MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Missouri's Convention and Sports Facility Project and Refunding Bonds, Ser. A 2013

Global Credit Research - 22 Jul 2013

$753 million of appropriation backed debt outstanding

ST. LOUIS REGIONAL CONVENTION & SPORTS COMPLEX AUTHORITY, MO
State Governments (including Puerto Rico and US Territories)
MO

Moody's Rating

ISSUE		RATING
Convention and Sports Facility Project and Refunding Bonds Series A 2013		Aa2
Sale Amount	$65,500,000	
Expected Sale Date	07/31/13	
Rating Description	Lease Rental: Appropriation	

Moody's Outlook

Opinion

NEW YORK, July 22, 2013 --Moody's Investors Service has assigned a Aa2 rating to the State of Missouri's $65.5 million of Convention and Sports Facility Project and Refunding Bonds, Series A 2013 to be issued through the Regional Convention and Sports Complex Authority. Proceeds of the bonds will refund all outstanding state debt related to the project for estimated net present value savings with no extension of maturities. The outlook is stable.

SUMMARY RATING RATIONALE

The bonds are payable solely from anticipated payments to be made by the State of Missouri (G.O. Aaa) from its general fund, pursuant to a financing agreement between the Regional Convention and Sports Complex Authority and the State of Missouri, St. Louis County (G.O. Aaa) and the City of St. Louis (G.O. Aa3). The Aa2 rating is two notches off the state's general obligation bond rating of Aaa, reflecting the need for annual legislative appropriation of the financing agreement payments and the relatively less-essential nature of the stadium project (the St. Louis Edward Jones Dome). In the event of non-appropriation by any sponsor, the trustee shall, upon request of at least 25% of bondholders, direct the Authority to terminate the use of the project for convention and football purposes. In addition, almost 17% of Missouri's net tax-supported debt is subject to appropriation, therefore the importance of maintaining access to the capital markets provides strong incentive for the state to make these appropriations.

The state's Aaa G.O. rating is based on its history of excellent financial performance and sound reserve levels, strong fiscal management controls, and the state's moderate debt burden. The Aaa rating also incorporates the expectation that economic recovery will continue to lag the U.S.

STRENGTHS

-- Constitution provides strong executive powers to respond to revenue shortfalls, including the ability to reduce spending to below appropriated levels

-- Budget reserve fund provides state with short-term liquidity without need for external borrowing

-- Conservative fiscal policies have led to healthy GAAP fund balances despite recent reductions

-- Moderate debt ratios

CHALLENGES

-- Hancock Amendment limits the state's ability to increase revenues and requires taxpayer rebates when revenue growth exceeds personal income growth

-- Economic recovery has lagged the U.S. and vulnerability to job losses in the manufacturing sector could further impede the state's economic growth

-- Need for annual appropriation of lease payments, and for annual renewal of lease backing current issue

DETAILED CREDIT DISCUSSION

STADIUM DISPUTE COULD ALLOW 2016 TERMINATION OF NFL LEASE

The lease agreement between the stadium operator, the St. Louis Convention and Visitors Commission (CVC), and the NFL Football team, the Rams, requires that the stadium meet a "First Tier" standard on March 1, 2015. The standard generally requires the quality of the stadium and certain, defined components be among the top 25% of NFL football stadia. The CVC and the Rams disagree on what improvements are necessary to bring the stadium to a First Tier standard on March 1, 2015, and took the matter to an arbitration panel. In February 2013, the arbitration panel found in favor of the Rams. In July 2013, the CVC announced it would not commence the improvements requested by the Rams. According to the terms of their lease, if the stadium is not First Tier on March 1, 2015, the Rams will have the option to convert their lease to renewable, annual terms, and could subsequently terminate the lease and vacate the stadium on February 28, 2016. The two notch distinction between these bonds (Aa2) and the state's G.O. rating (Aaa) incorporates the relatively less-essential nature of stadium projects. The rating also balances the current dispute with the state's demonstrated commitment to appropriating for this debt service, the developing negotiations over stadium improvements, the long lead time of the potential lease termination in 2016, and the Rams' limited revenue contribution to stadium operations. CVC revenue is primarily generated through non-football events held at the stadium and conference center.

STATE'S OBLIGATION TO PAY STADIUM DEBT SERVICE IS SUBJECT ONLY TO APPROPRIATION

The refunding bonds are being issued under a 1991 project financing, construction, and operation agreement between the Regional Convention and Sports Complex Authority and the State of Missouri, St. Louis County (G.O. Aaa) and the City of St. Louis (G.O. Aa3). The current bonds are ultimately secured by the state's absolute and unconditional payment obligation, however the Aa2 rating reflects the need for annual legislative appropriation of the rental payments and is notched off of the state's general obligation bond rating of Aaa.. The refunded bonds were one of three series issued by the authority to finance the construction of the convention and sports facility, including a 66,000-seat indoor football stadium and an executive conference center, to serve as an expansion to the Cervantes Convention Center in downtown St. Louis (together, the America Center). The three series of bonds were separately payable from lease payments subject to annual appropriation, to be made by the respective sponsors: the State of Missouri (Series A), St. Louis County (Series B) and the City of St. Louis (Series C).

The authority is a public instrumentality of the State of Missouri, established by statute to finance, purchase construct, operate and maintain stadiums, convention centers and other entertainment facilities. The authority is governed by 11 commissioners appointed by the St. Louis mayor (three), the county executive (three), and the Missouri governor (five). The Authority was responsible for building the project and continues to provide capital improvements, although the CVC maintains, operates and manages the facility under a thirty-year lease with the Authority.

Pursuant to the financing agreement, the state covenants to include in the Office of Administration's appropriation request to the legislature sufficient amounts to cover the following year's debt service. The financing agreement requires payments be made on February 1 and August 1, 15 days in advance of debt service, and timed to mitigate risk of default caused by late budget adoption. Under the trust indenture, the authority assigns and pledges any revenue it would receive under the financing agreement to the bond trustee, for payment on the bonds.

In the event of non-appropriation by any sponsor, the trustee shall, upon request of at least 25% of bondholders, direct the Authority to terminate the use of the project for convention and football purposes. There is no debt-service reserve fund associated with this issue. Despite all three appropriations being covered by the same financing agreement, the bonds are not joint-severally liable, and a failure of any one entity to appropriate would not affect bonds secured by a separate sponsor. However, a sponsor's failure to appropriate would reduce funding for ongoing capital maintenance, and over the long run, reduce the essentiality of the project. The state's appropriation incentive is enhanced by the approximately $753 million of debt subject to appropriation, compared to $378 million of general obligation debt, and the importance of maintaining access to the capital markets.

FISCAL 2014 BUDGET BALANCED WITH CONSERVATIVE REVENUE ASSUMPTIONS AND OPERATING EFFICIENCIES

The $8.3 billion proposed fiscal 2014 general revenue fund operating budget increases 3.4% over the prior year, reflecting growth in pension contributions, K-12 funding, Medicaid spending, and debt service. 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. The freeze was generally applied as a 4% hold across all departments, however certain priority services were exempted and most new or increased spending areas are 100% frozen. The state conservatively maintained the consensus revenue estimates set in January despite continued growth in the second half of the fiscal year. As a result, the fiscal 2014 budget assumes total state source revenues of $7.9 billion, 2.2% less than the $8.08 million collected in fiscal 2013. This will provide some cushion against any potential declines in fiscal 2014 individual income taxes after the fiscal 2013 boost from income accelerated into 2012. If revenue performance continues, the consensus estimate could be revised in December.

The budget does not include Medicaid expansion under the Affordable Care Act or a potential "woodwork effect", which was estimated at 35,000 potential new participants in the governor's proposed budget. The state expects any woodwork effect will be absorbed into their conservative budget estimates for Medicaid caseload. The state currently receives a 62% match rate from the Federal government for Medicaid expenditures. The budget is also balanced with savings from continued efficiencies and staff cuts, as well as $8 million of one-time, upfront savings from the current refunding. Modest increases in pension contributions will remain a key budgetary pressure over the next two fiscal years, but will be successfully balanced if revenue growth remains steady. Missouri statute also authorizes the Governor to reserve 3% of appropriations each year.

FINANCIAL POSITION REMAINS SOUND DESPITE RECESSION-DRIVEN DECLINES IN RESERVES

Despite declining reserves over the past three fiscal years, Missouri's financial position remains sound, and will show modest improvement over the next two fiscal years. Fiscal 2013 revenue growth of 10.1% exceeded the state's revised consensus estimate of 4.8% growth. Estimated revenue growth was revised up in December 2012 from the original budget estimate of 3.9%. The higher-than-projected revenue growth is primarily driven by gross income taxes, which grew 9.0% year-over-year compared to 4.4% in the revised consensus estimate. In addition, income tax refunds are down 5.5% compared to last year. Sales tax growth was below projections, at 1.3% compared to 2% in the revised estimate. General Revenue Fund appropriations were in line with budget, and fiscal 2013 ending cash balances increased to approximately $447 million (5.5% of receipts) from $205 million (2.6% of receipts) at the beginning of year. The state has budgeted to use $125 million of these cash balances for capital projects in fiscal 2014, although actual spending will occur over several years. The Budget Reserve Fund will be increased slightly to remain fully funded at approximately $554 million (7.5% of net collections). Alternate available liquidity remains strong at nearly $2.2 billion.

Fiscal 2012 available GAAP balances declined to a sound $695 million (7.2% of revenues) from $832 million (8.9% of revenues) in fiscal 2011. Available balances include unassigned fund balances in the general fund, public education fund, and debt service fund, plus the budget reserve fund. Although available fund balance has declined from a high of 22.3% in fiscal 2008, it remains in line with peer medians. Notably, the state did not draw on its budget reserve fund during the recession and recovery.

ECONOMIC RECOVERY EXPECTED TO LAG THE NATION

Missouri entered and exited the recession later than the U.S. and has seen slower recovery in job growth. Missouri's personal income growth has also lagged the nation slightly, and in 2012 increased by 3.0%, below the 3.5% national level. On a per-capita basis, however, Missouri has been very consistent relative to the U.S. and was at 91% of the national level in 2012. Population growth is slightly below U.S. levels, increasing 2.3% between 2007 and 2012 compared to 4.2% nationally.

The state's year-over-year monthly job growth lagged since the recession, with jobs growing 0.5% in the 12 months ending March 2013 compared to 1.3% for the U.S. However, recent job growth trends have picked up, and June figures reflected 1.68% year-over-year growth in Missouri, compared to 1.72% for the U.S. In addition, Missouri's unemployment rate has tracked comfortably below the U.S. rate since mid-2009, reversing a trend of being above average in the prior five years. The state's unemployment rate was 6.9% in June 2013 compared to

7.6% for the U.S.

Recent job growth has been driven by professional and business services (5.9% year-over-year ending December 2012), and education and health services (2.6%), which comprise 12.5% and 15.7% of employment, respectively. Recent manufacturing job growth has reversed to a slight 0.4% year-over-year decline in December, however Moody's Analytics projects this sector will recover in line with the nation starting in early 2014. The state's economy has diversified, and the state is home to firms such as Edward Jones, AT&T, Boeing, and several large university and health systems. The state also has a sizeable defense and defense contracting industry, which may be negatively impacted by federal spending cuts. Moody's Analytics expects that the state's high industrial diversity, low cost of doing business and a central location will be challenged by exposure to manufacturing and weak demographic trends, resulting in economic growth that will lag the nation.

STATE'S LOW DEBT LEVELS A STRONG POINT

Missouri's judicious approach to debt reflects both the state's tradition of conservative financial management and constitutional limits on debt issuance. The state's debt ratios consistently are well below the 50-state medians, although they rose in recent years following increased issuance by the Missouri Highways and Transportation Commission of bonds backed by motor fuels and motor vehicle sales taxes. The state has chosen to fund a greater share of projects on a pay-as-you-go basis rather than issue debt, and further approaches capital budgeting conservatively: when debt is used, the state fully appropriates for a project's cost in the year debt is issued and carries the unspent amounts of that appropriation forward into future years until fully paid down.

On a per-capita basis, Missouri's $741 of net tax-supported debt ranks 37th compared to the median level of $1,117. Net tax-supported debt as a percentage of personal income is 2.0% in Missouri compared to the U.S. median of 2.8%, ranking 35th.

RETIREMENT SYSTEMS ARE FUNDED ADEQUATELY, REMAIN AFFORDABLE, OPEB VALUATION REFLECTS MODERATE LIABILITY

Although the state's two retirement systems, operated by the Missouri State Employees' Retirement System (MOSERS), have declined to an as-reported funded ratio of about 71% as of June 30, 2012 from a high of 94% in 2001, it is supported by the state's practice of making 100% of its ARC every year. Based on the state's fiscal 2011 pension data, we have calculated that the adjusted net pension liability (ANPL) for the largest plan (MSEP) was 27.7% of revenues. The 50-state median ANPL to revenues is 45.1%, and Missouri ranks 36th in this ratio. Another measure of pension burden is the state's annual amortization amount, as calculated under our adjustments, over a 20-year period. As a share of revenues, Missouri's annual pension amortization amount is 2.2% (rank of 36th), compared with a 50-state median of 3.6%. Our adjustments to reported state pension data include the common 20-year amortization period, as well as an assumed 13-year duration of plan liabilities and a market-based discount rate to value the liabilities, rather than the long-term investment return used in reported figures. Our adjusted liability amounts currently exclude the state's smallest plan, the Judicial retirement system (HPRS), which reported a small unfunded liability of $311 million as of June 30, 2012.

Effective fiscal 2011, the state adopted legislation that increases new employees' pension contributions to 4% from 0% and increases the retirement age. The state estimates that this reform will provide $78 million of annual savings by fiscal 2020, and $400 million of savings over the next eight years.

The state's unfunded liability for other post-employment benefits (OPEB) provided through three programs is estimated at $2.8 billion as of June 30, 2012, which would require an annual required contribution (ARC) of $219 million or about 2.3% of revenue. In fiscal 2012, the state's combined pay-go contribution was $89 million.

EXECUTIVE CONTROL OVER APPROPRIATED FUNDS IS CENTRAL TO STATE'S STRONG FISCAL MANAGEMENT

Missouri's historically conservative financial practices reflect in part the executive's ability to control allotment of appropriated funds during the course of the fiscal year. This power is a particularly strong one that provides the state with an agile means to react to budget shortfalls. Forty percent of appropriations are allotted in the fiscal year's first quarter, with 20% allotted in each succeeding quarter, providing the state with a controlled pattern of expenditure within available revenues. If actual collections fall below the budgeted revenue estimates, the governor may limit expenditures to amounts below the appropriated amounts. The governor also has line-item veto authority, except over appropriations for public debt and public education.

Outlook

The outlook for the State of Missouri is stable, reflecting the state's history of sizeable available balances, strong financial management practices, and moderate debt and pension ratios. The stable outlook also reflects the expectation that the state's economic performance will lag the U.S.

WHAT COULD MAKE THE RATING GO DOWN

-- Inability to address potential declines in existing tax revenue or spending pressure, under inflexible mandates of the state's Hancock amendment.

-- Increased pressure from education, Medicaid or other large category of state spending that strains budgets.

-- Economic weakening that negatively affects state revenue collections

-- Downgrade of the US government

The principal methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Baye Larsen
Lead Analyst
Public Finance Group
Moody's Investors Service

Marcia Van Wagner
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

 All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS,