaining 4% goes to the General Fund.

Returns and the payment of sales tax for each month are required to be made by the twentieth day of the following month. Returns and payment of use tax are required to be made quarterly. Failure to pay the sales tax may result in a penalty of 25% plus interest at the rate of 1/2% per month.

Insurance Tax: Insurance tax revenues are principally derived from an insurance premium tax. For life insurance, the insurance premium tax levied is equal to 3/4% of the total premiums collected. For all other types of insurance, except workers' compensation, the insurance premium tax is equal to 1 1/4% of the total premiums collected. For worker's compensation, the premium tax is 2 1/2% of total premiums collected. In addition to the premium tax, a retaliatory tax may be imposed upon insurers depending on the insurer's state of domicile.

Selected Financial Data

The following tables set forth selected financial data which have been derived from the financial statements of the State audited by independent accountants. This financial data include only the General Fund of the State and do not include any other funds, account groups or component units that are a part of the State's reporting entity.

General Fund Balance Sheet Data (Expressed in Thousands):

	As of June 30				
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Total assets and other debits	\$788,294	\$1,026,184	\$1,039,104	\$980,208	\$983,084
Total liabilities	\$756,213	\$767,862	\$754,373	\$823,755	\$805,607
Total fund equity and .. other credits	\$32,081	\$258,322	\$284,731	\$156,453	\$177,477

General Fund Statement of Revenues and Expenditures
(Expressed in Thousands):

	Fiscal Year Ended June 30				
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Revenues:					
Taxes	\$3,508,991	\$3,773,013	\$4,030,815	\$4,234,943	\$4,519,397
Other	<u>637,339</u>	<u>674,551</u>	<u>621,037</u>	<u>664,638</u>	<u>659,097</u>
Total revenues	<u>4,146,330</u>	<u>4,447,564</u>	<u>4,651,852</u>	<u>4,899,581</u>	<u>5,178,494</u>
Expenditures:					
Current	\$1,920,659	\$1,976,582	\$1,979,697	\$2,107,651	\$2,185,607
Debt Service . . .	131,015	136,612	131,994	144,511	152,615
Intergovernmental	<u>1,433,854</u>	<u>1,501,288</u>	<u>1,787,894</u>	<u>1,871,747</u>	<u>1,998,408</u>
Total expenditures	<u>3,485,528</u>	<u>3,614,482</u>	<u>3,899,585</u>	<u>4,123,909</u>	<u>4,336,630</u>
Revenues over . . expenditures	<u>660,802</u>	<u>833,082</u>	<u>752,267</u>	<u>775,672</u>	<u>841,864</u>
Total Other Financing uses	<u>(533,207)</u>	<u>(611,291)</u>	<u>(726,333)</u>	<u>(903,582)</u>	<u>(820,829)</u>
Revenues over . . (under) expenditures and other uses	<u>127,595</u>	<u>221,791</u>	<u>25,934</u>	<u>(127,910)</u>	<u>21,035</u>

Assessed Value of All Taxable Property in the State

No *ad valorem* property taxes are presently imposed at the State level. Counties, municipalities, school districts, and various other political subdivisions do, however, levy and collect *ad valorem* property taxes. Article X, Section 1 of the Constitution requires that the assessment of all property, both real and personal, shall be equal and uniform and that the following ratios apply to the following classifications of property:

- (1) Real and Personal property of Manufacturers and Utilities -- 10 1/2% of fair market value;¹
- (2) Transportation Companies for Hire (railroads and pipelines) -- 9 1/2% of fair market value;

¹ Certain real property owned by, or leased to, manufacturers for use in "research and development", office buildings, and warehousing and wholesale distribution of wearing apparel is excluded from this classification by Section 12-43-220 of the South Carolina Code and would be subject to the 6% assessment ratio for "all other real property". Certain new industrial facilities may be entitled to pay a "fee in lieu of taxes" computed on an assessment ratio of not less than 6% of original cost less depreciation, 4% of original cost less depreciation in the case of certain particularly large industrial projects.

- (3) Legal Residence not more than five contiguous acres -- 4% of fair market value;²
- (4) Agricultural property used for such purposes owned by individuals and certain small corporations -- 4% of use value;
- (5) Agricultural and timberlands belonging to large corporations (more than ten stockholders) -- 6% of use value;
- (6) All other real property -- 6% of use value;
- (7) Inventories of business establishments -- 6% of fair market value;³
- (8) Farm Machinery and Equipment -- 5% of fair market value;⁴
- (9) All other personal property -- 10 1/2% of fair market value⁵

The General Assembly has required the appraisal every fourth year of all real property in each of the counties in the State in accordance with standards, rules, and regulations formulated by the Department of Revenue.

The following table shows the assessed value of all taxable property in the State for the years shown below:

1997	\$11,164,486,169
1996	10,693,390,455
1995	10,155,004,939
1994	9,643,659,330
1993	9,254,159,161
1992	8,707,129,077
1991	8,288,681,832
1990	8,015,831,771
1989	7,595,154,469
1988	7,111,317,081
1987	6,763,502,131
1986	5,997,677,612
1985	5,393,615,426

Data for 1998 and 1999 is not available.

² Legislation recently adopted by the General Assembly provides for the exemption of the value of residential real property up to a certain level (approximately \$100,000 fair market value) from school district *ad valorem* property taxes levied for other than debt service and payments pursuant to lease-purchase agreements. The legislation provides for a Property Tax Relief Fund (the "Relief Fund") from which reimbursements will be made to local governments for revenues not collected as a result of the residential exemption. The precise level of the exemption is to be established by the Director of the Department of Revenue, based on the amount approximate to the Relief Fund for that year.

³ Property otherwise subject to the business inventory tax provided for by Section 12-37-1420 of the South Carolina Code is exempted from such tax by Section 12-37-450 of the South Carolina Code. Such amendment is, however, conditional on the appropriation by the State to the counties and municipalities for each year in an amount equal to the tax revenue not collected by reason of the exemption based on the 1987 tax year millage and the 1987 tax year assessed value of inventories in the counties and municipalities.

⁴ These categories are presently exempt from taxation.

⁵ Intangible personal property is exempt from taxation.

Year 2000 Compliance

The "Year 2000 Compliance" (Y2K) issue arises because most computer software programs allocate two digits to the date field for "year" on the assumption that the first two digits will be "19." Such programs will thus interpret, for example, the year 2000 as the year 1900 and the year 2001 as 1901, absent reprogramming. Y2K affects both computer hardware (i.e. the embedded logic of computer chips) and computer software and could impact both the ability to enter data into computer programs and the ability of such programs to process data correctly. Y2K affects the computer applications of the State's agencies and institutions and other entities with which those agencies and institutions transact business.

The South Carolina General Assembly mandated through a legislative enactment in 1997 and re-enacted in 1998 that the Budget and Control Board coordinate an assessment of Y2K needs and develop a plan for state government to achieve century date compliance. The Budget and Control Board completed an initial review to assess the impact of Y2K on the State's computer applications and published its findings in a January 1998 report entitled, "Year 2000 Century Date Compliance Status Report." The Budget and Control Board has not become aware of a Y2K problem that will have a material negative impact on the State's ability to repay bonds. The Budget and Control Board can give no assurance as to what further research will reveal. The Budget and Control Board does not have full and complete information from other entities regarding the status of their implementation of Y2K solutions.

The State Treasurer's Office is aware of the problems that could occur related to Y2K. The State Treasurer's Office has identified its equipment and systems which are critical to its mission and the consequence of the failure of that equipment and those systems. The State Treasurer's Office has made the needed replacement or modification of the equipment and those systems a priority and has committed the personnel resources and funding necessary to achieve Y2K compliance before October 15, 1999.

The State Treasurer's Office's Y2K project is divided into three phases. The first phase, which is completed, identified the equipment and systems which needed replacement or modification. In phase two, the needed replacements or modifications will be effected, and in phase three, new or modified equipment and systems will be tested for compliance. The State Treasurer's Office has completed approximately 98% of phases two and three and will complete the remainder of those phases before October 15, 1999.

LEGAL MATTERS

Litigation

There is presently no litigation challenging the validity of any general obligation debt issued or proposed to be issued by the State. The Attorney General of the State advises that, except as hereinafter described, there is neither threatened nor, to his knowledge pending, any litigation which would have any serious adverse effect upon the revenues of the State.

The South Carolina Retirement System ("SCRS") is involved in a lawsuit filed by four retired members. The Circuit Court ruled in favor of the SCRS at trial, and the plaintiffs appealed the decision to the State Supreme Court. The case was argued in the State Supreme Court in May 1999, and no opinion has been issued as of the date hereof. The plaintiffs challenge the plan's treatment of unused annual leave in the calculation of retirement payments. The present value of SCRS's liability in the event of an unfavorable outcome would be approximately \$340 million for current retirees, and approximately \$800 million for current active members of the State Employees Retirement System and the Police Officers Retirement System. The Circuit Court determined that the State has been providing retirement benefits to its members in accordance with the law. The State continues to defend its position and believes it is meritorious.

Legal Opinion and Certificates

The State will furnish the Series 1999MB Bonds in typewritten or printed form along with the approving legal opinion of Nexsen Pruet Jacobs & Pollard, LLP, Bond Counsel to the State. The opinion with respect to the Series 1999MB Bonds will state in substance: (1) the Series 1999MB Bonds are valid and legally binding obligations of the State; (2) the full faith, credit and taxing power of the State are pledged to the payment of the principal of and interest on the Series 1999MB Bonds as they become due and payable; (3) that provision has been made for the allocation, on an annual basis, of sufficient tax revenues to provide for the punctual payment of the principal of and interest on the Series 1999MB Bonds; (4) assuming compliance with certain covenants discussed under "Tax Exemption" below, interest on the Series 1999MB Bonds is excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"); and (5) the Series 1999MB Bonds and the interest thereon are exempt from all State, county, municipal, school district and all other taxes or assessments imposed thereon within the State, except inheritance, estate, transfer or certain franchise taxes.

Nexsen Pruet Jacobs & Pollard, LLP has assisted the State by compiling certain information supplied by the State and others and included in this Preliminary Official Statement, but has not undertaken to verify the accuracy of such information. The opinions of Nexsen Pruet Jacobs & Pollard, LLP will be limited solely to the legality and enforceability of the Series 1999MB Bonds, and no opinion will be given with respect to this Preliminary Official Statement.

The various legal opinions to be delivered concurrently with the delivery of the Series 1999MB Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Tax Exemption

In the opinion of Nexsen Pruet Jacobs & Pollard, LLP, Columbia, South Carolina, Bond Counsel, based on existing statutes, regulations and court decisions and assuming continuing compliance by the State with certain covenants in the Bond Resolution and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding, among other things, the use, expenditure and investment of Bond proceeds and the timely payment of certain investment earnings to the U.S. Treasury and further subject to certain considerations as described in this section, interest on the Series 1999MB Bonds is excludable from the gross income of the Registered Holders of the Series 1999MB Bonds for purposes of federal income taxation. Interest on the Series 1999MB Bonds will not be treated as a preference item in calculating the alternative minimum taxable income of individuals or corporations; however, interest on the Series 1999MB Bonds will be included in the calculation of certain taxes, including the alternative minimum tax liability of corporations. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Series 1999MB Bonds.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 1999MB Bonds should consult their tax advisors as to the applicability and impact of any such collateral consequences.

Under existing law, the Series 1999MB Bonds and the interest thereon are exempt from all State, county, municipal, school district and all other taxes or assessments, direct or indirect, general or special, whether imposed for purposes of general revenue or otherwise, except inheritance, estate or transfer taxes. Section 12-11-20 of the South Carolina Code imposes upon every bank engaged in business in the State a fee or franchise tax computed on the entire net income of such bank. Interest on the Bond will be included in such computation.

No assurance can be given that any future legislation, or clarifications or amendments to the Code, if enacted into law, will not contain provisions which could cause the interest on the Series 1999MB Bonds to be subject directly or indirectly to federal or State of South Carolina income taxation, adversely affect the market price or marketability of the Series 1999MB Bonds or otherwise prevent the Registered Holders of the Series 1999MB Bonds from realizing the full current benefit of the status of the interest thereon.

Continuing Disclosure

Pursuant to Section 11-1-85 of the South Carolina Code, the Budget and Control Board has covenanted as to the Series 1999MB Bonds to file with a central repository for availability in the secondary bond market when requested:

- (1) An annual independent audit; within thirty days of the State's receipt of the audit; and
- (2) Event specific information within thirty days of an event adversely affecting more than five percent of revenue or the State's tax base.

The only remedy for failure by the Budget and Control Board to comply with these covenants shall be an action for specific performance. Moreover, the Budget and Control Board has specifically reserved the right to amend the covenants to reflect any change in Section 11-1-85 without the consent of any Bondholder.

Conclusion

The information in this Preliminary Official Statement has been assembled for the purpose of enabling those who may purchase the Series 1999MB Bonds to have appropriate information to evaluate the worth of the Series 1999MB Bonds. The undersigned believes that the information herein furnished should be sufficient for the purposes for which it is intended. If, however, additional information or explanations are required, inquiries may be made to the undersigned.

Grady L. Patterson, Jr.
State Treasurer of the State of South Carolina