New Issue: Moody's assigns Aa2 to $321M Mississippi GO bonds; outlook stable

Global Credit Research - 02 Nov 2015

State has $5.2B of net tax-supported debt outstanding

MISSISSIPPI (STATE OF)
State Governments (including Puerto Rico and US Territories)
MS

Moody's Rating

ISSUE		RATING
Taxable General Obligation Bonds, Series 2015G		Aa2
Sale Amount	$116,300,000	
Expected Sale Date	11/17/15	
Rating Description	General Obligation	
General Obligation Bonds, Series 2015F (Tax-Exempt)		Aa2
Sale Amount	$204,670,000	
Expected Sale Date	11/17/15	
Rating Description	General Obligation	

Moody's Outlook STA

NEW YORK, November 02, 2015 --Moody's Investors Service has assigned Aa2 ratings to Mississippi's $205 million General Obligation Bonds (Tax-Exempt) Series 2015F and $116 million Taxable General Obligation Bonds, Series 2015G. The bonds are expected to sell November 17.

SUMMARY RATING RATIONALE

Mississippi's Aa2 rating reflects conservative budgeting and mandated spending cuts in the event of revenue shortfalls, structural budgetary balance, offset by weak economic fundamentals and a slow economic recovery, as well as above-average fixed costs.

OUTLOOK

The state's stable outlook reflects our expectation that Mississippi will continue to manage its finances prudently and cut spending as needed.

WHAT COULD MAKE THE RATING GO UP

-Sustained outperformance of national economic trends

-Significant increase in reserve levels

WHAT COULD MAKE THE RATING GO DOWN

-Depletion of reserves

-Deviation from sound budgeting principles, such as by using overly optimistic revenue forecasts or relying on non-recurring financial measures

-Economic underperformance that erodes the state's financial position

STRENGTHS

-High reserve levels relative to limited financial and economic volatility

-Strong executive powers to make mid-year spending adjustments including a requirement to cut spending if revenues fall below 98% of the estimate

-Legal structure that prevents exposure to local units' fiscal pressures

CHALLENGES

-Low personal income levels that limit the state's economic resources

-Elevated poverty rates that will drive social service spending higher

-Above-average debt levels

RECENT DEVELOPMENTS

Mississippi gained 8,800 jobs, or about 1%, in the 12 months ending September. However, the sectors with the most growth tend to have lower wages. Leisure and hospitality added 3,700 jobs, and administrative and waste services added 4,300. Although it has been improving, Mississippi's unemployment rate of 6.1% as of September remains higher than the national rate of 5.1%. The labor force has been increasing, which is a positive change from the years following the recession, when discouraged workers stopped looking for jobs. Mississippi's labor force remains under pre-recession peak levels, a milestone the nation as a whole passed in April 2014.

Year-to-date general fund revenues through September were 1.7% above last year, but were 0.6% below budget. Sales and use tax revenues declined.

DETAILED RATING RATIONALE

ECONOMY - SLUGGISH RECOVERY

Mississippi is poor compared to other states but has historically been stable. Its poverty rate of 23% as of 2013 was the highest in the US, and its per-capita personal income of $34,333 (as of 2014) is the lowest, underscoring the lower level of economic resources available to the state. The state's low educational attainment rates will hinder its transition to higher value-added economic activity.

Mississippi's concentration in auto manufacturing has benefited the state over the past year, as low gas prices and an expanding national economy boosted demand. Nevertheless, Mississippi's labor market is shifting towards services and away from its historic manufacturing base. Like most states, the post-recession Mississippi is more service-oriented. Manufacturers are increasingly adapting less labor-intensive technologies and are able to produce more with fewer workers. New service industry jobs for low-skilled workers pay lower wages, and the shift from manufacturing to service jobs has slowed the state's economic recovery. Unlike the nation as a whole, Mississippi has yet to regain all jobs lost during the 2007-2009 recession. Increased competition from Mexico as a low-cost auto producer is one reason manufacturing jobs have regained only 81% of the 91,600 jobs lost during the recession. Better opportunities elsewhere have shown up in demographic statistics, as net migration continues to be negative.

FINANCES AND LIQUIDITY

Mississippi quickly regained its financial footing after the recession, despite the lackluster economic recovery. The state's available fund balance, including its rainy day fund, was $572 million as of June 30, 2014, or 6.7% of revenues, compared with a recessionary low point of $288 million, or 4.0% of revenues, set in 2011. General fund revenues are on the mend and increased 1.7% over last year in the first three months of fiscal 2016, which started in July. A dip in sales and use taxes was offset by strength in income tax revenues. Overall general fund revenues were 0.6% behind projections in the first quarter of fiscal 2016.

Liquidity

Total liquid resources available to the general fund averaged $452 million (unaudited) in fiscal 2014, which is below-average for a state of Mississippi's size. However, the state's liquidity is sufficiently healthy so that it does not need to engage in external cash flow borrowing.

DEBT AND PENSIONS

Debt Structure

Mississippi has above-average debt levels for a US state. Its $5.2 billion in net tax-supported debt as of fiscal 2013 ranked sixth-highest among states as a share of state gross domestic product, at 5.0%. The bulk of Mississippi's debt is in the form of general obligation bonds. The state also had $644 million of outstanding moral obligation bonds issued through the Mississippi Development Bank as of September 15. To date, the legislature has not been called on to make an appropriation to pay debt service on any of this moral obligation debt.

The state decreased its exposure to interest rate risk over the past few years. It had $165 million of variable rate debt as of October 29, accounting for 3% of total debt. The state has never issued tax anticipation notes, although it is authorized to issue short-term general obligation notes in an amount not to exceed 7.5% of appropriations.

Debt-Related Derivatives

Mississippi has interest rate swaps outstanding on a notional value of $165 million of variable rate debt. As of October 29, the swaps had a fair market value of negative $45 million, which is manageable in the context of the state's $8.5 billion in general fund revenues in fiscal 2014.

Pensions and OPEB

Mississippi's fiscal 2013 adjusted net pension liability was 75% of revenues, which is close to average for a state. The retirement system reported an improved funded status of 61% in fiscal 2014, up from 58% in fiscal 2013, the result of reaching the end of the smoothing period for large losses suffered in 2009 and the positive effect of a benign investment environment in fiscal 2014. In 2012, the state set a goal of reaching 80 % funded status by 2042, replacing the rolling 30-year amortization period. This long-term goal, in the absence of other reforms, will mean that Mississippi's pension liabilities to revenue ratio (which ranks 16th-highest among states) remains comparatively elevated.

Mississippi funds its other post-employment benefits (OPEB) on a pay-as-you-go basis, like most other states. The state's annual required contribution is manageable and has been stable in recent years. In fiscal 2014, it amounted to $44 million, or 0.5% of revenues. The unfunded actuarial accrued liability related to OPEB costs was $762 million as of June 30, 2014.

The state guarantees the cost of college tuition and fees for residents who enroll in the Mississippi Prepaid Affordable College Tuition (MPACT) plan. As of June 30, 2014, the plan, which carries the full faith and credit of the state, was underfunded by a reported $130 million.

GOVERNANCE

Strict budget control mechanisms are mandated by state statute. The administration must reduce allocations to state agencies should revenues fall below 98% of the budgeted estimate in any month after October and may do so before then. This authority was used to maintain a healthy reserve balance during the 2007-2009 recession when peer states in the Aa2 rating category depleted their reserves. The state published its first debt affordability study last year, adding a financial best practice. The study enhances the policy discussion on the state's bonding programs. The state is well below constitutional debt limits.

KEY STATISTICS

Per capita income relative to U.S. average: 77.4%

Industrial diversity (1=most diverse): 0.66

Employment volatility (U.S.=100): 90

Available balances as % of operating revenue (5-yr. avg.): 6.2%

NTSD/total governmental revenue: 33.3%

3-year avg. adjusted net pension liability/total governmental revenue: 71%

OBLIGOR PROFILE

Mississippi is the 31st- largest state by population and 36th-largest by state gross domestic product. Per-capita personal income is $34,333, the lowest in the US.

LEGAL SECURITY

The Series 2015 bonds are secured by a pledge of the full faith and credit of the state.

USE OF PROCEEDS

Proceeds of the Series 2015F bonds will finance certain capital improvements, and the proceeds of the Series 2015G bonds will finance certain economic development projects.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US States Rating Methodology published in April 2013. 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

Julius Vizner
Lead Analyst
Public Finance Group
Moody's Investors Service

Edward Hampton
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