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Dear Members of the Missouri General Assembly:

I am writing to bring to your immediate attention the findings published last week by the three leading independent credit rating agencies regarding the potential impact of House Bill 253 on Missouri's credit rating. The findings demonstrate that House Bill 253 could seriously jeopardize our state's fiscal health and our long-standing AAA credit rating if it were to become law.

We have worked together over the past four and a half years to control government spending and balance budgets to ensure that Missouri remains one of the few states in the nation with a perfect AAA credit rating from the leading independent rating agencies – Standard & Poor's, Fitch and Moody's. The rating agencies utilize their financial expertise to evaluate credit risk and assign a credit rating to businesses, governments, and non-profit organizations that issue bonds or other debt obligations. The credit rating assigned by the rating agencies measures the credit-worthiness of the institution. A lower credit rating results in higher interest rates, signifying a higher-risk investment. By contrast, a higher credit rating – such as a perfect AAA rating – results in a lower interest rate because the institution is more creditworthy and therefore the investment has less risk.

Since 1989, Missouri has maintained the highest AAA rating from all three of the leading independent credit rating agencies. This spotless AAA credit rating is a key selling point for Missouri as a location for investment and expansion, demonstrating to businesses and investors around the world that Missouri has a stable, predictable business climate and is a safe place to invest and grow. Our outstanding credit rating also translates into real savings for taxpayers. Last year alone the state was able to save $72 million by refinancing outstanding debt at a lower interest rate. Missouri's perfect credit rating makes similar savings possible for local school districts, cities and counties, fire and ambulance districts, and colleges and universities that issue bonds to finance significant projects by helping to reduce borrowing costs through lower interest rates.

Less than three months ago and before House Bill 253 had reached my desk, all three of the leading independent rating agencies confirmed Missouri's AAA credit rating. In doing so, the agencies pointed to our prudent fiscal management, including the constitutional authority of the Governor to restrict funding to maintain a balanced budget, as well as our low debt burden and history of conservative financial operations. That is why the findings issued by the rating agencies last week in connection with the previously scheduled refinancing of State appropriation-backed bonds are so troubling. These findings mark a significant departure from the positive view of Missouri's fiscal stability previously offered by the rating agencies and provide further evidence that House Bill 253 could imperil our long-standing AAA credit rating if it were to become law. The rating agencies' full reports can be found at www.mo.gov.

In its July 24, 2013 report, Standard & Poor's acknowledged the negative impact House Bill 253 could have on the state's finances and the downward pressure it could put on the state's credit rating (emphases added):

> *We believe that recent legislation, known as House Bill 253, could potentially have a significantly negative impact on the state's finances under certain circumstances.* *The bill was approved by the legislature and vetoed by the governor on June 5, 2013, but the legislature may attempt to override the veto at a Sept. 11, 2013 session; the vote in the Senate was by a veto-proof majority while the House vote was slightly below a veto-proof majority. Although the legislation would gradually reduce the state's income tax rate over a 10-year period, we believe that a mechanism in the legislation would have a much more significant and accelerated impact on the state's finances if certain federal legislation is passed. The bill would gradually reduce the personal income tax rate by a total of 0.5 percentage points over a 10-year period and reduce the corporate income tax rate from 6.25% to 3.25% over the period. However, the bill contains a provision that if the federal Marketplace Fairness Act of 2013, or similar uniform sales tax collection legislation, becomes federal law, income tax rates will automatically be decreased by 0.5 percentage points in the same year as the federal legislation was enacted. A separate provision in the current state statute allows for refunds for up to the three previous years. Officials' analysis of the fiscal impact of House Bill 253 indicates a maximum first-year general revenue loss of $1.2 billion if the federal uniform sales tax legislation was enacted, in part due to assumed refunds for previous years along with a lag in collecting the additional sales tax. After the first year impact, the continuing annual lost general revenue from this bill is projected to be $465 million in the second year, with the losses increasing in the out years. The projected potential loss, especially in the first year of this scenario, is significant when compared with the total amount of general revenue spending, which is $8.47 billion in the fiscal 2014 budget.*
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> *We believe that if the Missouri legislature overrides the governor's veto and enacts the legislation, and the federal government passes the Marketplace Fairness Act, it has the potential to result in a significant financial impact to the state, despite requirements for the maintenance of a balanced budget.* *In response to the potential revenue reductions, the governor has implemented $400 million of spending reductions for fiscal 2014. In addition, officials indicate that fiscal 2014 began with an unbudgeted and available surplus of $272 million that is available for expenditures. However, the total of these two sources would fall short of the estimated revenue loss.*
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Downside risk for the rating includes our view of the potential impact of pending state legislation (House Bill 253) on the state's financial profile. If the legislation were to be enacted in the state, and federal uniform sales tax legislation were also to be approved, we believe there could be negative pressure on the state if officials did not make adequate budget adjustments, which could be very large for a single year, and therefore politically difficult.

In its July 18, 2013 report, Fitch Ratings specifically noted that House Bill 253 would be taken into account in evaluating Missouri's credit rating if my veto was overridden (emphasis added):

Missouri's governor vetoed HB 253 and the legislature reconvenes in September to consider an override vote. If the veto is overridden, Fitch will evaluate the credit effect of enacted tax law changes.

Finally, in its July 22, 2013 report, Moody's acknowledged my action in restricting $400 million to ensure a balanced budget in the event that House Bill 253 became law:

The governor has frozen approximately $216 million of operating appropriations and $184 million of capital spending to improve budget balance in case his veto of the legislature's tax cut (HB 253) gets overturned in September. A provision of HB 253 would have retroactively enacted an income tax cut if Congress enacts the federal marketplace fairness act.

As the above statements demonstrate, the rating agencies share the concerns being expressed by many of our fellow Missourians regarding House Bill 253, and, as such, will make the bill part of their evaluation of the State's fiscal health in the future. If this results in a downgrade of our AAA credit rating, one of our key assets for attracting jobs and investment to the Show-Me-State would be undermined, sending a signal to businesses and investors that Missouri has abandoned its long-standing commitment to fiscal discipline.

I have detailed elsewhere the direct impacts House Bill 253 would have on our ability to fund education and vital public services. A downgrade in our credit rating would only exacerbate these negative impacts by increasing borrowing costs for school districts, local governments and colleges and universities. Higher borrowing costs would mean more tax dollars spent on interest charges, rather than on building new classrooms or upgrading fire stations.

Some have argued that House Bill 253 would make Missouri more like Kansas. From the findings of the rating agencies, I believe that they may be right in at least one respect – if House Bill 253 became law, Missouri could join Kansas in becoming a state without a perfect AAA credit rating from all three independent rating agencies. In addition, just last month, Moody's downgraded the credit rating of nearly $200 million of Kansas's outstanding debt, specifically citing the decline in state revenue stemming from Kansas's recent income tax cuts without an offsetting revenue source. Such downgrades, while not uncommon in other states, could become a real possibility here in Missouri with House Bill 253.

In Missouri, governors and legislatures have worked together for decades to manage the state budget in a fiscally responsible way so as to ensure that Missouri is a safe place to grow and invest. I strongly urge you to consider the impact House Bill 253 could have on our long-standing AAA credit rating and the shared commitment to fiscal discipline this perfect credit rating represents.

Sincerely,

Jeremiah W. (Jay) Nixon
Governor