FITCH RATES MISSOURI'S GO BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-29 June 2010: Fitch Ratings assigns an 'AAA' rating to the following general obligation (GO) bonds issued by the Board of Fund Commissioners on behalf of the State of Missouri:

--$96 million state water pollution control GO refunding bonds, series A 2010;
--$10.7 million stormwater control GO refunding bonds, series A 2010;
--$17.9 million fourth state building GO refunding bonds, series A 2010.

In addition, Fitch affirms the following ratings:

--$529 million outstanding GO bonds at 'AAA';
--$86 million State of Missouri certificates of participation at 'AA+',
--$592 million Missouri Board of Public Buildings special obligation and state building bonds at 'AA+';
--$35 million Missouri Development Finance Board leasehold revenue bonds at 'AA+';
--$26 million Missouri Health and Educational Facilities Authority (University of Missouri-Columbia Arena Project) educational facilities revenue bonds at 'AA+';
--$88 million Regional Convention & Sports Complex Authority state appropriation bonds at 'AA'.

The Rating Outlook is Stable.

The bonds are expected to sell via competition on July 7, 2010.

RATING RATIONALE:

--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.
--The strength of Missouri's GO pledge is enhanced by a constitutional provision requiring that debt service payments be transferred to a sinking fund one year in advance of the required payment.
--The state's economy is broad and diverse, with a profile and sector distribution similar to the nation. Earnings and employment in manufacturing continue to experience weakness. Missouri's wealth levels are below average.
--Although net tax-supported debt ratios have increased due to issuance for transportation needs, the state's debt burden remains on the low end of the moderate range.

KEY RATING DRIVER(S):

--Maintenance of budgetary balance despite revenue weakness and the expiration of stimulus funds.
--Continuation of conservative fiscal and debt management policies and practices.

SECURITY:

Bonds are GOs of the state, with a full faith and credit pledge. Security for Missouri's GO bonds is very strong, with a constitutional provision requiring debt service payments be transferred to a sinking fund one year in advance of the required payment.

CREDIT SUMMARY:

Missouri 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 $527 million. Net general revenues for fiscal 2009, initially forecast to rise 3.4%, to $8.2 billion, underperformed as the recession deepened over the course of the year. Final fiscal 2009 net general revenues were 6.9% below fiscal 2008, with weakness concentrated in individual income and sales and use tax collections. 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, to $7.8 billion. The revenue outlook was subsequently revised downward on several occasions, with action taken to lower planned spending accordingly. Under the current forecast, net general revenues are projected to decline 9.6% from fiscal 2009, although receipts through May 2010 slightly exceeded expectations. Including $105 million in line-item vetoes, the governor has cut spending by over $900 million to date. The budget makes use of $1.3 billion in federal stabilization funds during fiscal 2010, a one-time solution which officials prudently acknowledge will present structural challenges in future budget years. The state has not used any monies in the BRF for budget relief, and the balance currently stands at $527 million; the BRF is routinely utilized for liquidity needs, but any draw must be repaid by May 15 of the fiscal year in which it used. Initial revenue projections for fiscal 2011, made in January 2010, forecast revenue growth of 3.6%. However, working estimates have been revised downward and the state is currently projecting revenues to grow 2.2% in fiscal 2011. The enacted fiscal 2011 budget, totaling $7.9 billion, includes significant spending cuts, additional consolidations and efficiency measures, and $859 million of stimulus funds; the budget does not assume any extension of Federal Medicaid Assistance Program (FMAP) support.

The state's economy is broad based, with a profile very similar to the nation's. Although Missouri's economic growth lagged that of the U.S. between 2004 and 2007, the state has fared better than the nation in the current recessionary period. Employment in the state fell 3.6% in 2009, compared to a 4.3% decline nationwide. Job losses have moderated in recent months, with May 2010 employment down 0.5% in the state compared with 0.4% across the nation. On an annual basis from 2004 through 2009, the state's unemployment rate was greater than or equal to the U.S. rate, however as of May 2010, Missouri's unemployment rate equaled 96% of the national average, or 9.3%. 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%. Measured by personal income per capita, Missouri ranks 30th among the states, or 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 2.2% of 2009 personal income. The state's debt burden has increased in recent years as a result of planned borrowing for transportation needs, including bonds issued under voter-approved Amendment 3 and grant anticipation revenue vehicle (GARVEE) bonds. Approximately 70% of outstanding tax-supported debt has been issued for transportation purposes; GO bonds constitute only 10% of outstanding debt, with the remainder consisting of appropriation-supported issues. As of June 30, 2009, the funding ratio of the state's largest pension system was sound at 83%.

Applicable criteria available on Fitch's website at www.fitchratings.com includes:

--'Tax-Supported Rating Criteria', dated Dec. 21, 2009.
--'U.S. State Government Tax-Supported Rating Criteria', dated Dec. 28, 2009.

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Additional information is available at www.fitchratings.com.