

Missouri; Appropriations; General Obligation

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US\$96.005 mil water pollution cntl GO rfdg bnds ser 2010A due 12/01/2022		
<i>Long Term Rating</i>	AAA/Stable	New
US\$17.91 mil stormwater cntl GO rfdg bnds ser 2010A due 12/01/2022		
<i>Long Term Rating</i>	AAA/Stable	New
US\$10.72 mil 4th state bldg GO rfdg bnds ser 2010A due 12/01/2022		
<i>Long Term Rating</i>	AAA/Stable	New
Missouri GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Missouri Brd of Pub Bldg, Missouri		
Missouri		
Missouri Brd of Pub Bldg (Missouri) spl oblig		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Missouri's series 2010A state water pollution general obligation (GO) refunding bonds, 2010A stormwater control GO refunding bonds, and 2010A fourth state building GO refunding bonds. The rating reflects our assessment of the state's:

- Strong and diverse economic base;
- Good financial management (state law requires officials to make midyear budget cuts, as needed, to preserve balanced operations);
- Strong reserves in the form of a budget reserve fund that can only be accessed under certain circumstances; and
- Low debt burden.

The state's certificates of participation and leasehold revenue bonds are rated 'AA+', one notch below the state's GO bond rating, to reflect annual appropriation risk.

All three GO bond issues will mostly refund various outstanding debt of the state for interest cost savings. The state's GO pledge secures the debt.

The Missouri economy's greatest strength is its diversity, in our view, due in part to the state's location at the geographic center of the nation; this gives it an economic advantage in trade and manufacturing. The state's two major metropolitan areas -- St. Louis and Kansas City, where 55% of the state's population resides -- host a wide variety of employment opportunities across all income levels and provide the lion's share of the state's income. Missouri's population grew 9.3% in the 1990s to about 5.6 million in 2000, making the state the 18th most populous in the U.S. and the fifth most populous west of the Mississippi River. Population in 2010 is estimated at over 5.9 million. The state's income levels are just below the national average, with 2009 per capita effective buying income at 92% of the national level. The state's unemployment rate averaged 9.3% in 2009, which was on par with the national average. Through May 2010, the state's seasonally adjusted unemployment rate was at 9.3%.

The state believes that, despite the lingering effects of the national economic downturn, it is slowly starting to recover. State officials adopted the fiscal 2011 budget on time. It calls for \$23.3 billion in overall spending, which is down over 1%, or more than \$240 million, from fiscal 2010, when excluding money received from the American Reinvestment and Recovery Act (ARRA). Of the total fiscal 2010 budget, \$7.8 billion was for general revenue spending. For fiscal 2011, state officials are budgeting for slight increases in all major tax receipts from the previous year: 3.7% growth in individual income taxes, a 0.9% rise in sales taxes, and a 7.5% jump in corporate income taxes. Additionally, the state will use \$859 million, which is the remaining money from the ARRA, in fiscal 2011. The state is not assuming an extension of the Federal Medical Assistance Percentage funds as part of that total. The state used \$1.3 billion total of ARRA funds in fiscal 2010. Appropriations out of the general fund are budgeted to decrease more than 1% in fiscal 2011 from the previous fiscal year. The state cut funding across all programs but elementary and secondary education, which increased nearly \$170 million, or 6%, from fiscal 2010's general revenue appropriations. Approximately \$246 million of ARRA moneys will fund elementary and secondary education appropriations. The state reduced social service outlays by 4% from the previous year. Higher-education appropriations are budgeted to be funded at 95% of fiscal 2010 levels in exchange for state universities freezing tuition at fiscal 2009 totals. The state will maintain its constitutionally mandated budget reserve fund (rainy day fund) at 7.5% of fiscal 2010's net general revenue, which is budgeted at \$495 million.

Based on actual collections, the state's three leading revenue sources, individual income taxes, sales taxes, and corporate income taxes, declined 9.1%, 4.5%, and 19.6%, respectively, from fiscal 2009 due to the effects of the economic downturn. Missouri updates its forecast in December, and members of the consensus revenue estimate team review the forecasts monthly. As a result of the state revisions, the estimate was adjusted downward \$200 million for fiscal 2010. State law requires that the budget be balanced. As a result, state officials are required to make midyear budget cuts in order to preserve a balanced budget. In fiscal 2010, the state made approximately \$900 million in budget reductions to offset the decline in revenues. At fiscal year-end 2010, the budget reserve fund was fully funded, as required by the Missouri Constitution, at \$520 million. The dollar amount in the budget reserve fund decreased from the previous year due to a decline in general revenues.

For the state's last audited year, fiscal 2009, the state reported a \$640 million operating drawdown, which lowered the general fund balance to \$1.26 billion (8.8% of expenditures). Because fiscal 2009 was the first full year affected by the economic downturn, individual income taxes, sales taxes, and corporate income taxes were down 6.4%, 6.1%, and 22%, respectively, from fiscal 2008. The state's rainy day fund, which is part of the restricted general fund balance, was fully funded at its constitutionally mandated level of \$520.5 million, or 7.5% of 2009's net general revenue, at fiscal year-begin 2010.

The state's financial management practices and policies are considered to be "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. A FMA score of "good" indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

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. Including GO, lease-backed, and gas tax highway bonds, Missouri's debt burden is what we consider low at about \$950 per capita. In addition, the debt carrying charge has been low, about 1.2% to 2.0% of total governmental expenditures. Debt to personal income is low at 2.6%. We understand that the state has no additional plans for a new-money debt issuance at this time.

Outlook

The stable outlook reflects our expectation that Missouri will continue to maintain its high level of reserves and that its financial management will remain good, as evidenced by its early and decisive budgetary cuts to offset a projected decline in revenues. The outlook also reflects the state's diverse economy, anchored by the St. Louis and Kansas City metropolitan areas.

Economy

According to IHS Global Insight's June 2010 short-term forecast, Missouri's real gross state product, which is an inflation-adjusted measure of the goods and services produced within the state, will increase nearly 4% in 2010 from 2009. The state's real gross state product grew at an average annual rate of only 4% from 2003-2009, despite a slight decline in 2009 from 2008. IHS Global Insight estimates the state's five-year (2010-2014) average annual growth rate will be 4%.

Manufacturing continues to be an integral part of Missouri's economy, although this sector has declined steadily in the past two decades to 10% of the state's employment as of 2008. Other major employment sectors in the state include: trade/transportation/utilities (19% of the state's jobs), government (16%), education and health (14%), and professional services (12%). Missouri's leading employers include the state (63,000 employees, which includes full-time, part-time, and seasonal), Wal-Mart (40,000-42,500), University of Missouri (20,000-22,000), U.S. Post Office (17,500-20,000), Washington University (10,000-15,000), Boeing Corp. (10,000-12,500), Schnuck Markets (7,500-10,000), Barnes-Jewish Hospital (7,500-10,000), the U.S. Department of Defense (7,500-10,000), and the City of St. Louis (7,500-10,000). The state's unemployment average was 9.3% in 2009, which was on par with the national average. Through May 2010, the state's seasonally adjusted unemployment rate was 9.3%.

Finances

Missouri derives about 24% of its general revenue from sales and use tax collections and 65% from income tax receipts. 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. Due to the state's better-than-expected economic performance in the 1990s, Missouri refunded a total of \$979 million for fiscals 1995-1999. No refunds were due following the end of fiscals 2000-2009.

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.

Since the state is not authorized to issue tobacco settlement bonds, it continues to collect its share of annual payments from the 1998 tobacco settlement, which have totaled about \$150 million each year, and fund special health programs and life sciences research. The total is anticipated to drop to about \$130 million for the next few

years.

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 is updated biennially. Investment policies are comprehensive and are reviewed monthly by the state Treasurer; holdings are updated monthly and made available to the public. The state does not have formal, written guidelines for debt management at this time.

Debt

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 \$827 million in lease purchase bonds and certificates of participation as of June 30, 2010, including \$592 million issued by the Board of Public Buildings. In addition, at fiscal year-end 2010, the state had \$529 million of GO debt and more than \$3.3 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, low at about \$950 per capita. 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.

As it relates to the state's pension and other postretirement employee benefits (OPEB) obligation, the state has recently completed an actuarial evaluation on its OPEB liability. The state estimates its total OPEB obligation at \$2.7 billion and will establish a trust fund to pay the expected obligation. In regards to its pension obligations, Missouri has two major retirement systems, which substantially cover all state employees. The larger plan was funded (accrued assets/accrued liabilities) at 83% at fiscal year-end 2009. The unfunded actuarial liabilities are amortized over 30 years. The second, but smaller, plan was funded at 47% at fiscal year-end 2009.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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