STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

State Review:
Mississippi

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Credit Profile

GO debt

AA/Stable; $4.2 billion

Appropriation debt

AA-/Stable; $1 billion

Moral obligation

A/Stable; $826 million

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Mississippi's $179.94 million series 2013A taxable general obligation (GO) bonds and $159.23 million 2013B tax-exempt GO bonds and affirmed its 'AA' long-term and underlying rating (SPUR) on Mississippi's previously issued GO debt.

At the same time, Standard & Poor's affirmed its 'AA-' ratings on Mississippi's issues secured by state appropriations. We also affirmed the majority of 'A' ratings in effect for various issues of the Mississippi Development Bank (MDB) based on the state's moral obligation pledge.

Standard & Poor's also placed its 'A' ratings on 11 MDB bonds issued on behalf of Mississippi's various local government entities on CreditWatch with negative implications.

At the same time, Standard & Poor's withdrew its 'A' ratings on several MDB bond issues due to lack of timely information.

Except for those issues that were placed on CreditWatch negative, the outlook on all assigned and affirmed ratings is stable.

The CreditWatch listings reflect each issue's debt service reserve fund's insufficiency based on our requirement that reserves be funded at maximum annual debt service in accordance with our criteria for obligations rated based upon a moral obligation bond security. The MDB has indicated it is working on resolving these deficiencies and anticipates having a remedy available shortly that would conform to our criteria. The ratings could be lowered or withdrawn if a satisfactory remedy is not forthcoming shortly. We expect to resolve this Credit Watch within the next 30 days.

The withdrawn issues had been rated 'A' based on the state's moral obligation security. We could not readily obtain information concerning the adequacy of the debt service reserve funding level and our criteria requires these reserves be funded at maximum annual debt service.

The assigned and affirmed GO ratings reflect our continued assessment of the state's adequate financial position and demonstrated willingness to cut expenditures to keep the budget in balance throughout the year coupled with strong financial management practices. Credit factors that continue to weigh on our rating on the state, and to some extent impede its full recovery from the Great Recession, include a concentrated and limited economy with a high unemployment rate, a relatively young and slow growing population with a high poverty rate and low level of educational attainment, moderately high debt levels, and a growing unfunded pension liability.

Despite continued declines in federal spending and federal employment, we expect the overall economic climate of the East South Central Region (Alabama, Kentucky, Mississippi, and Tennessee) to improve in the upcoming year, and our economic outlook for the region remains largely positive over the next couple of years.

The 'AA' rating on Mississippi's GO debt reflects our view of the state's:

- Adequate financial position, with very modest reserves in the working-cash stabilization fund that totaled $126.03 million on Oct. 16, 2013 (down from a high of $362.84 million at fiscal year-end 2008), and improving general fund revenue collections that have exceeded the state's expectations for the past three years after a decline in fiscal 2010 ($261.4 million, or 5.4%, for fiscal 2013; $269 million, or 5.9%, for fiscal 2012 and $114 million, or 2.6%, for fiscal 2011);
- Strong governmental framework, with a constitutional requirement to adopt and maintain a balanced budget throughout the fiscal year;
- Historically conservative and proactive fiscal management, which has allowed it to maintain financial stability through periods of revenue decline; and
- Strong embedded fiscal policies and practices.

Credit factors that dilute the preceding credit strengths include the state's:

- Economy that trails many national median indicators and is limited with a higher dependency on federal government spending compared with other states, below-average wealth and income indicators and one of the nation's highest poverty rates and lowest educational attainment levels;
- Moderately high per capita debt burden and below-average funding of state pension plans; and
- High unemployment rate that since the Great Recession began exceeds the national average with the rate as high as 9.2% as recently as 2012 compared with 8.1% for the nation (the sixth highest rate among all U.S. states) having improved to 8.5% as of August 2013, but still one full percentage point above the 7.5% national average.

The state's full-faith-and-credit pledge secures its GO bonds. As of the audited 2012 fiscal year, the state had $4.2 billion of GO tax-supported bonds and $1 billion of notes, limited obligations, and appropriation debt outstanding for a total tax supported debt amount of $5.2 billion. The constitutional debt limit is 1.5x the sum of all revenues the state collects in any one of the four preceding fiscal years, whichever is the higher. At fiscal year-end 2012, the constitutional legal debt limit was $12.5 billion. Slightly under $1 billion of legislatively authorized debt remains unissued as of Sept. 1, 2013.

In practice, Mississippi's priority for repayment of debt has been high; however, the state constitution does not explicitly outline the priority lien of debt service. In our opinion, the state's ability to pay its debt is strong, despite facing out-year budget gaps. The state's net tax-supported debt service at 5.2%, of personal income is moderately high, in our view, after netting out federal government revenues. Mississippi has not defaulted on any of its GO debt for the past 100 years.

Mississippi will use bond proceeds, in large part, to fund various capital projects within the state including significant monies for public facilities under the management and control of the Board of Trustees of State Institutions of Higher Learning and for state agencies.

The state ended its fiscal 2012 year end with an unassigned general fund balance of $452.7 million equivalent to 3% of operating revenue and 2.9% of expense. Total general fund balance (nonspendable, restricted, committed, assigned, and unassigned) totaled $3.6 billion. The general fund surplus for fiscal 2012 on a budgetary basis before transfers in and out was $355.6 million. The original growth rate for fiscal 2012 general fund revenue was 1.3% subsequently revised several times, and ultimately in March of 2012 revised upward to a 3.5% growth rate. Actual general fund revenue collections were 6% higher than the prior year. Actual fiscal 2012 revenues were $256 million higher than the prior year and $262.7 million above estimated amounts. The three largest general fund revenue components realized an increase on a year over year basis as follows: sales tax (+3.6%); individual income tax (+7.7%) and corporate income and franchise tax (+12.8%). Final expenditures were $1.7 million under the final budget.

Although audited financial statements for the state are not available yet, the state estimates it ended fiscal 2013 with a $53.2 million general fund balance (budgetary basis). General fund revenue collections for fiscal year 2013, as noted above, exceeded the state's expectations by $261.4 million, or 5.4%, prior to certain minor settlement adjustments, and totaled approximately $5.1 billion. For fiscal 2013, the majority of general fund revenue sources improved strongly over revenue collections in 2012. Sales tax receipts, for example, grew about 3% to $1.91 billion in 2013 from $1.85 billion in 2012. For the fiscal year ended June 30, 2013, sales taxes accounted for 37.3%, individual income taxes for 32.2%, and corporate income and franchise taxes for 10.2% of the total receipts allocated to the general fund. The adopted 2013 budget called for total spending of $5.6 billion including total general fund spending (4.5%) of $4.7 billion. Total general fund spending in 2013 was $4.69 billion just slightly under the appropriated amount. The state in July 2013 estimated its fiscal 2013 net reserves (anticipated ending cash balances) at $560.2 million; this includes the general fund balance ($54 million), budget contingency fund ($67 million), health care expendable fund ($1.9 million), health care trust fund ($8.1 million), working cash stabilization reserve fund ($32.5 million), and anticipated additional reserves ($365 million) from unanticipated surplus from fiscal 2013.

The joint legislative budget committee (JLBC) submitted its fiscal 2014 budget recommendation to the legislature in mid-December of 2012. As the JLBC deliberated, with input from the state economist, it was mindful that the state probably slipped into recession in 2011 and was just beginning to recover in 2012 with uncertainty about sustainability owing to what was transpiring at the time with the national economic recovery and federal budget deliberations. This information apparently weighed on the JLBC as the 2014 general fund revenue estimate adopted by the governor and the JLBC totaled $4.98 billion a mere 0.9% increase compared with the revised fiscal year 2013 revenue estimate. For the first four months of fiscal 2014, actual general fund revenue collections are running 7.6% ahead of prior year to date collections and 4.7% ahead of estimates. The JLBC recommended to the legislature a general fund expenditure amount (net of a 2% set aside) of $4.93 billion. The state as a matter of practice, in most but not all years, only appropriates 98% of estimated general fund revenue collections.

Governor Phil Bryant's fiscal 2014 executive budget recommendation to the legislature called for total general fund spending of $5.09 billion after factoring in the availability of a projected general fund beginning cash balance of $194.4 million and certain other minor revenue amounts. The governor stated in his budget message that one of his priorities was to wean the state off its reliance on using one-time dollars to pay for recurring expenses, and his recommended budget used $93 million less one-time money than was appropriated by the legislature for fiscal 2013. The state balanced the 2013 budget using $392 million of one-time, stopgap measures including a variety of interfund transfers and drawings from the working-cash stabilization fund totaling $99.6 million (the latter figure is slightly more than 2% of the general fund budget) and $279.2 million from the budget contingency fund. In addition, state officials tapped the fiscal 2012 general fund carryover for $49.6 million.

The final adopted state budget for fiscal 2014 includes a total general fund revenue estimate of $5.08 billion and an appropriation of $5.03 billion before general fund reappropriations from fiscal 2013 of $7.1 million and transfers of $17.59 million from the general fund to the budget contingency fund. The state's budget contingency fund is a special fund created by the legislature to handle nonrecurring budget shortfalls, and the fund provides $206.36 million for fiscal year 2014 appropriations. The final budget for 2014 also indicates no unencumbered budget balance in the state general fund on June 30, 2014, while stating that if revenue estimates are realized, then the 2% set aside would be available for the following fiscal year.

The state estimates its fiscal 2014 reserves (anticipated ending cash balances) will total $385 million assuming the revenue estimates are realized and the 2% set-aside or $103 million will be included in the ending cash balances as well as an anticipated surplus of $170 million. The fiscal 2014 general fund budget is $330.84 million or 7.04% more than the fiscal 2013 appropriated budget, and of that amount, the largest increase of $194.98 million is for social welfare (largely to support the Medicaid funding).

The Medicaid program expansion to cover 133% of the federal poverty level following the passage of the federal Affordable Care Act (ACA) in 2010 is the driver of the higher spending level, although the state did not expand its Medicaid program and is not funding and operating its own insurance exchange program under the ACA.

Funding priorities for fiscal 2014 and 2013 have included money for promoting job growth and economic development, in particular, in the energy and health care sectors, promoting education reform for kindergarten through 12th grade, and promoting transportation infrastructure improvements for economic development, and maintenance of essential social services.

Mississippi ranks 31st in population (2.98 million) and 32nd in physical size among the states. Although much of the state is rural, its access to three major water routes--the Mississippi River, the Tennessee-Tombigbee, and the Gulf of Mexico--has spurred significant commercial and industrial investment, particularly in offshore drilling and ship building. Mississippi's population grew by an estimated 4.7% to 2.97 million from July 1, 2000, through 2011, according to the U.S. Census. IHS Global Insight forecast that Mississippi's population will grow at an average of 0.4% per year over the next decade, one of the lowest population growth rates in the country and states that it has recovered barely 40% of the jobs it lost during the recession (the state believes this figure is 56%). Income growth has been below the national average for the past decade, with state per capita personal income at 77% of the national average for 2012 (ranking the state last among all states).

The trade, transportation, and utilities sector and manufacturing sector account for a significant portion of jobs throughout the state, at 19.3% and 12.4% of total employment, respectively. However, the main drivers of growth during the past several years have been in sectors that are typically more resilient to economic downturns, such as government (22.1% of total employment), and education and health (12%), although government employment has declined recently. The state's largest employer is shipbuilder, Huntington Ingalls Industries (formerly a division of Northrop Grumman), employing approximately 11,000 people. Huntington Ingalls Industries announced last year that it is closing its Avondale, La. shipyard in 2013 and consolidating its operations at its Pascagoula, Mississippi facilities. However, according to IHS Global Insight, nearly all of Mississippi's private employment sectors slipped in 2011 and they characterized job growth as being anemic in 2012 while noting that employment levels in 2013 are beginning to pick up with nonfarm employment up 1.5% year over year through April. However, the state indicates its gross domestic product grew 2.4% in 2012, and in the first seven months of 2013 relative to the same period in 2012, it added almost 19,000 jobs (a 1.7% growth rate). The state in addition to touting the education and health services sector for future job growth potential also promotes the leisure/hospitality sector (11.1% of total employment) for future job growth due to its Gulf Coast location and presence of a number of casinos and hotels. At $34,001 per capita, real gross state product was 69% of real gross domestic product for the U.S. in 2012, placing it last among the 50 states.

We have assigned a total or composite score of '2' to Mississippi under our State Ratings Methodology; in which '1' is the strongest score and '4' is the weakest.

Outlook

The stable outlook on those issues not on CreditWatch reflects our view that while the state's economy is limited, and its population expected to grow slowly, it nevertheless is recovering economically. When combined with a history of strong financial management practices and financial position, it leads us to believe that over the next two years, the rating is likely to remain at its present level.

Our view is predicated on the assumption that state officials will take timely action to adjust budgeted expenditures should any unforeseen setbacks occur in the recovery or if there is softness in any major revenue stream. We continue to view a positive rating action as being somewhat unlikely during the next two-years as the state makes slow progress on tackling structural solutions to significant near- and longer-term budgetary challenges that will be a key determinant of future credit stability. A lower rating is possible if the state continues to draw down its working-cash stabilization reserve and progress on other structural budgetary challenges, such as its underfunded pension systems, doesn't improve. Also, if employment levels recede unexpectedly or financial flexibility is compromised due to unwillingness to cut expenditures where and when needed or increased debt issuance occurs without a commensurate increase in liquidity these could all lead to a lower rating.

An additional risk to the rating is the potential for reductions in federal funding that currently flows to the state. Standard & Poor's will continue to monitor the federal consolidation efforts stemming from the Budget Control Act and evaluate their effect on the state's finances and officials' response to these revenue reductions.

Government Framework

Mississippi operates on a fiscal year beginning July 1. It is a statutory requirement that the state introduce and adopt a balanced budget. If revenues fall short of projections, the state can cut expenditures directly to ensure it meets the balanced budget requirement during the year. The state has the authority to raise revenues, including to levy and raise a broad range of taxes. However, Mississippi's recent preferred policy approach has focused more on expenditure reductions than on tax increases. Section 27-103-125 of the Mississippi Code of 1972 (as amended) gives the Legislative Budget Office the ability to recommend additional taxes or sources of revenue if such funds are needed to adequately support the services and functions of the state government. However, Article 4, Section 70 of the state constitution requires a three-fifths supermajority to pass any revenue or property taxation bill. Mississippi is not a voter initiative state.

The state has not historically exhibited a high degree of flexibility in adjusting disbursements. Primarily, the state's flexibility with cash flow needs comes from cutting expenditures, when necessary, to keep the budget in balance throughout the year. For the state's counties and municipalities, the major sources of revenues are shared revenues from sales taxes and property taxes assessed on all local real and personal property subject to certain exemptions. We believe the state has the capacity to adjust programs and spending levels through its powers of expenditure cuts and historically has demonstrated the willingness to do so even under stressful economic conditions. The state has the ability to issue debt for a wide range of purposes, but legislation governing the financing of specific bond projects must authorize all state debt. The constitutional debt limit is 1.5x the sum of all revenues the state collects in any one of the four preceding fiscal years, whichever is highest. In practice, the state's priority for repayment of debt has been high; however, the state constitution does not explicitly outline the priority lien of debt service. Legislation also limits the state's variable-rate debt to no more than 20% of its total GO debt, and limits short-term debt to 7.5% of general fund appropriations by the legislature in the fiscal year such debt is issued.

We have assigned a score of '1.6' to the state's government framework, whereby '1' is the strongest score and '4' is the weakest.

Financial Management

Standard & Poor's deems Mississippi's financial management practices "strong" under its Financial Management Assessment methodology, indicating our view that practices are strong, well-embedded, and likely sustainable.

Mississippi creates its multiyear budgeting and cash flow projections through the annual budget process, addressing both the current and subsequent budget year. The state's formal investment management policy calls for regular, and at least monthly, reporting to elected officials, including the governor. Because of the use of swaps, the state has a comprehensive derivatives management policy that it reviews annually.

In our opinion, Mississippi follows generally strong budget management practices. We consider the executive branch and budget office to have broad powers to adjust appropriations. Should a revenue shortfall occur, the department of finance and administration can amend budgets to improve structural gaps and cut expenditures directly, as needed. All state agencies receiving general or special funds are subject to funding reductions of up to 5%, but no agency receives a cut in excess of 5%, unless all have been reduced by this percentage. As required by state statute, the state treasurer and the executive director of the Department of Finance and Administration (DFA) monitors the state general fund revenues and cash balances, at least on a monthly basis, against monthly estimates in anticipation of adjustments that it may have to make. The state cannot carry over deficits from the previous fiscal year. Thus, gap-closing solutions have focused on structural balance rather than relying on nonrecurring revenue or spending actions.

On a scale that has '1' as the strongest score and '4' as the weakest, we have assigned a score of '1' to the state's financial management framework.

Economy

Table 1

Mississippi Economic Data

	2007	2008	2009	2010	2011	2012e	2013p	2014p	2015p
Gross state product (nominal, mil. $)	92,106.86	95,461.08	92,613.98	95,762.97	97,533.01	101,490.05	105,348.37	109,936.46	115,247.64
Employment (000s)	1154.26	1148.93	1097.64	1092.59	1093.01	1102.81	1123.61	1140.89	1162.99
Unemployment rate (%)	6.3	6.8	9.4	10.5	10.5	9.1	9.2	8.9	8.5
Personal income (mil. $)	86,585.50	91,219.50	88,801.75	91,600.25	95,313.00	98,827.25	100,504.61	104,711.72	109,466.52
Personal income growth (%)	6.8	5.4	(2.7)	3.2	4.1	3.7	1.7	4.2	4.5
Population (000s)	2,930.5	2,948.6	2,960.2	2,970.2	2,978.3	2,986.0	2,994.6	3,004.2	3,015.4
Net migration (000s)	3.8	(1.4)	(1.7)	(0.2)	(2.9)	(3.0)	(1.4)	(0.1)	2.3
Housing starts, private single-family (000s)	11.6	7.7	5.7	4.8	4.4	5.0	4.9	6.3	8.2
Housing starts, private multifamily (000s)	3.7	3.6	0.8	0.5	0.8	0.8	0.7	1.0	1.3
New vehicle registrations (000s)	116.3	92.5	67.9	72.9	85.4	96.9	110.5	113.9	115.9

Estimated 2012 economic data are from DOF. Projected economic data are based on IHS Global Insight. Rationale cites state spending for 2012-2013 as share of DOF-projected total personal income, not IHS Global Insight projection, shown above. e-estimated. p-Projected.

According to the U.S. Census Bureau, Mississippi's estimated 2012 population was 2.98 million, which makes the state the 31st most populous in the nation. Mississippi's population grew by an estimated 4.4% to 2.97 million from 2000 through 2010, according to the U.S. Census. Although positive, this 4.4% growth rate over this decade was 44% below that of the nation's 9.9% growth rate and ranked it 38th among all states. With an age to population dependency ratio of 61.9, Mississippi's dependent population is above the national rate of 58.7. IHS Global Insight notes that Mississippi has one of the largest concentrations of population in the 0-24 year-old age cohort based on 2011 population data with this cohort accounting for 35.7% of the state's total population compared with the U.S. average of 34%, while the fastest growing cohorts have been the 55-plus groups. A report released in September by the Carsey Institute of the University of New Hampshire, as reported in the New York Times, indicates that Mississippi has the highest child poverty rate of all states with 34.69% of children living below the poverty line.

The economy is concentrated and limited, in our view, with manufacturing employment accounting for nearly 12.4% of employees on nonfarm payrolls in the state in 2012, making the state one of the highest concentrations in the nation (8.9%) dependent on manufacturing employment. Within the manufacturing sector automotive related manufacturing continues to be a bright spot with significant expansion while the sector overall has contracted; Yokohoma Tire Corp. is building its second U.S. tire manufacturing plant in the state and Nissan is has been in the state for 10 years and continues to introduce more of its models for manufacture in the state. The state's unemployment rate in recent years has been high and was 9.2% as recently as 2012 compared with 8.1% for the nation (the sixth highest rate among all U.S. states). Economic activity picked up in late 2012, and the state's unemployment rate has improved to 8.5% as of August 2013 but is still one full percentage point above the 7.5% national average. State wealth and income levels lag national averages. At $33,657 per capita, 2012 personal income was 77% of the national average. Gross state product per capita in 2012 was $34,001 or 69% of the national GDP per capita of $49,587 placing it last among all states. Over the past five years, Mississippi has trailed the nation in the annual percentage change in gross state product versus national GDP.

We continue to believe Mississippi has many advantages to attract new economic development compared with other states given its Gulf Coast location, related sea ports, and proximity to Panama which has a rapidly growing economy and is Mississippi's largest and a fast growing export destination for petroleum/coal products and chemicals according to IHS Global Insight. The state's housing market also is relatively inexpensive compared with other states and was largely spared from the foreclosure crisis that affected a number of other states. In addition, Mississippi offers many incentives and tax advantages to attract new businesses and to encourage existing businesses to expand within the state. The cost of doing business is also lower than in most other states; Mississippi has one of the lowest corporate income taxes in the South. However, the state's population is fairly young and its educational attainment and wealth and income levels are among the lowest in the country. Just 81.1% of Mississippians over the age of 25 are high school graduates, compared with 85.9% for the national average. Just 28.2% of Mississippians in that age group have an advanced degree, compared with 36.3% for the nation. The lack of educational attainment is likely to be a challenge as the state attempts to attract professional services and high-tech industries, which generally have higher-paying jobs that require more education.

We have assigned a score of '2.9' to the state's economy, whereby '1' is the strongest score and '4' is the weakest.

Budget

Table 2

Mississippi Financial And Debt Data			
	--Year ended June 30 (audited)-		
(Mil. $)	**2012**	**2011**	**2010**
Population	3.0	3.0	3.0
Total personal income	100.5	95.9	91.6

Table 2

Mississippi Financial And Debt Data (cont.)			
Finances			
General fund revenues	14,980	15,346	14,014
General fund expenditures	15,355	15,144	14,484
Net transfers and other adjustments	452	428	990
Net general fund operating surplus (deficit)	76	630	519
Total general fund balance	14,157	13,591	12,582
Unreserved general fund balance	3,621	3,545	1,896
Other available operating reserves			245
Net surplus (deficit) % of general fund expenditures	0.5	4.2	3.6
Debt			
Direct GO debt	4,213	3,837	4,169
Appropriation debt	1,000	1,031	1,043
Other tax-supported debt (income; sales)			
Gas/transportation tax debt			
Net tax-supported debt	5,212	4,866	6,240
Net tax-supported debt per capita	1,746.1	1,633.7	2,100.8
Net tax-supported debt as % of total personal income	5.2	5.1	6.8

The Budget Reform Act of 1992 created the working-cash stabilization reserve account, which requires the state to deposit 100% of the unencumbered general fund cash balance into the account at the close of each fiscal year until the balance reaches $40 million. Thereafter, the state must deposit 50% of the unencumbered general fund ending cash balance into the account until it reaches 7.5% of general fund appropriations for the current fiscal year. As required by state law, the state does not consider the account surplus or available funds when adopting a balanced budget. The state restricts general fund appropriations to 98% of the official revenue estimate and the previous year's ending general fund balance (however, this was suspended temporarily in 2010-2011) if, at the end of October or any month thereafter, general fund revenue collections for the fiscal year fall below 98% of the most recent estimate. If this should occur, the Department of Finance & Administration must balance the general fund budget by reducing the allotted expenditure authority to general fund agencies by any amount necessary. In addition, the state could transfer permanently the amount in excess of $40 million of the working-cash stabilization reserve account balance to the general fund to cover such deficits up to a maximum of $50 million in any one fiscal year. The state can restore these transfers to the account from future annual general fund ending cash balances until it attains the 7.5% level of appropriations. The state does not consider the working-cash stabilization fund as extra reserves for the purposes of meeting the balanced budget requirement. Overall, the state has regularly recorded surpluses in periods of positive economic growth, which it has used to fund reserves. In periods of economic decline, the state has addressed budget imbalances through a combination of structural solutions and the use of reserves within the limits of state statute. In our view, the state has not demonstrated an historical willingness to adjust revenues when necessary but, rather, it uses expenditure cuts to achieve balanced operations.

Four independently derived projections form the basis of the state's official revenue forecast. The State Tax

Commission, Legislative Budget Office, DFA, and the University Research Center present and discuss their initial revenue forecasts and reach a consensus projection. The officials from these business units carry out this procedure for each major revenue category. In October of each year, officials finalize the revenue estimate for the next fiscal year and present it to the Joint Legislative Budget Committee and the Governor's Budget Office. The official state revenue forecast binds the budget, and state law limits appropriations to 98% of the official revenue estimate. The executive budget recommendation and the legislative budget recommendation can differ, leaving room for political negotiation.

We consider the state's tax revenue structure to be diverse. Sales tax receipts contributed about 37.3% of total general fund revenues in fiscal 2013 while individual income tax revenues accounted for 32.2%. Expenditures are generally predictable, and the state has historically demonstrated a willingness to cut services and expenditures when revenue declines necessitate.

The state has not historically issued short-term debt for cash flow purposes. To address the need for temporary cash, the general fund may borrow from special funds and the working-cash stabilization fund, but the state must repay any money borrowed by the end of the fiscal year. State statute requires the state treasurer and the executive director of the DFA to analyze the amount of cash in the state's general fund and special funds at least monthly and at any other time deemed necessary. The state also uses well-developed cash monitoring and forecasting tools to monitor its cash balance position regularly. In our view, Mississippi's broad authority to cut expenditures rather than increase revenues supports its liquidity position. The state does not have a strong record of adjusting revenues.

We have assigned a score of '1.8' to the state's budgetary performance, whereby '1' is the strongest score and '4' is the weakest.

Debt And Liability Profile

In our opinion, Mississippi's debt levels remain moderately high by most measures. As of the audited 2012 fiscal year, the state had $4.2 billion of GO tax-supported bonds and $1 billion of notes, limited obligations, and appropriation debt outstanding for a total tax supported debt amount of $5.2 billion. Slightly under $1 billion of legislatively authorized debt remains unissued as of Sept. 1, 2013.

Mississippi Development Bank is a growing issuer of debt on behalf of statewide issuers. Local revenue streams and the state's moral obligation pledge to replenish the debt service reserve in case of a deficiency secure the development bank debt. As of Sept. 1, 2013, the balance of special obligation bonds outstanding with the state's moral obligation pledge was $825.86 million. The constitutional debt limit is 1.5x the sum of all revenues the state collects in any one of the four preceding fiscal years, whichever is higher. In practice, the state's priority for repayment of debt has been high, in our view; however, the state constitution does not explicitly outline priority lien of debt service. As of June 30, 2012, Mississippi had established a constitutional legal debt limit of approximately $12.5 billion.

The state issued its first variable-rate debt in November and December of 2003; variable-rate debt at fiscal year-end 2012 accounts for about 6% (slightly in excess of $300 million) of Mississippi's total tax-supported debt. Enabling legislation limits the state's variable-rate debt to no more than 20% of its total GO debt. The state had six interest rate swap agreements in effect to support $182.23 million of its variable-rate obligations at fiscal year- end 2012. The counterparties on the swaps are The Bank of New York-Mellon; UBS AG and Morgan Stanley. In our view, the swaps have a modest risk because their structures are economically viable, there are requirements for the counterparties to post collateral below certain rating triggers, termination risk is remote, and the state has strong management practices with formal swap and debt management policies in place.

Combined, tax-supported debt is moderately high, in our view, at an estimated 5.2% of state personal income, 5.1% of real gross state product, and $1,746 per capita. Mississippi's debt service burden as a percentage of expenditures is moderately high, in our view, with fiscal 2012 audited debt service accounting for 6.3% of total governmental fund expenditures (net of federal government revenues received). Debt amortization is average, in our opinion, with 53% of tax-supported debt principal repaid over 10 years and 86% repaid over 20 years.

The state has four public employee defined-benefit retirement plans to provide pension benefits for all state employees, sworn officers of the state highway patrol, other public employees whose employers have elected to participate, and elected members of the state legislature and the president of the senate. The Public Employees' Retirement System (PERS) Board of Trustees, which includes the Public Employees' Retirement System, Mississippi Highway Safety Patrol Retirement System (MHSPRS), the Municipal Retirement System (MRS), and Supplemental Legislative Retirement Plan (SLRP), administer the four plans. As a whole, the state's pension funded ratios have declined over the past five years to 57.9%, which is below average, in our opinion, with a total unfunded actuarial accrued liability (UAAL) of almost $14.9 billion as of June 30, 2012 ($15.2 billion as of June 30, 2013). This is a decrease from a combined funded ratio of 73.5% in fiscal 2007. The 2012 UAAL equated to an estimated $4,978 per capita, which we consider weak.

For fiscal 2012, Mississippi contributed 100% of its annual required contribution (ARC) of $781 million. The state has historically made contributions at, or above, the ARC in most recent years. The 2010 Mississippi Legislature passed an increase in the employee contribution rate for PERS to 9% from 7.25%, effective July 1, 2010. Because of the increase in the employee contribution rate, the state's consulting actuary recommended the PERS' required employer (state) contribution rate of 12.93% to begin July 1, 2011 (however, there was a delay for six months), which is up from an employer contribution rate of 12% effective for fiscal year 2010 and an increase of 14.26% effective July 1, 2012. The board of trustees also approved employer contribution rate increases for MHSPRS and SLRP, which increased to 35.21% and 7.4% from 30.3% and 6.65%, respectively; effective July 1, 2011, and there was another MHSPRS rate increase to 37%.

We view the state's other postemployment benefit (OPEB) risk to be moderate compared with other states, given the state's discretion to change benefits and an ARC that is relatively low in relation to the state budget. Mississippi provides just one OPEB plan, a medical plan and life insurance program administered by the State and School Employees' Health Insurance Management Board. Based on the plan's most recent valuation on June 30, 2012, the total UAAL is about $665 million. The state finances the plan on a pay-as-you-go basis. The state funded 44.6% of the $46.1 million ARC as of the most recent actuarial valuation. The current ARC is approximately 0.8% of total budget.

On a scale that has '1' as the strongest score and '4' as the weakest, we have assigned a score of '2.7' to the state's debt and liability profile.

Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006