STANDARD & POOR'S RATINGS SERVICES

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Missouri Development Finance Board Missouri; Appropriations; General Obligation

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Credit Profile		
US$21.49 mil leasehold rfdg rev bnds (Missouri) ser 2013A due 10/01/2030		
Long Term Rating	AA+/Stable	New
US$8.335 mil leasehold rfdg rev bnds (Missouri) ser 2013B due 10/01/2030		
Long Term Rating	AA+/Stable	New
Missouri GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to the Missouri Development Finance Board's series 2013 A and B leasehold revenue bonds, reflecting the appropriation pledge of the state of Missouri. At the same time, Standard & Poor's affirmed its 'AAA' rating on the state's general obligation (GO) bonds and 'AA+' rating on the state's appropriation debt outstanding. The ratings reflect Standard & Poor's assessment of the state's:

- Strong and diverse economic base;
- Good financial management;
- Strong reserves in the form of a budget reserve fund that can only be accessed under limited circumstances; and
- Moderate debt burden.

The certificates of participation and leasehold revenue bonds are subject to annual appropriation and the GO bonds are secured by the state's full faith and credit pledge. This issue will be used to refund a portion of series 2005 and 2006 leasehold revenue debt outstanding, which officials estimate will result in net present value savings of about 7% of principal, with the savings taken over the life of the issue and no extension of maturities.

Under our state criteria methodology published Jan. 3, 2011, the state's overall score is '1.6', which, based on our criteria, is associated with a 'AA+' indicative credit level. As our criteria indicate, the final state rating can be within one notch of the indicative credit level. The 'AAA' GO rating on Missouri reflects our view of the state's very strong budget management framework, including substantial statutory budget flexibility to maintain strong reserves and structural budget balance. Historically, the state has sustained its strong reserves, primarily its budget stabilization reserve balance, at its constitutionally mandated level. By state statute, any occurrence of budgetary imbalances during the fiscal year must be cured by the governor's rescission authority. We believe that the strength of the budget management and government framework has allowed the state to maintain reserve and liquidity levels that are consistent with a 'AAA' rating.

The Missouri economy's greatest strength, in our view, is its diversity, due in part to the state's location at the geographic center of the nation, which provides an economic advantage in trade and manufacturing. The two major metropolitan areas -- St. Louis and Kansas City, where 55% of the state's population resides -- offer a wide variety of employment opportunities and provide the lion's share of the state's income.

Missouri's population grew 7.2% from 2000 to 2010, and was 6.02 million in 2012, making the state the 18th-most populous in the U.S. and the fifth-most populous west of the Mississippi River. The state's income levels are somewhat below the national average, with 2011 per capita effective buying income equal to 91% of the national level. The unemployment rate averaged 6.9% in 2012, better than the national average of 8.1%. According to the U.S. Bureau of Labor Statistics, the state's unemployment rate for March 2013 was 6.7%, better than the 7.8% national rate.

The state's revised consensus revenue estimate projects that fiscal 2013 net general revenues will increase by 4.8% to $7.69 billion. The largest components of fiscal 2013 net general revenues are individual income tax (67% of total), which is projected to increase by 4.8% from the fiscal 2012 actual; and sales and use tax (24% of total), which is projected to increase by 2.3%. Through April, actual collections are ahead of schedule, with year-to-date collections 11.2% ahead of fiscal 2012 actuals for the same period and April 2013 revenues 27.4% ahead of April 2012 collections. The main driver of this revenue surplus is the individual income tax, which is 9.8% ahead of fiscal 2012, year-to-date. Sales tax collections are only 2.0% above the previous year-to-date level. Due to the strong overall revenue trend, the governor recently directed the release of $29.6 million of fiscal 2013 funds for education and other areas that had been restricted. In addition, officials are preparing a governor's amendment to the executive budget that would include some one-time expenditures in state parks and other areas if the positive revenue trends continue.

The fiscal 2013 budget closed a projected $300 million projected gap, which was primarily due to the loss of federal funding. The only tax rate or base change arose when the legislature passed a bill eliminating the franchise tax, one-fifth per year for five years, beginning in calendar 2012, and this action results in a loss of at least $20 million per year. The major expenditure changes in the budget are about $200 million in Medicaid savings over projected levels – primarily through the implementation of the health home model of care for chronic conditions; lower rates for the state's managed care providers; use of more generic drugs; and strategies to reduce unnecessary hospital costs. The budget maintains the 7.5% budget reserve fund.

Missouri is constitutionally prohibited from issuing GO bonds without voter approval, except for refunding bonds and emergency issues up to $1 million. Consequently, revenue bonds and annual appropriation bonds are important components of capital financing strategy. Debt payments are a first-priority budget item in terms of state budgeting. The state does not have any interest rate swaps outstanding and only $45 million of variable-rate debt. Existing voter authorizations allow the state to issue an additional $285.5 million in GO bonds for water pollution and stormwater control. Officials indicate that the state has no near-term debt plans.

Outlook

The stable outlook reflects our expectation that Missouri will continue to maintain strong reserves and that its financial management will remain good, as evidenced by the recent early and decisive budgetary cuts made to offset a sluggish economic recovery. The outlook also reflects the state's diverse economy, anchored by the St. Louis and Kansas City metropolitan statistical areas. Downside risk for the rating includes our view of the potential for significant reductions in federal funding that currently flows to the state. Standard & Poor's will continue to monitor the federal consolidation efforts stemming from the Budget Control Act and, once these are identified, will evaluate their effect on the state's finances and officials' response to these revenue reductions.

Government Framework

Missouri's constitution requires the state to approve balanced budgets each fiscal year. The constitution also requires the state to stay in balance throughout the year. To help manage the state's budget and maintain minimum fund balances despite revenue drops, the administration commissioner is empowered by statute to prioritize payments in the event that appropriations are in excess of available revenues. If the governor's office and commissioner determine that there is an impending budgeted shortfall for the current budget, based on the monthly financial reports, the governor can use his rescission authority to hold back on various budget expenditures to maintain the budget in balance. Debt payments have first priority and cannot be pro-rated. To further protect bondholders, state statute gives GO debt service a first charge on all state revenues.

The state has limited revenue-raising ability; it can only raise its income and sales tax rates by a limited amount without voter approval. The current level of allowable increase is currently about $80 million. Voter approval is also required to approve most new revenues, and in recent years, Missouri has not taken such action. The governor can use his budgetary rescission to maintain budgetary balance, and has used this authority in recent years.

We have assigned a score of '1.3' out of '4.0' to Missouri's government framework, where '1.0' is the strongest score and '4.0' the weakest.

Financial Management

The state's financial management practices and policies are considered to be "good" under Standard & Poor's FMA methodology. An FMA score of "good" indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Missouri performs detailed research for revenue and expenditure growth trends for the current-year budget and conducts a forecast for two additional years. It performs current-year budget reconciliations monthly and reports them to the legislature. The state passes supplemental budgets annually to cover appropriation shortfalls. In addition, the governor is required by the state constitution to withhold and rescind spending to maintain expenditures within actual revenues and maintain the budget reserve fund at 7.5% of the prior year's general revenue collections. The state has a six-year capital plan, which it updates biennially. Investment policies are comprehensive and the state treasurer reviews them monthly; holdings are updated monthly and made available to the public. Missouri recently formalized its debt management policies.

We have assigned a score of '1.5' to the state's financial management, where '1.0' is the strongest score and '4.0' the weakest.

Economy

IHS Global Insight Inc. indicates that Missouri's employment in the first quarter of 2013 was flat compared with the fourth quarter of 2012. While there were gains in sectors such as leisure and hospitality, education and healthcare, and construction, these were offset by declines in professional and business services, retail and wholesale trade, and government. Weather has dampened transportation employment in the state, with last year's drought and this year's flooding reducing shipping on the Mississippi River. Compared with a year earlier, the state's economy added 14,000 jobs. At the end of March, total employment was 35,000 higher than during the trough of the Great Recession, but still 121,000 below the pre-recession peak.

IHS projects that Missouri's economic recovery through 2017 will be slightly weaker than the national average. The firm projects that the leading sectors for employment growth will be professional and business services, education and health care, and manufacturing. Food manufacturing is the state's largest subsector, and accounts for 16% of manufacturing jobs, with the state hosting major operations for multiple food processing firms. Transportation equipment manufacturing accounts for an additional 14% of manufacturing jobs, including automobile manufacturing, which has been declining. Economic stability is provided from the state being the headquarters location for 10 Fortune 500 firms. IHS believes that below-average population growth in the next 10 years will limit the state's economic growth during that period.

We have assigned a score of '2.1' to the economy, where '1.0' is the strongest score and '4.0' the weakest.

Budgetary Performance

Missouri's annual budgets are based on revenue projections from a consensus forecasting process that includes the governor, the house, the senate, and a representative from the University of Missouri; outside economic consultants are normally used in the process. The forecasts are updated in December. State law requires that the budget be balanced and the governor is required to make budget cuts during the fiscal year to preserve a balanced budget.

Missouri derives about 70% of its general revenue from income tax receipts and about 25% from sales and use tax collections. Article X of the Missouri Constitution limits the amount of taxes and fees that can be imposed by the General Assembly; the limit is tied to an increase in average personal income. If 1% or more of revenues in any given fiscal year exceeds the limit, the state must refund the excess amount to taxpayers. Missouri refunded a total of $979 million for fiscal years 1995-1999, but no refunds were due following the end of fiscal years 2000-2012.

Following an amendment to the Missouri Constitution approved by voter referendum in November 2000, Missouri's budget stabilization and operating reserve funds were combined into a single budget reserve fund beginning in fiscal 2001. The fund must be maintained at a level equal to 7.5% of the previous year's net general revenue collections and cannot be spent, except with the governor's declaration of an emergency and a two-thirds vote by the legislature. The state has tapped the budget stabilization fund only once, following massive flooding in the state along the Mississippi and Missouri rivers in 1993.

The state ended with about $1.3 billion in unrestricted cash and investments in its general fund at fiscal year-end 2012. Missouri's budget reserve fund is available for intrayear cash flow borrowing, which must be repaid by mid-May. The state therefore does not borrow externally for cash flow purposes. Officials monitor cash flow monthly.

In fiscal 2012, the budget reserve fund ended the year fully funded, at $498 million or 7.5% of the previous year's net general revenue collections, as required by the Missouri Constitution, in addition to the unassigned general fund balance of $196 million.

Fiscal 2014 budget

The consensus revenue forecast for fiscal 2014 projected 3.1% net general revenue growth to $7.93 billion, which resulted in zero structural gap for the executive budget to close. The largest components of the fiscal 2014 projection are: individual income tax (68% of total), to increase by 4.7% from the fiscal 2013 projection; and sales and use tax (24% of total), to increase by 2.3%. However, fiscal 2013 revenues are currently ahead of schedule, and due to these strong revenue trends, the governor recently directed the release of $29.6 million of fiscal 2013 funds for education and other areas that had been restricted. In addition, officials are preparing a governor's amendment to the executive budget that would include some one-time expenditures in state parks and other areas if the positive revenue trends continue.

The budget proposes a $66 million increase in the K-12 education foundation formula and $34 million for state colleges and universities if they achieve certain performance measures. However, the governor's budget proposal assumes $47 million of net savings -- through a combination of impacts such as additional federal coverage for services currently provided by the state and increased income tax collections -- due to Medicaid expansion under the Affordable Care Act, and many legislators oppose this expansion. The budget would therefore need to be adjusted if Medicaid expansion was not included, and the state constitution requires that the budget must be enacted by May 10.

Medicaid And Sequestration

The state currently covers eligible adults only up to 19% of the federal poverty limit, and while the governor has proposed expanding coverage up to 138% of the poverty limit under the federal Affordable Care Act (ACA), many in the legislature oppose this expansion. The state's Medicaid caseload in fiscal 2012 was about 894,000 enrollees, and although it was projected to increase in fiscal 2013, that projection was revised downward to 879,100. The fiscal 2014 budget projects a slight increase to 883,650. Due to the low coverage limit for adults, the "woodwork effect" from the enrollment of currently eligible people is limited mostly to children, and officials estimate that about 35,000 people, mainly children, will be driven to enroll by ACA.

The state projects that the major impact from federal sequestration will be on its career centers and on its mental health block grants; however, officials indicate that the state does not plan to backfill for lost federal revenues in any area.

We have assigned a score of '1.3' to the state's budget performance, where '1.0' is the strongest score and '4.0' the weakest.

Debt And Liability Profile

Missouri is constitutionally prohibited from issuing GO bonds without voter approval, except for refunding bonds and emergency issues up to $1 million. Consequently, revenue bonds and annual appropriation bonds are important components of capital financing strategy. Missouri had about $836 million in appropriation bonds and other lease obligations as of June 30, 2012. In addition, the state had about $433 million of GO debt and $3.07 billion of gas tax and motor vehicle registration fee-backed bonds issued by the Missouri Highways and Transportation Commission. Including GO, lease-backed, and gas tax highway bonds, Missouri's debt burden is, in our view, moderate at about $800 per capita and about 2% of personal income. Existing authorizations allow the state to issue an additional $285.5 million in GO bonds for water pollution and stormwater control. At this time, it is our understanding that the state does not have any near-term debt plans or variable-rate debt.

Missouri has two major pension systems that substantially cover all state employees, the Missouri State Employees' Retirement System (MOSERS) (which includes the Missouri state employees plan and the judicial plan) and Missouri Department of Transportation and Highway Patrol Employees' Retirement System. The combined unfunded actuarial accrued liability (UAAL) for these plans increased to $4.98 billion as of June 30, 2012 from $4.27 billion in 2011, and the funded level decreased to 65.7%. The UAAL was $830 per capita and 2.2% of total state personal income, which we view as above average. The state makes 100% of its annual required contribution (ARC) for these plans. In addition to these plans, there are statewide plans for education employees and the university system, although those programs are funded by the local employers, not the state. The combined UAAL for all of these systems is significantly higher, at $12.5 billion. The funding for the teacher pension system, which has the largest UAAL, is equal to 100% of a statutory formula, but less than the ARC.

The state made some pension changes for new employees that took effect on Jan. 1, 2011 -- including increasing the employee contribution rate to 4% from 0% and the retirement age to 65 from 62 -- which was projected to reduce expenditures by $400 million over 10 years. In addition, the MOSERS board will evaluate potential changes to demographic assumptions at future meetings, based on an experience study presented to the board on March 13, 2012.

Missouri's other postretirement employee benefits (OPEB) are provided by three funds. The UAAL for Missouri's OPEB was estimated at $2.79 billion at the end of fiscal 2012, or about $465 per capita, up from a $2.56 billion UAAL at the end of fiscal 2011. The state has $84 million of assets in one of the funds, which provides for an overall funded ratio of 2.9% for the three funds. The actual contributions in fiscal 2012 were equal to 41% of the actuarially determined annual OPEB costs during the year.

We have assigned a score of '1.9' to the state's debt and liability profile, where '1.0' is the strongest score and '4.0' the weakest.

Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Ratings Detail (As Of May 7, 2013)		
Missouri rfdg cert of part ser 2011A due 10/01/2018		
Long Term Rating	AA+/Stable	Affirmed
Missouri Brd of Fd Commr, Missouri		
Missouri		
Missouri Brd of Fd Commr (Missouri) st wtr poll control GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Missouri Brd of Pub Bldg, Missouri		
Missouri		
Missouri Brd of Pub Bldg (Missouri) spl oblig		
Long Term Rating	AA+/Stable	Affirmed
Missouri Brd of Pub Bldg (Missouri) spl oblig rfdg bnds (Missouri) ser A 2011 due: 10/01/2028		
Long Term Rating	AA+/Stable	Affirmed
Missouri Brd of Pub Bldg (Missouri) GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Missouri Dev Fin Brd, Missouri		
Missouri		
Missouri Dev Fin Brd (Missouri) lsehold		
Long Term Rating	AA+/Stable	Affirmed
Missouri Dev Fin Brd (State of Missouri Office Bldg Projs) lse ser 2005		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Missouri Hlth & Educl Facs Auth, Missouri		
Missouri		
Missouri Hlth & Educl Facs Auth (Missouri) educl facs rfdg rev bnds (University of Missouri-Columbia Arena Project) ser 2011 due 10/01/2021		
Long Term Rating	AA+/Stable	Affirmed
St. Louis Regl Conv & Sports Complex Auth, Missouri		
Missouri		
St. Louis Regl Conv & Sports Complex Auth (Missouri) tax-exempt conv & sports fac proj & rfdg bnds ser A-1 2003 dtd 08/01/2003 due 08/15/2007-2021		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.