State of Mississippi

Debt Affordability Study

March 7, 2014

Prepared by:
The Office of the State Treasurer
501 North West Street
1101 Woolfolk Building
Jackson, Mississippi 39201

Table of Contents

Executive Summary 3

- Profile of Outstanding Debt 3
- Debt Policies 4
- Estimated Annual Debt Service Requirements 4
- Credit Ratings Review 5
- Estimated Debt Issuance 5
- Revenue Collections 6
- Debt Ratios 7

State Bond Indebtedness 9

Annual Debt Service 11

Debt Issuance and Debt Service Forecast 13

Revenue Projections 15

Comparison of Debt Ratios 17

Credit Ratings Review 18

Conclusion 20

Appendix 22

Tables and Charts

Figure 1: Net Direct General Obligation Bonds and Total Bond Indebtedness

Figure 2: Constitutional Debt Limit

Figure 3: Outstanding Debt Service (Principal and Interest)

Figure 4: Total Bond Issuance (2003-2013)

Figure 5: Revenue Collections (FY03 – FY13)

Figure 6: Debt Ratios - Comparison of Mississippi to Peer Group and National Medians

Figure 7: Historical Bond Indebtedness (FY00 – FY13)

Figure 8: New Money Issuance (FY03 – FY13)

Figure 9: Historical Debt Service Requirements (FY04 – FY13)

Figure 10: Future Debt Service Requirements (FY14 – FY23)

Figure 11: Existing and 5 Year Forecasted Debt Service Requirements (FY14 – FY18)

Figure 12: Historical Revenue Available for Tax Supported Debt

Figure 13: Revenue Collections: Past, Present, and Estimated

Figure 14: Comparison of Mississippi to Peer Group and National Medians

Figure 15: Comparison of Mississippi to Peer Group and Rankings

Figure 16: State of Mississippi General Obligation Credit Ratings

"Most of the AAA States have a clearly articulated debt management policy. Evaluating the impact of new or authorized but unissued bond programs on future operating budgets is an important element of debt management and assessing debt affordability." - Standard and Poor's

Executive Summary

The Office of the State Treasurer began preparing for the Debt Affordability Study in the summer of 2013. The need came from within state government to help better plan for our current and future needs as well as from our rating agencies that encouraged the creation of a plan for long-term budgetary planning. In order to assess the impact on General Fund revenue of the State's debt service requirements for current and projected debt service over the next five years, the creation of this Plan was deemed vital. The development of a financial model helped measure the impact of changes in the annual debt service payment and the amount of revenue available for debt service. This analysis will compare the State's current indebtedness to relevant industry metrics, such as (1) net tax supported debt as a percentage of General Fund Revenue, (2) net tax supported debt as a percentage of personal income, (3) net tax supported debt per capita, and (4) the rate of debt retirement. In addition, the study will evaluate the impact of issuing additional debt (when considering current economic conditions and revenue forecasts).

The primary purpose of this study is to be a tool to help guide policymakers when assessing the impact of bond programs on the State's fiscal position, enabling them to make informed decisions regarding capital spending priorities and economic development needs. The data discussed and illustrated in this study has been separated into the categories that represent the largest historical borrowing needs: Capital Improvements, Transportation, and Economic Development. Guidance on current as well as forecasted revenue has been provided by the State's Economist.

Profile of Outstanding Debt

Total Net Direct General Obligation Bonded Debt outstanding as of June 30, 2013 was $4,055,890,000 (a decrease of $74,580,000 in outstanding debt compared to June 30, 2012). The debt represented by the issuance of these bonds is backed by the full faith and credit of the State of Mississippi. As of June 30, 2013 the State did not carry any revenue or self-supporting bonds. Long-term fixed-rate debt comprises $3,876,775,000 of outstanding debt, while variable rate debt is $179,115,000 of total outstanding debt. This exposure to variable rate debt is in the form of 5 Year Floating Rate Bonds (benchmarked to LIBOR for the taxable bonds and to SIFMA for the tax-exempt bonds). All outstanding debt will mature from 2014 to 2037. Furthermore, debt issued outside of the purview of the State Bond

Figure 1

FYE	Net Direct General Obligation Bonds & Notes	Self-Supporting General Obligation & Revenue Bonds	Total Bond Indebtedness
2000	2,030,086,000	238,687,000	2,268,773,000
2001	2,434,252,000	216,095,000	2,650,347,000
2002	2,670,148,000	196,670,000	2,866,180,000
2003	2,823,654,000	181,815,000	3,005,469,000
2004	2,956,490,000	156,360,000	3,112,850,000
2005	2,934,090,000	131,950,000	3,066,040,000
2006	2,987,335,000	106,925,000	3,094,260,000
2007	3,158,200,000	81,950,000	3,240,150,000
2008	3,084,125,000	79,315,000	3,163,440,000
2009	3,422,840,000	3,790,000	3,426,630,000
2010	3,485,982,000	2,885,000	3,488,867,000
2011	3,784,525,000	1,955,000	3,786,480,000
2012	4,130,470,000	995,000	4,131,465,000
2013	4,055,890,000	0	4,055,890,000

** as of June 30, 2013*

Commission is not reflected in this total (some bonds issued by the Mississippi Development Bank carry the moral obligation pledge of the State and not the General Obligation). For purposes of this report, this type of debt is excluded from any analysis performed by the Debt Affordability Study. In addition to debt outstanding, the State currently has a number of projects authorized by the Legislature that have not been issued (see Appendix A: Authorized but Unissued). The balance at December 31, 2013 for projects authorized but not yet issued was $645 million.

Debt Policies

Limits on the issuance of debt are governed constitutionally in Mississippi. Section 115, Paragraph 2 of the Mississippi Constitution of 1890 provides that *"Neither the State nor any of it direct agencies, excluding political subdivisions and other local districts, shall incur a bonded indebtedness in excess of one and one-half (1 ½) times the sum of all the revenue collected by it for all purposes during any one of the preceding four fiscal years, whichever year might be higher."* The Constitutional Debt Limit at June 30, 2013 was $12,630,154,824. When compared to outstanding general obligation debt during the same period, the percentage of debt to the Constitutional Limit was 32.11%.

FYE	Constitutional Debt Limit	FYE Total Bond Indebtedness	Debt as % of Limit
2000	7,643,476,079	2,268,773,000	29.68%
2001	7,994,128,992	2,650,347,000	33.15%
2002	8,108,981,631	2,866,818,000	35.35%
2003	8,429,054,541	3,005,469,000	35.66%
2004	8,632,162,200	3,112,850,000	36.06%
2005	9,906,570,900	3,066,040,000	30.95%
2006	10,930,261,350	3,094,260,000	28.31%
2007	12,009,366,365	3,240,150,000	26.98%
2008	12,451,109,180	3,465,750,000	27.83%
2009	12,451,109,180	3,417,205,000	27.44%
2010	12,451,109,180	3,488,867,000	28.02%
2011	12,451,109,180	3,786,480,000	30.41%
2012	12,505,103,786	4,131,465,000	33.04%
2013	12,630,154,824	4,055,890,000	32.11%
** Estimate as of June 30, 2013*			

Figure 2

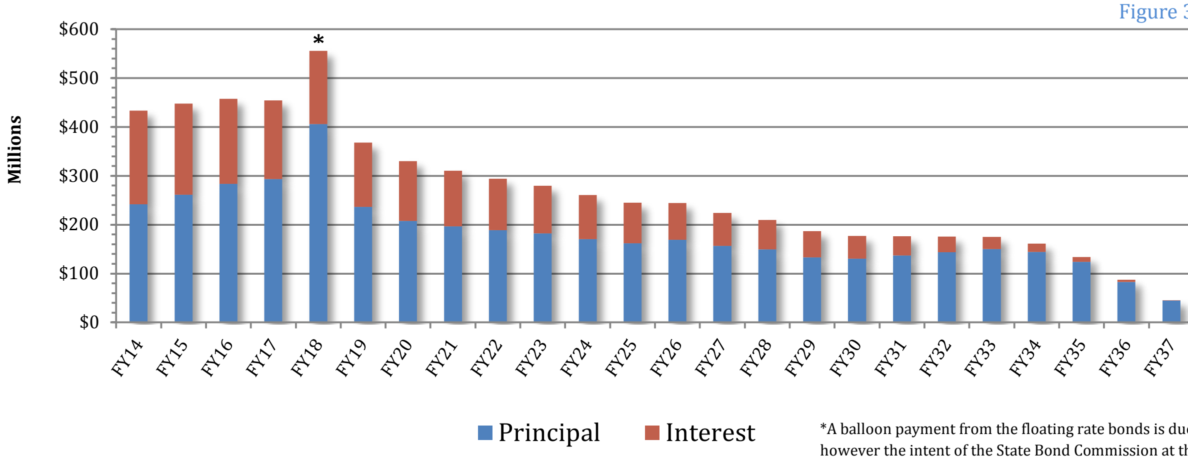
The issuance of general obligation bonds begins with the authorization of projects by the State of Mississippi's Legislature. During the Legislative session, various capital improvement and/or economic development projects are authorized by the voting members and then signed into law by the Governor. The State Bond Commission, comprised of the Governor (Chairman), Attorney General (Secretary), and Treasurer (Treasurer), considers those projects authorized in current and past legislation and issues the appropriate bonds to fund these projects. When Refunding Bonds are being considered, MS Code § 31-27-13 provides that at least 2% net present value savings be attained in the issuance of this debt. To further ensure nominal savings on Refunding Bonds, State Bond Commission policy requires at least 3% net present value savings before the issuance of this type of debt.

Estimated Annual Debt Service Requirements

The Office of the State Treasurer is assigned the task of managing debt service for the State. The agency ensures the timely payment of principal and interest (along with associated fees) for all outstanding debt by maintaining debt service schedules for each issue. Funds to pay for annual debt service requirements are appropriated by the State Legislature through the General Fund. In addition to the General Fund appropriation, debt service is also funded through the use of Special

Funds. Funding from Special Funds is derived from interest earnings from unspent proceeds, repayments from loan programs issued on behalf of the Mississippi Development Authority, and other transfers (such as tax credits from the Build America Bonds). Currently, the debt service requirement for FY14 is estimated to be approximately $433 million. This amount equates to approximately $241.5 million in principal payments and $191.5 million in interest payments. From a taxable and tax-exempt point of view, the debt service for FY14 is $188.2 million and $244.8 million, respectively. As illustrated below, amortization for all outstanding debt is payable through FY37.

Figure 3



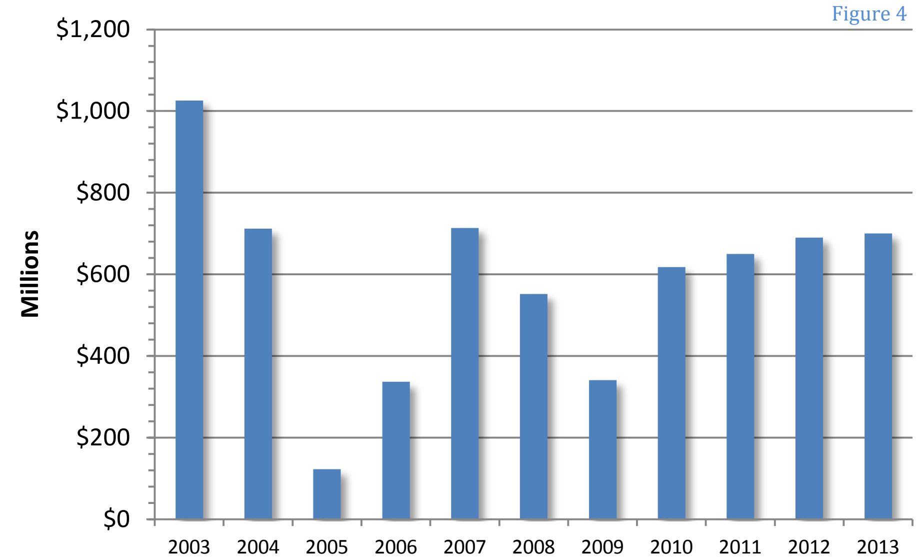
*A balloon payment from the floating rate bonds is due in FY 2018, however the intent of the State Bond Commission at that time is to restructure those bonds and extend the maturity.

Credit Rating Review

Credit ratings play an important role in the issuance of debt and are one of the factors that affects the State's cost of capital on debt issuance. During the fall bond sale in FY13 (August 2012 and October 2012), the State's ratings were affirmed at AA+ (Fitch Ratings Service), Aa2 (Moody's), and AA (Standard and Poor's). While Moody's and Standard and Poor's affirmed the State's stable outlook, Fitch issued a negative outlook. Although Fitch praised the State for its conservative financial management and stringent budget control mechanisms, the agency revised the outlook downward due to the State's slow fiscal recovery from the recession and the continued reliance on one-time resources to cover recurring needs. Also noted in the Fitch report as a troubling sign is Mississippi's unfunded pension liabilities (when measured as a percent of personal income, Mississippi is among the highest of all states in the U.S.). Areas where credit strengths were noted by the rating agencies included: the diversification of the economy and successful economic developments initiatives; the reinstatement of the 98% budgeting policy (suspended in FY's 2008-2012, but returned in FY 2013); healthy growth of revenues.

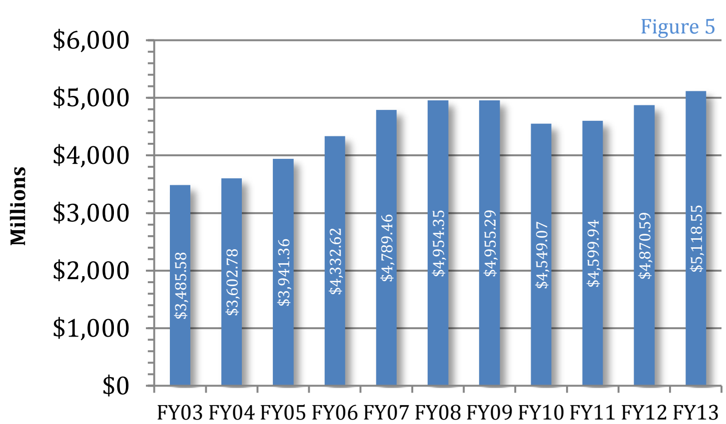
Estimated Debt Issuance

The Office of the State Treasurer collected data from the agencies that represent the largest borrowing needs in the State. These agencies were asked to look at their long term needs and assess the importance and time sensitivity in funding those needs through borrowing. The Mississippi Development Authority, the Department of Finance and Administration – Bureau of Buildings, and the Mississippi Department of Transportation all supplied their respective 5 year plans so that a model could be created to illustrate how future borrowings would appear when compared to current indebtedness. Over the last several years, the State has seen a leveling off regarding the amount of debt issued (although, as illustrated by the graph below, historical borrowing has fluctuated greatly over the last 10 years – this includes new money issuance as well as refundings).



Revenue Collections

In order to be able to fund projects within the state, a healthy revenue stream is important. Whether the project at hand is an improvement to capital facilities or the construction of a manufacturing site, the ability to collect, control, and forecast future revenue streams is vital to financing. As reported by State Economist, Darrin Webb, at the 2014 Legislative Economic Briefing, Mississippi's economy is following a similar pattern of growth and gradual improvement that has been seen in the U.S. economy. Revenue projections along with information regarding the State's economy were provided by the Mississippi University Research Center. Although income growth has been more modest, the state has reported the strongest employment growth since 1999. It is believed that as the national economy improves, Mississippi growth should become more solid. The state is on track to make the 2014 General Fund Estimate (assuming no recession) and the estimate for FY15 is also forecasted to be attainable.



Collections by the Department of Revenue representing Total General Fund revenues at June 30, 2013 were $5,118,553,793. These collections were 6.14% higher than the FY13 Revenue Estimate and 5.07% higher than revenue collections at June 30, 2012.

Debt Ratios

2013 Comparison of Mississippi to Peer Group and National Medians

Figure 6

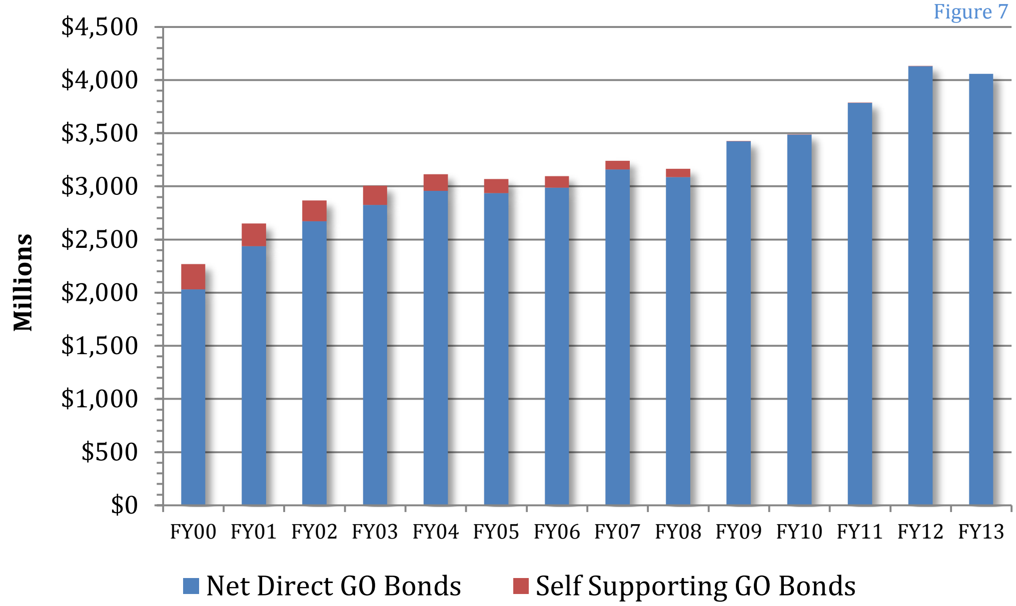
	Net Tax-Supported Debt per Capita	Net Tax-Supported Debt as a % of Personal Income	Debt Service Ratio (FY2012)
Mississippi	$1,735	5.4%	7.2%
Peer Group Mean	$1,723	3.5%	6.3%
Peer Group Median	$1,573	3.3%	6.5%
National Mean	$1,416	3.4%	5.2%
National Median	$1,074	2.8%	4.9%

The information provided above is prepared by Moody's Investor Services annually. The data illustrates state-by-state comparisons and rankings for net-tax supported debt as it relates to various financial criteria. Mississippi lags its peer group and national mean and median in Net-Tax Supported Debt per Capita. In FY13, $1,735 represents the amount each Mississippian is liable for in order to cover all Net-Tax Supported Debt for the State. As it relates to what residents earn annually, this debt is 5.4% of personal income in the State – the highest not only in its peer group, but also higher than the national mean and median. The debt service ratio (which is derived from debt service on net tax supported debt divided by operating fund revenues plus pledged revenues) measures net tax supported debt as a percentage of revenues. Although not the highest on an individual basis in its peer group, the State's debt service ratio of 7.2% is higher than the mean and medians of its peer group and in the nation. The rankings of Mississippi nationally for Net Tax Supported Debt per Capita, Net Tax Supported Debt as a Percentage of Personal Income, and the Debt Service Ratio are 15th, 11th, and 14th, respectively. As provided by the information found in the Moody's State Debt Medians report, the scale slides from 1-50 (with 50 being the state with the best averages and 1 being the state with the worst averages).

• STATE BOND INDEBTEDNESS •

It is important to monitor the trend in Mississippi's outstanding debt to evaluate how debt levels have changed over time. The chart below illustrates historical bond indebtedness and the year-over-year increases in the amount of borrowings entered into by the state.

Figure 7

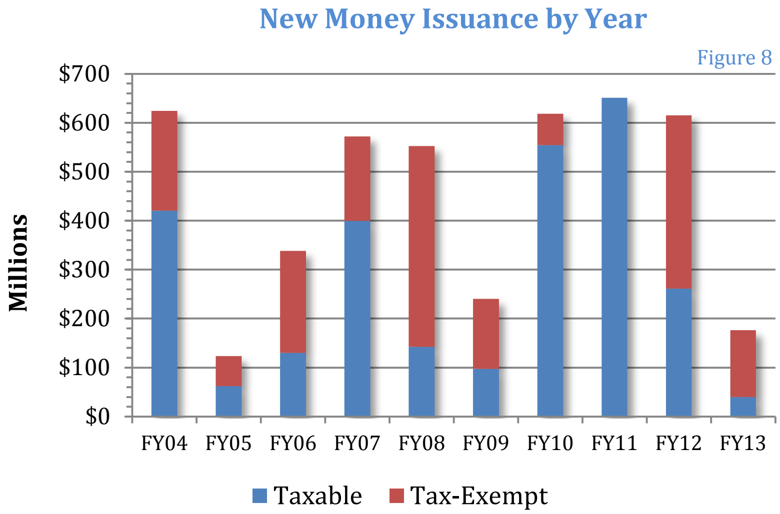


Although the State has seen growth in bond indebtedness over the last several fiscal years, Total Net Direct General Obligation Bonds declined in FY13 from FY12 by approximately $75,000,000. Self-Supporting General Obligation Bonds (primarily those of the Deer Island Project) were paid off during FY13 and are no longer part of the State's total indebtedness.

New money issuance declined in FY13 when compared to FY12. Although the State issued a total of $700,400,000 in FY13, only $176,420,000 represented new money deals. In the 2012 Regular Legislative Session, the Legislature did not authorize the issuance of any new debt, so the bond sale in the fall (FY13) consisted only of previously authorized but unissued debt. The remainder of this financing consisted of restructuring the State's entire portfolio of variable rate debt by converting the unhedged portion into long-term fixed-rate debt and converting the hedged portion into 5-year floating rate bonds. This financing also included taxable and tax-exempt refundings.

Over the last several years, the State has taken advantage of the historically low interest rate environment and the issuance of new money has provided funding for various Economic Development, Capital Improvement, and Transportation needs. Agencies and projects benefiting from these savings include Toyota, Yokohama Tires, Institutions of Higher Learning, Museums (Children's Museum and Mississippi Civil Rights Museum), and various highway projects (Highway 6 Access Interchange and Camp Shelby Access Improvement).

As illustrated on the following page, the issuance of new money has fluctuated a great deal historically. The higher points on the graph primarily relate to the issuance of Economic Development projects in the State. The issuance of this debt helps to improve the State's economy by creating/adding jobs in addition to creating a larger tax base for the Department of Revenue.

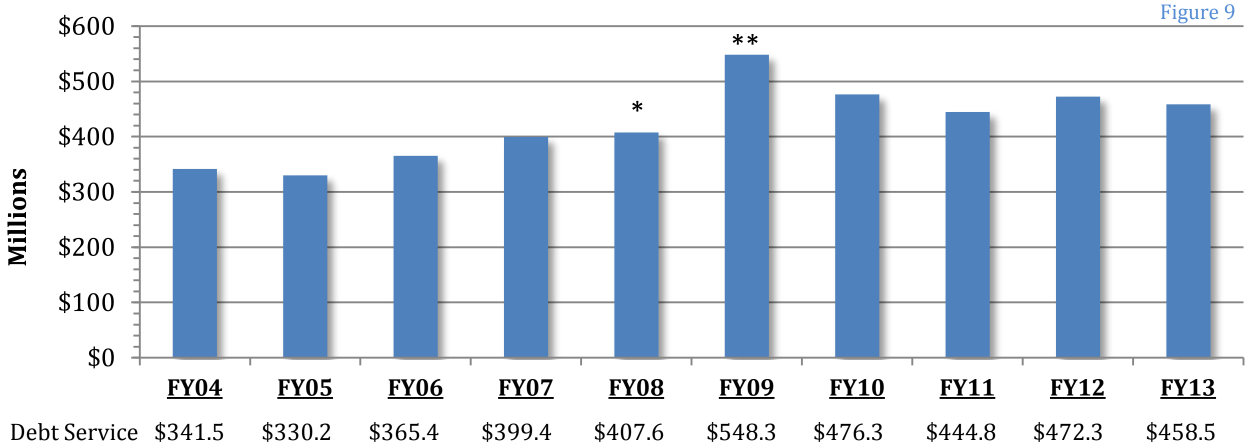


Bond indebtedness is 32.11% of the State's Constitutional Debt Limit. This represents a decrease in total debt vs. the debt limit by 2.81% from the previous fiscal year (attributed mainly to the lack of a bond bill from FY12).

● ANNUAL DEBT SERVICE ●

Over the past 10 years, annual debt service requirements have grown approximately 34%, increasing from $341.5 million in FY04 to $458.5 million in FY13. From a budgetary perspective, measuring the growth in debt service indicates how much of the State's resources are obligated for paying debt service before providing for other essential government services. The graph below illustrates the increase in debt service requirements received from General Fund and Special Fund appropriations from the for the last ten years.

Figure 9

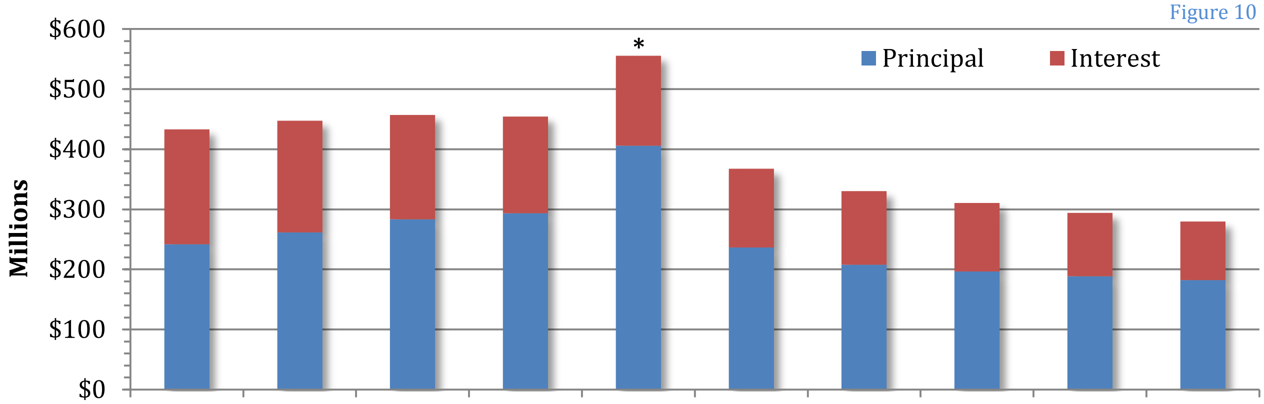


*includes $34 million deficit appropriation
**includes $7 million deficit appropriation and a debt service payment from Special Funds for $100 million from Gulf Tax Credit

Annual debt service payments for the State's existing net tax-supported debt for FY14 is approximately $433 million. As depicted in the graph on the next page, current debt service payments over the next several fiscal year remains relatively flat. The spike in FY18 is in reference to the maturity of the State's 5-year floating rate bonds (variable rate debt). The Treasurer's office anticipates that these bonds will either be converted into another similar instrument at that time or the floating rate bonds will be rolled into long term fixed rate debt. Subsequent to the spike in FY18, debt service over the next five fiscal years begins to decline and payments are reduced in those fiscal years by as much as 10%.

Debt service payments on existing outstanding debt for the next ten years totals $3.929 billion, with principal and interest payments totaling $2.496 billion and $1.433 billion, respectively.

Figure 10



	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Principal	$241.5	$261.5	$283.3	$293.1	$405.9	$236.2	$207.7	$196.6	$188.4	$181.9
Interest	$191.5	$185.8	$173.9	$161.3	$149.4	$131.5	$122.4	$113.9	$105.7	$97.8
Total	**$433.0**	**$447.3**	**$457.2**	**$454.4**	**$555.3**	**$367.7**	**$330.1**	**$310.5**	**$294.1**	**$279.7**

*A balloon payment from the floating rate bonds is due in FY 2018, however the intent of the State Bond Commission at that time is to restructure those bonds and extend the maturity.

Build America Bonds (BABs) and Recovery Zone Economic Development Bonds (RZEDBs) were authorized under the American Recovery and Reinvestment Act of 2009 and issued with taxable interest rates with the Federal Government reimbursing the issuer for 35% of the interest cost for the BABs and 45% of the interest cost for the RZEDBs. The State issued approximately $470 million in BABs during fiscal years '10 and '11 and $45 million in RZEDBs in FY11. Debt service is shown net of the BABs and RZEDBs subsidy for purposes of this report. In FY13, the State received subsidies totaling approximately $9.4 million. Due to federal sequestration during FY13, the subsidy was reduced initially by 8.7% and then revised to a reduction of 7.2%. The amount of subsidy the State receives from the federal government is budgeted and used for the annual payment of debt service for the BABs and RZEDBs.

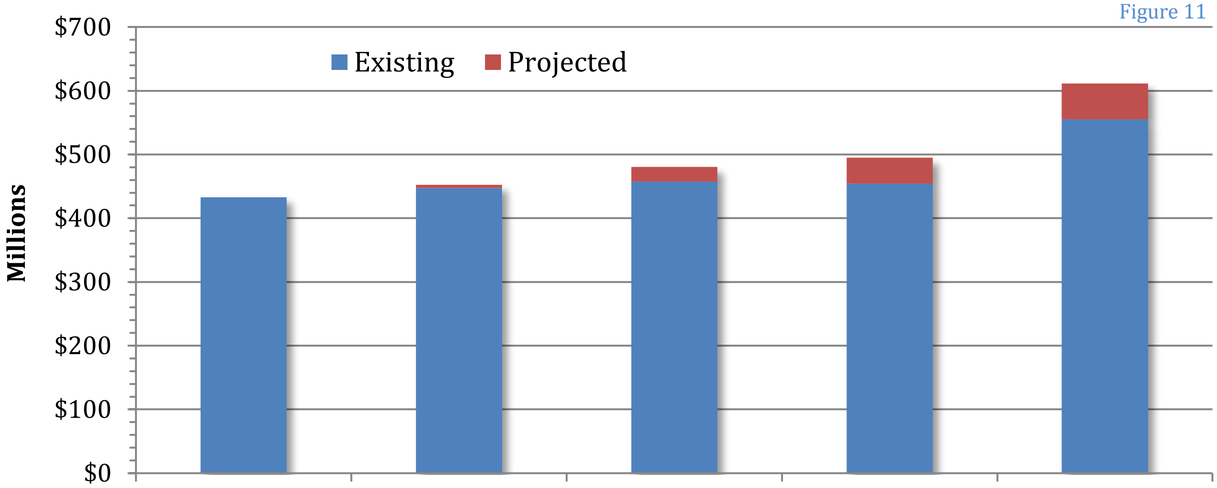
● DEBT ISSUANCE AND DEBT SERVICE FORECAST ●

Estimated future bond issuance has been provided by the three agencies that represent the majority of historical borrowings in the State: Mississippi Development Authority (MDA), the Department of Finance and Administration – Bureau of Buildings (BoB), and the Mississippi Department of Transportation (MDOT).

Based on historical data provided by MDA, the numbers provided are estimates for the average annual usage in key bonded programs over the next 5 years (such as the Industry Incentive Financing Revolving Fund, the ACE fund, and the Development Infrastructure Program). According to the agency, *"MDA continually works with companies and local partners to incentivize economic development across the state. Unfortunately, all states are aggressively pursuing many of these projects, and companies now have an expectation that certain items like public infrastructure and workplace training will be provided at no cost."* The Bureau of Buildings is tasked with the management and maintenance of all State owned facilities. Proceeds from previous bond issues have benefited the state in the repair and renovation as well as the capital improvement and preplanning needs for state institutions. The Mississippi Department of Transportation (MDOT) is the operational agency of the Mississippi Transportation Commission tasked to maintain and improve the highway, rail, maritime, public transportation, and aviation infrastructure in the state. The Mississippi Department of Transportation is responsible for providing a safe intermodal transportation network that is planned, designed, constructed and maintained in an effective, cost efficient, and environmentally sensitive manner.

The graph below illustrates existing debt service and the estimated annual debt service for projected financing needs over the next 5 fiscal years. These projections include projects administered through MDA, BoB, and MDOT. Information provided by each of these agencies was used in the calculation of future estimated debt service requirements.

Figure 11



	2014	**2015**	**2016**	**2017**	**2018**
Existing	$432,997	$447,324	$457,150	$454,439	$555,368
Projected	$0	$5,040	$23,365	$40,571	$55,750
Total	**$432,997**	**$452,364**	**$480,515**	**$495,010**	**$611,118**

Approximately $1.8 billion in new money debt issuance is projected over the next five years for these three agencies alone. These numbers do not include various other agencies' financing projections and/or programs. Through these estimated bond issuances, annual debt service payments will increase an estimated 1.13% (FY15), 5.11% (FY16), 8.93% (FY17), and 10.04% (FY18) over the next five years.

● REVENUE FORECAST ●

Actual General Fund Revenue collections for FY 2013 exceeded FY 2012 collections by $248 million or 5.1%. Growth in revenue obviously has a positive impact on the amount available to support debt service. However, a volatile economy complicates the decision making process. The FY 2014 Sine Die revenue estimate (set by the Mississippi Legislature in March 2013) was $5080.9 billion, a decrease of .7% from FY 13 actual collections. As of February 2014, the State has collected approximately $3.1 billion. Collections are currently $175 million over the year-to-date estimate. In October 2013, the Revenue Estimating Committee (REC) recommended an upward adjustment to the FY 14 estimate to $5220.7 billion. This recommended increase was later adopted by the Joint Legislative Budget Committee (JLBC). In the same action, the JLBC adopted the recommendation of the Revenue Estimating Committee to adopt a General Fund budget for FY 2015 of $5362.1 billion. (It is anticipated that the REC will meet again in March 2014 to review these estimates again.)

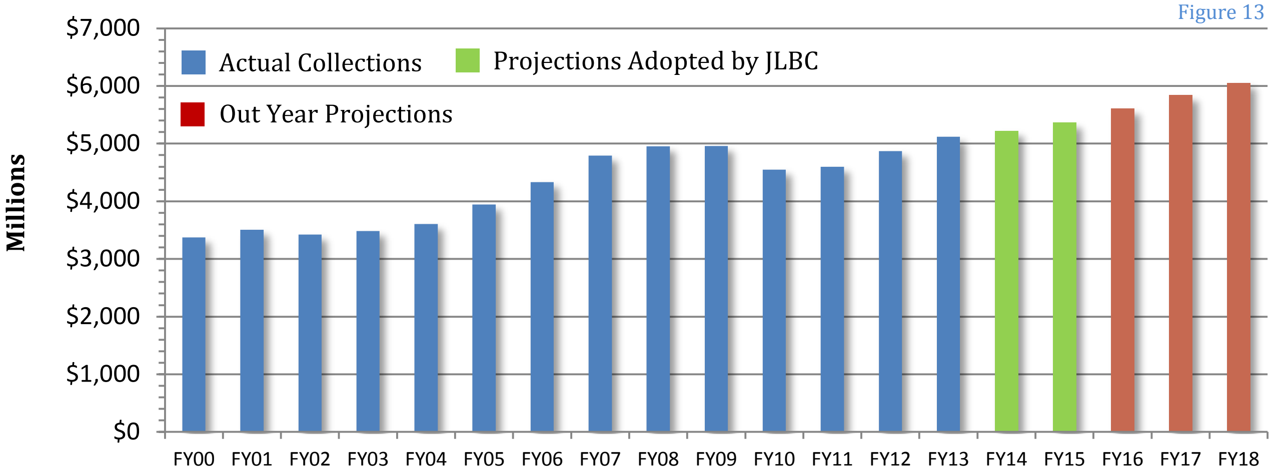
Figure 12

Historical Revenue Available for Tax-Supported Debt
(in millions)

	ACTUAL COLLECTIONS			PROJECTED COLLECTIONS				
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Department of Revenue Collections								
Sales Tax	1,790.8	1,854.7	1,911.1	1,969.9	2,040.0	2,129.8	2,218.3	2,302.7
Individual Income Tax	1,382.7	1,489.1	1,650.1	1,668.4	1,726.8	1,800.0	1,876.4	1,949.9
Corporate Income Tax	448.0	505.3	524.1	545.3	562.6	610.1	643.9	663.1
Use Tax	209.7	215.8	233.4	240.0	247.9	262.6	267.8	273.3
Gaming Fees and Taxes	146.9	152.1	139.6	139.3	139.3	141.0	145.2	149.5
All Other Sources	621.8	653.5	660.2	657.8	645.5	660.0	687.8	712.7
TOTAL GENERAL FUND COLLECTIONS	**4,599.9**	**4,870.5**	**5,118.5**	**5,220.7**	**5,362.1**	**5,603.5**	**5,839.4**	**6,051.2**

The Chart labeled Historical Revenue Available for Tax-Supported Debt illustrates the Actual Collections for the most recently completed three fiscal years, plus the FY 2014 and FY 2015 projections adopted by the JLBC. For purposes of this report, we requested information from the State's Economist regarding out year projections and were provided the numbers shown above for the fiscal years 2016 through 2018. The projections have not been approved by the REC or the JLBC, but are simply a reflection of the long term growth anticipated by the State's Economist.

Figure 13



While there are some specific special fund revenues dedicated to the payment of debt service (interest earnings, loan repayments, gaming taxes), the majority of the funding for the payment of debt service comes from the General Fund tax collections. The projection of revenue in the charts provided reflect forecasts, broken down by source, of funds that will be available for debt service. **The increase in total available revenues results in an increase in the amount available for debt service.**

● COMPARISON OF DEBT RATIOS ●

The State's debt position is evaluated in the municipal bond market with three primary debt ratios: 1) net tax supported debt per capita, 2) net tax supported debt as a percentage of personal income, and 3) debt service to revenues. State debt ratios are helpful because when comparing the state to its peer group or the nation, absolute values are more useful with a basis for comparison.

Figure 14

2013 Comparison of Mississippi to Peer Group and National Medians

	Net Tax-Supported Debt per Capita	Net Tax-Supported Debt as a % of Personal Income	Debt Service Ratio (FY2012)
Mississippi	$1,735	5.4%	7.2%
Peer Group Mean	$1,723	3.5%	6.3%
Peer Group Median	$1,573	3.3%	6.5%
National Mean	$1,416	3.4%	5.2%
National Median	$1,074	2.8%	4.9%

Mississippi's debt ratios lag the national averages as well as those in its peer group (see table below for comparison to other Aa2 states).

Figure 15

2013 Comparison of Mississippi to Peer Group

	Rating	Net Tax Supported Debt per Capita		Net Tax Supported Debt as a % of Personal Income		Debt Service Ratios (for FY2012)	
Mississippi	Aa2	$1,735	15	5.4%	11	7.2%	14
Hawaii	Aa2	$4,246	3	0.1%	1	10.4%	5
New York	Aa2	$3,174	5	6.3%	6	11.5%	2
Rhode Island	Aa2	$2,085	10	4.7%	13	7.7%	11
Kentucky	Aa2	$1,998	11	5.9%	8	7.2%	15
Wisconsin	Aa2	$1,874	13	4.7%	14	3.8%	32
Louisiana	Aa2	$1,411	16	3.7%	17	4.5%	28
Pennsylvania	Aa2	$1,208	22	2.8%	23	5.0%	24
Maine	Aa2	$814	32	2.1%	33	6.4%	19
Michigan	Aa2	$800	34	2.2%	32	2.6%	40
Nevada	Aa2	$730	36	1.9%	34	6.6%	18
Oklahoma	Aa2	$604	38	1.6%	38	2.2%	42

Mississippi is .07% higher than its peer group average in net tax supported debt per capita and 22.53% higher when compared to the national average. The State is also behind in net tax supported debt as a percentage of personal income by almost two full percentage points for both the peer group average and the national average. The ratio is almost the same when comparing the State's debt service to revenues: one full percentage point higher than its peer group average compared to two percentage points higher than the national average.

● CREDIT RATINGS REVIEW ●

The State's credit rating is the forward looking opinions about credit risk by the nation's three largest rating agencies: Moody's Investor Services, Standard and Poor's, and Fitch Ratings. Credit ratings express the respective agency's opinion about the ability and willingness of an issuer to meet its financial obligations in full and on time. Each agency applies its own methodology in measuring creditworthiness and uses a specific rating scale to publish its ratings opinion. Four primary factors are considered in credit analysis: governance, debt and liability profile, budget and financial management, and economic indicators.

During the fall of 2013, the three major rating agencies (Moody's, Standard and Poor's, and Fitch) each affirmed the State's Aa2, AA, and AA+ general obligation ratings, respectively. Along with the relative ratings that are published with each bond issue, the agencies also submit their rationale for the ratings along with the issuer's strengths and challenges (both current and future). Although the methodologies may differ slightly from agency to agency, their general assessment of the State's financial and economic outlook are relatively similar.

Figure 16

State of Mississippi
General Obligation Credit Ratings

	Rating	Outlook
Moody's Investor Services	Aa2	Stable
Standard & Poor's	AA	Stable
Fitch Ratings	AA+	Negative

STRENGTHS

The State's financial position is adequate, with sufficient reserves and improving general fund revenue collections exceeding the state's expectations for the past three years (after a decline in fiscal 2010). A strong governmental framework is supported by a constitutional requirement to adopt and maintain a balanced budget throughout the fiscal year. The State practices fiscal conservatism through a statutory 2% budget set-aside and mandatory spending cuts if revenues were to fall below 98% of the budget estimate. Through historically conservative and proactive fiscal management, the state has been able to maintain financial stability through periods of revenue decline. This is, in part, due to strong embedded fiscal policies and practices. Standard & Poor's noted that *"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."*

CHALLENGES

Mississippi has an economy that trails many national median indicators and is more dependent than other states on federal spending. A weak socio-economic profile seen by below average wealth and income coupled with the nation's highest poverty rate and lowest educational attainment levels present challenges to the state's credit rating. The high unemployment rate exceeds the national average (9.2% in 2012 compared to 8.1% for the nation). Having improved to 8.5% in August 2013, this is still one full percentage point below the 7.5% national average.

Unfunded pension liabilities are among the highest of the states when measured as a percentage of personal income. Moody's and Standard & Poor's affirmed the State's Stable Outlook in the fall of 2013, yet Fitch revised their Outlook from Stable to Negative. Although partially due to the unfunded liability, Fitch also noted that *"the rating may be lowered if the state is unable to consistently fund ongoing operations without relying on one-time revenue sources."*

• CONCLUSION •

Total Net Direct Debt outstanding declined in FY 2013 from FY 2012 by approximately $75 million. The reduction was primarily driven by principal amortizations, coupled with less new money issuances. The decrease in new money issuances is reflective of the decrease in the amounts authorized annually by the Mississippi Legislature. We anticipate the amount outstanding at June 30, 2014 to be $3,914,785,000, a decrease of approximately $141 million from FY 2013. Expected requests equal $1.8 billion over the next five years for future bond issuance from the three agencies that represent the majority of historical borrowings. This includes issuance for capital improvements, economic development and construction of roads and bridges. This level of debt issuance when coupled with ongoing principal amortization creates a moderate and manageable level of debt for the state.

In addition to a decrease in outstanding debt, the annual debt service requirements on the tax supported debt decreased slightly from FY 2012 ($472 million) to FY 13 ($458 million). Debt Service payments on existing outstanding debt is estimated to range from $433 million in FY 2014 to $454 million in FY 2017. A balloon payment is due in FY 2018, however the intent of the State Bond Commission at that time is to restructure those bonds and extend the maturity. After 2018, debt service on the existing bonds will begin to decline. When the $1.8 billion of future issuance is considered over the next five years, the debt service for the existing and projected issuance ranges from $433 million in FY 2014 to $495 million in FY 2017, assuming the new bonds are issued using level debt service payments.

Revenues available for the payment of debt service are expected to increase over the next five years. The economic recovery has begun to stabilize, as evidenced by the increased revenue forecasts from the Revenue Estimating Committee. Revenue estimates for FY 2014 and FY 2015, along with the out year projections through FY 2018 are all on the rise. Continued uncertainties in the national and global economy present risks to the state and could affect the revenue forecast going forward.

The ratio of outstanding debt to the Constitutional Debt Limit improved slightly from FY 2012 (33.04%) to FY 2013 (32.11%). If revenues continue to rise and the amount of outstanding debt continues to decrease, we expect to see continued improvement in this ratio. In the year 2000, the ratio was below 30%. Prudent debt issuance could help us return to a healthier debt ratio number. This benchmark should be considered by the Mississippi Legislature and used as a general guide when evaluating future debt authorization.

A comparison of our debt ratios to national and peer group averages indicate that Mississippi's ratios are lagging behind. Mississippi is .07% higher than its peer group average in net tax supported debt per capita and 22.53% higher when compared to the national average.

Credit ratings play an important role in the municipal bond market, particularly driving the state's financing costs. Standard & Poor's, Moody's and Fitch Rating Services each affirmed our AA, AA2, and AA+ ratings, respectively in the state's 2013 bond sale. Although Fitch revised our outlook from stable to negative, both S&P and Moody's maintain stable outlooks. The rating agencies cite as credit strengths the strong embedded fiscal policies and practices such as the 2% budget set-aside and mandatory spending cuts if revenues fall below 98% of revenue estimates. Remaining challenges over maintenance of the current ratings are a weak socio-economic profile, increased dependence on federal spending, and an unemployment rate that exceeds the national average. Of particular concern are the unfunded pension liabilities being among the highest of the states and the continued reliance on one-time revenue sources to fund ongoing operations. The State's credit rating also remains vulnerable should the economic recovery not materialize as projected.

Appendix A: Authorized but Unissued