

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings assigns the following ratings on Missouri Highways and Transportation Commission (MHTC) bonds:

--\$586.29 million 1st lien refunding state road bonds, series A 2014 at 'AAA';

--\$301.98 million 2nd lien refunding state road bonds, series B 2014 at 'AA+'.

Fitch also affirms the ratings on the outstanding MHTC bonds as follows:

--\$ 433.19 million senior lien state road bonds at 'AAA';--\$ 728.94 million first lien state road bonds at 'AAA';--\$ 482.02 million second lien state road bonds at 'AA+';--\$ 315.66 million third lien state road bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY

Special revenue obligations of the commission, payable from state highway revenues constitutionally required to be used for highway purposes and deposited in the state road fund and the state road bond fund.

KEY RATING DRIVERS

SOLID COVERAGE ON BOTH INDENTURES: State road bonds were issued under a 2000 senior lien indenture and a 2005 subordinated indenture with first, second and third liens. Coverage of debt service by pledged revenues remains ample, despite somewhat

inconsistent revenue performance in recent years in part due to the slow economic recovery. Fitch believes there are limited prospects for growth in pledged revenues going forward.

ADDITIONAL BOND ISSUANCE LIMITED: The senior lien is closed, while subordinated liens established under voter-authorized Amendment 3 are unlikely to be further leveraged in the near-term. A strong ABT with coverage consistently in excess, more conservative policy targets for coverage, and reliance on the residuals for Missouri Department of Transportation operations, provide adequate protection for bondholders.

DEDICATED REVENUES: The state's constitution dedicates highway user fees and taxes to roads and bridges. The state road fund supporting the senior lien bonds stands appropriated, requiring no further legislative action. Motor vehicle sales taxes deposited to the state road bond fund to support first, second and third liens require appropriation.

STATE OVERSIGHT: The bonds benefit from centralized revenue collection and careful oversight by the state, whose GO bonds are rated 'AAA'.

RATING SENSITIVITIES

REVENUE PERFORMANCE: The rating is based on the maintenance of substantial pledged revenues, providing solid coverage of debt service. Sustained and significant declines in pledged revenues leading to erosion of solid coverage closer to or below ABT levels could exert negative rating pressure.

CREDIT PROFILE

The commission issued state road bonds over the last decade to support statewide transportation capital projects, first under the 2000 senior lien indenture and subsequently under the Amendment 3-authorized 2005 subordinate indenture which provided for first, second and third lien bonds. The 2000 indenture has been closed since 2005 for all new bonding except refunding, while the subordinated first, second and third lien bonds are

not expected to be leveraged further in the near-term. Following this proposed issuance, the first lien bonds will have some capacity for new money in out years. The current offering refunds certain first and second lien bonds for net present value savings with no maturity extension.

ROBUST COVERAGE

The bonds' credit quality is tied largely to pledged revenue performance. Pledged revenues continue to provide ample coverage, despite lackluster growth afforded by the slow economic recovery and, in Fitch's view, the limited prospects for longer-term growth in transportation-related receipts. Residual pledged revenues after payment of state road bond debt service are available to back \$796 million in MODOT-issued federal grant anticipation revenue bonds (GARVEEs, rated 'AA-/Stable Outlook by Fitch) as well as to support MODOT current operations.

Based on a projection of no revenue growth from fiscal 2013 (and adjusted downwards for a recent legislative change affecting pledged revenues), the low point of projected annual debt service coverage on all outstanding state road bonds is solid, ranging from 7.8x for the senior lien to 3.7.x for the third lien (excluding the benefit of federal Build America Bonds interest subsidy on one series of third lien bonds). Under a more conservative calculation of coverage which aggregates debt service and pledged revenues across all liens, the low point of coverage remains ample at 2.9x.

DIVERSE PLEDGED TRANSPORTATION REVENUES

The 2000 senior indenture bonds are payable from various transportation receipts constitutionally dedicated for highway purposes and deposited to the state road fund. Receipts include portions of motor fuel taxes, motor vehicle fees, and sales and use taxes on motor vehicles. Funds deposited in the state road fund stand appropriated for highway purposes without requiring further legislative action. Currently, approximately \$433.2 million in 2000 senior indenture bonds are outstanding.

The 2005 indenture first, second and third lien bonds have a first claim on a separate portion of motor vehicle sales tax that was formerly deposited to the state's general fund, in

addition to having a second claim on state road fund receipts after the 2000 senior indenture state road bonds. The motor vehicle sales taxes dedicated exclusively to the 2005 indenture bonds are deposited to a separate state road bond fund. Sales taxes deposited to the state road bond fund must be appropriated but are constitutionally restricted to highway purposes. A total of \$1.5 billion is currently outstanding under the Amendment 3 authorized first, second and third liens.

Highway user fees and taxes have historically been stable, although they exhibited notable weakness during the recession and are expected to remain relatively flat to declining going forward. Before required diversions for collections, retirement and law enforcement costs, gross pledged revenues available to the bonds rose 1.1% in fiscal 2012 and an even slower 0.8% in the fiscal year ending June 30, 2013. Recent strong growth in motor vehicle sales taxes has been offset by ongoing weakness in pledged motor fuel taxes and vehicle fees, which declined 1.5% and 0.8%, respectively, in fiscal 2013 net of refunds, costs of collection and distributions to cities and counties.

CERTAIN REVENUE DIVERSIONS UNCAPPED

Although diversions for collection costs are constitutionally capped at 3% and local allocations are statutorily set, law enforcement and pension contributions are not capped. Pension contributions have risen steadily given the MODOT system's low funded ratio and the recognition of investment losses from 2008 - 2009, although the state has initiated various reforms to benefit provisions and contributions to slow the growth of contributions over time. Net pledged revenues after all diversions fell 0.9% in fiscal 2012 but were up 2.6% in fiscal 2013 with declined law enforcement costs, to \$717.4 million.

The commission has no near-term plans to further leverage existing state transportation taxes as coverage levels are at or near legal limits. Additional senior lien bonds are prohibited. The first, second, and third liens carry additional bonds tests of 4x, 3x and 2x of MADS, respectively, although the commission's more restrictive policy stands at 5x, 4x and 3x, respectively, levels which ensure sizable residual revenues for other commission purposes, including backstopping GARVEE bonds and for Missouri Department of Transportation operations. With the proposed issuance, MHTC does create some capacity for possible new money issuance on the first lien in the out years, though none is currently planned.

SENIOR LIEN RESERVE MAINTAINED

Although a debt service reserve is not established, a requirement that the state road fund, after current debt service, hold an amount sufficient for the succeeding year's debt service on senior lien bonds before revenues are disbursed for other purposes effectively provides a one-year reserve. No such reserve exists for the first, second, and third liens which Fitch does not view as a concern given the robust coverage levels. Additional credit strength derives from administrative involvement with the state, which serves as a collection agency for all highway use revenues and provides administrative control over fund resources. Fitch rates the State of Missouri's general obligation bonds 'AAA' with a Stable Outlook.

Additional information is available at www.fitchratings.com.

Applicable Criteria and Related Research:--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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