FitchRatings

FITCH RATES MISSOURI BOARD OF PUBLIC BLDG'S SPECIAL OBS 'AA+'; AFFIRMS GOS AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-01 September 2011: Fitch Ratings assigns an 'AA+' rating to the following state of Missouri Board of Public Buildings (the board) bonds:

--$142.6 million special obligation refunding bonds, series A 2011.

In addition, Fitch affirms the following ratings:

--$487.1 million outstanding general obligation (GO) bonds at 'AAA';
--$76.9 million certificates of participation, series A 2011 refunding at 'AA+';
--$569.2 million Board special obligation and state building bonds at 'AA+';
--$33.9 million Missouri Development Finance Board leasehold revenue bonds at 'AA+';
--$24.5 million Missouri Health and Educational Facilities Authority (University of Missouri-Columbia Arena Project) educational facilities revenue bonds at 'AA+';
--$82.5 million Regional Convention & Sports Complex Authority state appropriation bonds at 'AA'.

The Rating Outlook is Stable.

The bonds are expected to be offered via competition on Sept. 13, 2011.

KEY RATING DRIVERS

--The 'AA+' rating on the board's special obligation refunding bonds, one notch below the state GO rating of 'AAA', reflects the requirement of annual appropriations for debt service.

--The state, acting through its Office of Administration, covenants to request annually an appropriation from the Missouri legislature to fund rental payments sufficient to pay debt service on the certificates. Abatement is not permitted.

--The state's debt burden remains at the low end of the moderate range, although net tax-supported debt ratios have increased slightly due to issuance for transportation needs.

--Missouri has a long record of conservative operations and has consistently displayed a willingness and ability to support fiscal balance. The state's financial flexibility and liquidity position remain healthy, supported by the budget reserve fund (BRF);

--The state's economy is broad and diverse, with a profile and sector distribution similar to the nation.

SECURITY

The special obligation refunding bonds are special obligations of the board payable from net income and revenues which consists primarily of general assembly appropriations.

CREDIT PROFILE

The 'AA+' rating on the special obligation bonds, one notch below the state GO rating of 'AAA', reflects the requirement of annual appropriations for debt service. The bonds are special obligations of the board, payable from net income and revenues pledged by the board, which consist primarily of monies appropriated by the general assembly. Certain income derived from the projects financed in 2001 is also included among pledged revenues. The state, through its Office of Administration, covenants to request annually an appropriation from the Missouri legislature to fund rental payments sufficient to pay debt service.

The board consists of the governor, lieutenant governor, and the attorney general; each project funded by it is specifically approved by the legislature. Bond proceeds will be used to refinance certain outstanding special obligation bonds of the board issued for various state purposes. The bonds are not secured by a lien on the initially financed projects. The state has a historical record of timely budget adoption.

Missouri's 'AAA' GO rating reflects conservative financial operations, a debt burden at the lower end of the moderate range, and a broad and diverse economy. The state has a long history of maintaining fiscal balance through spending restraint. The budget must be balanced, and the governor has constitutional authority to withhold funds to achieve balance. Additional financial flexibility is provided by a budget reserve fund (BRF) equal to 7.5% of net general revenues, which currently totals $495 million.

State revenues were negatively affected in the recession, and the state consistently acted to maintain balance. Net general revenues for fiscal 2009, initially forecast to rise 3.4%, underperformed as the recession deepened over the course of the year. Final fiscal 2009 net general revenues were 6.9% below fiscal 2008. The governor implemented several rounds of spending cuts, totaling $480 million, to maintain budgetary balance. The revenue forecast for fiscal 2010 initially assumed a 1% increase in net general revenue. The revenue outlook was subsequently revised downward on several occasions, with action taken to lower planned spending accordingly. Actual revenues in fiscal 2010 declined by 9.1%, with individual income and sales taxes down 9.1% and 4.5% from the prior year, respectively. The BRF balance at the close of the fiscal year was $527 million.

Initial revenue projections for fiscal 2011, made in January 2010, forecast revenue growth of 3.6%. The enacted fiscal 2011 budget, totaling $7.9 billion, included significant spending cuts, consolidations and efficiency measures, and $859 million of stimulus funds. However, working revenue estimates were revised downward prior to the start of the fiscal year and the state restricted approximately $300 million in spending to maintain balance, $17.5 million of which was later released for K-12 transportation needs. At June 30, 2011, the state's ending cash balance totaled $379 million, a level higher than prior estimates given revenue overperformance and lapsed spending. Additionally, the BRF balance at the close of fiscal 2011 was $495 million.

The enacted budget for fiscal 2012, which began on July 1, was initially based upon expected revenue growth of 4% and was balanced through the continuance of the fiscal 2011 spending restrictions, level-funding of K-12 formula aid, the use of remaining stimulus funds, and a 7% reduction in higher education spending, among other measures. Given revenue overperformance in fiscal 2011, only 1.7% revenue growth is required to meet the fiscal 2012 revenue expectation. The BRF is maintained at the 7.5% funding level.

The state's economy is broad based, with a profile very similar to that of the nation. Although Missouri's economic growth lagged that of the U.S. between 2004 and 2007, the state fared better than the nation as it entered the recent recession. Employment losses in 2008 and 2009 were not as deep as those seen nationally, although the 2010 decline was more significant than that of the U.S. Employment in the state fell 1.4% in 2010, compared to a 0.8% decline nationwide, and year-over-year growth of 0.4% in July 2011 lagged national growth of 1% over the same period. On an annual basis from 2004 through 2010, the state's unemployment rate was greater than or equal to the U.S. rate; however, as of July 2011, Missouri's unemployment rate equaled 96% of the national average, at 8.7%.

Growth in Missouri's personal income significantly exceeded the U.S. growth rate in 2008, and the state did not experience as steep a decline as the nation in 2009; the state's personal income declined by 1.4%, while the U.S. figure fell by 1.7%. However, state personal income growth of 2.2% in 2010 was 75% of that nationally for the same year, consistent with the state's the steeper employment losses. Measured by personal income per capita, Missouri ranks 32nd among the states, at 91% of the U.S. level.

The state's debt burden falls in the low end of the moderate range, with net tax-supported debt equal to 2.1% of 2010 personal income. The state's debt burden has increased in recent years as a result of borrowing for transportation needs; including bonds issued under voter-approved Amendment 3 and grant anticipation revenue vehicle (GARVEE) bonds. Approximately 71% of outstanding tax-supported debt has been issued for transportation purposes; GO bonds constitute only 11% of outstanding debt, with the remainder consisting of appropriation-supported issues. As of June 30, 2010, the funding ratio of the state's largest pension system was 80.4%. Using Fitch's more conservative 7% discount rate assumption rather than the system's 8.5%, the funded ratio as of the same period would be 69%. The state has consistently funded its actuarially required contributions to the system.

Contact:
Primary Analyst
Kenneth T. Weinstein
Senior Director
+1-212-908-0571
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889

Committee Chairperson
Marcy Block
Senior Director
+1-212-908-0239

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 15, 2011);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 15, 2011);
--'Enhancing the Analysis of U.S. State and Local Government Pension Obligations' (Feb. 17, 2011).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648897
Enhancing the Analysis of U.S. State and Local Government Pension Obligations
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=604785