

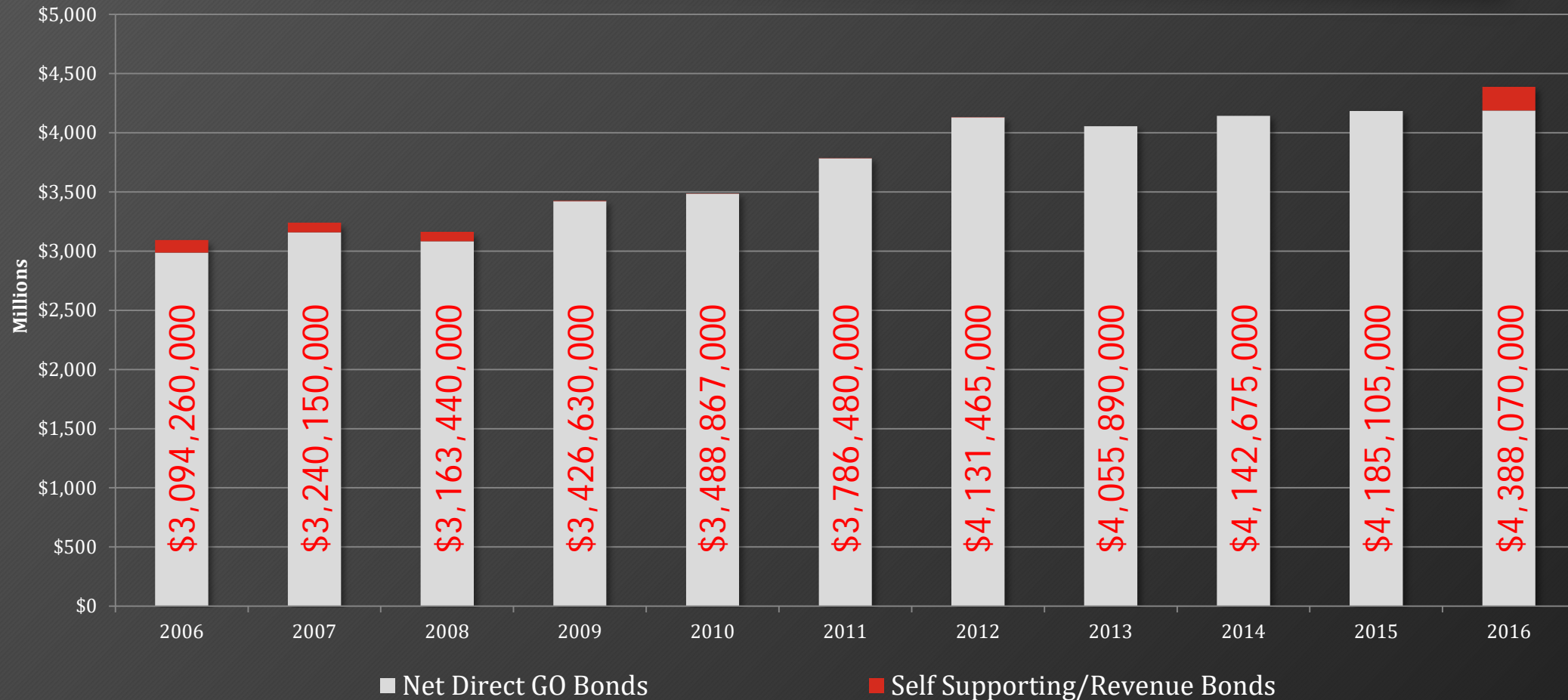
Economic Briefing 2017

16 February 2017



Lynn Fitch
STATE TREASURER

Bond Indebtedness



Bond Indebtedness



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FYE	Net Direct General Obligation Bonds & Notes	Self-Supporting General Obligation & Revenue Bonds	Total Bond Indebtedness
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
2014	4,142,675,000	0	4,142,675,000
2015	4,185,105,000	0	4,185,105,000
2016	4,188,070,000	200,000,000	4,388,070,000

Note: Legislature chose not to pass a bond bill in the 2012 session.

Bond Indebtedness

- In ten years, from FY 06 to FY 16, total bond indebtedness has increased \$1.3 BILLION
 - \$1,293,810,000 (actual amount)
 - 41.8% increase in ten years
- As a result, Debt Service is **third largest item** in Mississippi State Budget
- Don't forget the 2016 Special Session - added \$274 million for Continental Tire and Topship
 - Together with the 2016 Bond Bill, means we took on more debt than we paid off in same year

YOUR OVER \$1.1 BILLION DEBT BURDEN

HB 1729 PASSED APRIL 2016 FOR VARIOUS PROJECTS

HB 1 PASSED FEB 2016 FOR CONTINENTAL TIRE AND TOPSHIP

VARIOUS PROJECTS IN DOZENS OF BILLS AUTHORIZED BY THE LEGISLATURE BUT STILL AWAITING BONDING



\$1,707 FOR EVERY MS MAN, WOMAN & CHILD



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Debt Service



- Legislature did not fully fund debt service for FY 17
- Deficit Appropriations requested for FY 17
 - Initially requested \$14.4 million on 31 August 2016
 - Able to reduce amount of the **deficit to \$7.6 million** by structure of Dec 2016 bond sale
 - Start running in the **negative 1 April 2017**
 - Treasurer has authority to use "any funds in the State Treasury not otherwise appropriated" to keep State from defaulting.

Debt Service



- LBR for FY 18 relies too heavily on special funds

	LBR FY 18	OST Request FY 18	OST Request vs LBR	OST Est FY 17
Special Funds	\$93,155,203	\$59,958,690	(\$33,196,513)	\$111,503,518
General Funds	\$392,241,392	\$425,437,905	\$33,196,513	\$391,991,392
TOTAL	\$485,396,595	\$485,396,595		\$503,494,910
Bank Fees	\$500,000	\$500,000		\$750,000

Debt Service

- Special Funds have been bled dry
 - Legislature has relied heavily on special funds
 - No longer funds available for short-term borrowing
 - Will have to go to the Street and pay interest

	Special Funds	General Funds
SB 2918 - FY 17	\$111,503,518	\$392,741,392
SB 2896 - FY 16	\$92,866,623	\$392,741,392
SB 2909 - FY 15	\$71,981,133	\$385,628,277
SB 2902 - FY 14	\$71,583,451	\$375,360,167
SB 3009 - FY 13	\$82,164,519	\$376,367,667
SB 3084 - FY 12	\$102,809,076	\$369,563,895
SB 3171 - FY 11	\$83,535,523	\$361,352,921

Debt Service

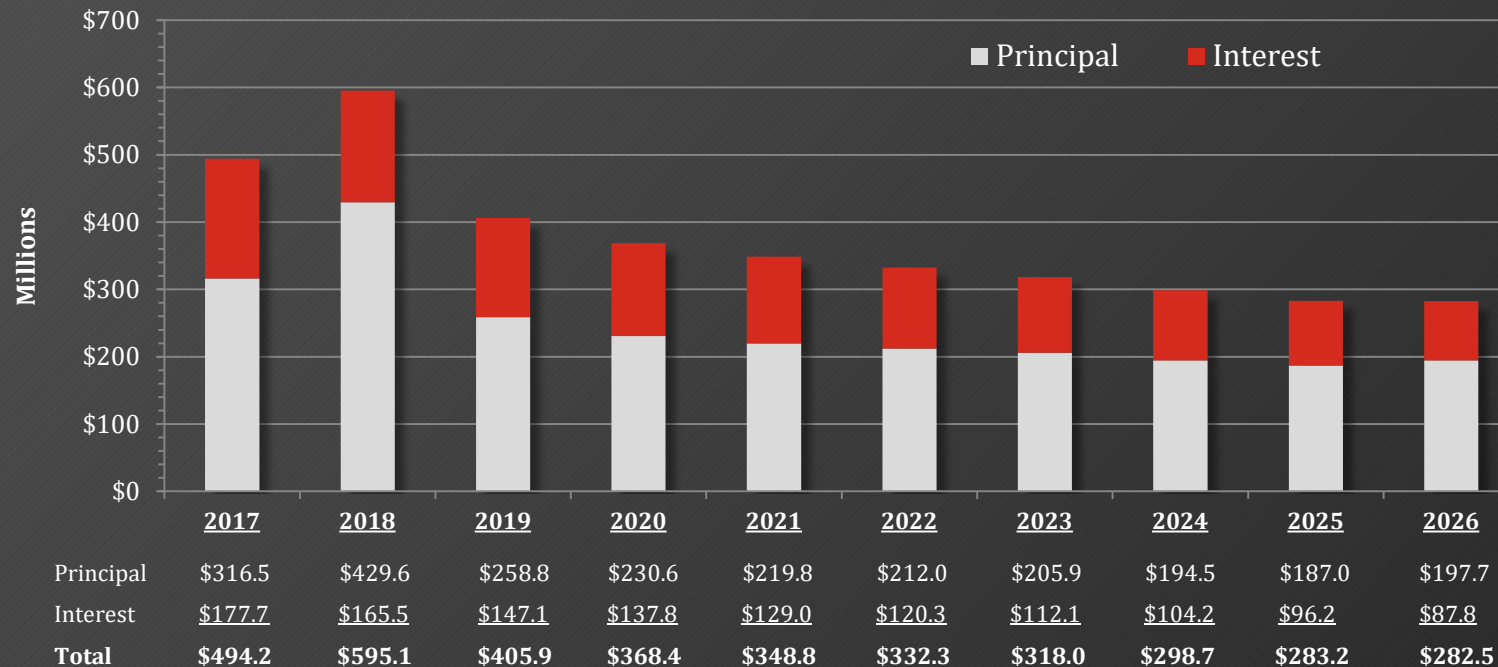


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- At first glance, \$107.8 million Special Fund balance at the end of FY 17.
BUT ...
- Most money in the Special Fund accounts are dedicated to repayment for specific bonds
 - \$104.9 million can *not* be used to repay any other bonds
 - 25 out of 28 bond issues that feed into special fund are in this category
 - Such as Build America Bonds, gaming bonds
- A little like nailing Jell-O to a wall
 - Variable rates and market fluctuations mean we cannot know for certain how much will be available in Special Funds
 - But, best estimate is that *only \$59,958,690 can be generated from Special Funds in FY 18*

Debt Service – Future Outlook

Future Debt Service Requirements on Existing General Obligation Debt
As of June 30, 2016



Note that a balloon payment from the Floating Rate Bonds is due in FY18; however, the intent of the State Bond Commission is to restructure those bonds and extend the maturity.

State Debt Burden

Mississippi's debt ratios lag behind the national averages.

	Mississippi	National Median	Mississippi's National Rank
Net Tax Supported Debt per capita	\$1,707	\$1,025	15th
% of personal income	5.0%	2.5%	10th
% of State GDP	4.88%	2.21%	5th
Debt Service Ratio	6.0%	4.3%	15th

State Debt Burden

Mississippi's debt ratios lag behind most of its peer group (other Aa2 states).

	Rating	Net Tax Supported Debt Per Capita	Rank	Net Tax Supported Debt as a % of Personal Income	Rank	Debt Service Ratios	Rank
Mississippi	Aa2	\$1,707	15	5.0	10	6.0	15
Hawaii	Aa2	\$4,557	3	9.9	1	10.9	2
Kentucky	Aa2	\$1,954	10	5.2	9	7.6	7
Rhode Island	Aa2	\$1,813	13	3.7	15	6.4	12
Wisconsin	Aa2	\$1,780	14	4.0	13	6.8	10
Kansas	Aa2	\$1,534	17	3.4	17	3.4	34
Maine	Aa2	\$928	28	2.2	29	5.1	21
Arizona	Aa2	\$776	32	2.1	31	4.6	24
Nevada	Aa2	\$591	38	1.5	37	5.6	18
Oklahoma	Aa2	\$397	43	0.9	42	2.6	36

New Bond Commission Rules



- Miss. Admin. Code 12-1-7:1.2A Project Compliance with Debt Management Objectives
- Borrowed from best practices by other states
- Used federal law and regulation for guidance
- Provides Guidelines for all parties in authorizing and issuing debt
 - Prospective Bond Recipients
 - Legislature
 - State Bond Commission

New Bond Commission Rules



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- For tax-exempt bonds, project is for public use and does not meet any of the Private Activity Bond tests specified in 26 U.S. Code § 141, et. seq.
- For Private Activity bonds, Bond Commission has clear and convincing evidence of economic use and benefit, including economic development, job creation, or other improvement of the public welfare.
- Project asset has a life equal to or longer than the life of its corresponding debt.
- No expenditures were made before the anticipated delivery date of the bonds,
 - Includes a process for obtaining a Declaration of Intent from the State Bond Commission for retroactive application of proceeds if necessary.
- Project is not the funding of salaries or other recurring expenses.

New Bond Commission Rules



- Requires bond recipients to submit sufficient information to Bond Commission to ensure the project asset is specific, not generic in nature.
- Allows Bond Commission to consider the financial impact on taxpayers throughout the state and over the lifetime of the bond repayment.
- Allows Bond Commission to consider whether the benefit of the project is primarily to the state or to the local economy.
- Allows Bond Commission to consider whether other state, federal or private funding mechanisms (e.g., local bonds, privilege taxes, grants, loans from the MDA, the MDEQ, USDA Rural Development, direct appropriation) might be available and more appropriate to generate the required funding for the project.

MPACT Legacy Shortfall



- MPACT reopened to enrollment in October 2014.
 - Was not on a sustainable course.
- Legacy Program - contracts prior to deferring enrollment.
- Horizon Program - contracts since reopening to enrollment.
- MPACT now cost-neutral to taxpayers and more cost-effective for customers.
- Full faith and credit of the State.
- Have now completed two full actuarial audits.

MPACT Legacy Shortfall



- Horizon Program doing well.
 - Meeting funding goals.
- Legacy Program continues to carry a shortfall.
 - Will be **insolvent in 2025** if all current assumptions are met.
 - Only funded at 72.1%.
 - As of 30 June 2016, Legacy carries a **\$126.4 million** shortfall.

MPACT Legacy Shortfall

In accordance with its funding protocol, the Board of College Savings Mississippi has requested an infusion of funds to close the shortfall ...
... the Legislature has ignored all requests.

	Total Shortfall	Appropriations Request
FY 16	\$126.4 million	\$12.6 million
FY 15	\$127.7 million	\$12.7 million
FY 14	\$129.7 million	\$12.9 million

MPACT Legacy Shortfall



- College Savings Board is about to make its 4th request: **\$12.6 million**.
- Updating the MPACT investment statute can help close the gap.
 - When the statute was drafted, many new asset classes were not even available.
 - MPACT and PERS statutes drafted in parallel, but only PERS has been updated.
 - Updating the statute would allow for greater portfolio diversification, greater flexibility in responding to market fluctuations.
 - *Can't invest our way out of this \$126.4 million hole, but it can help.*
- Rep. Mettetal (HB 1293) and Sen. Fillingane (SB 2466) - both died in committee.

Breaking Cycle of Poverty



- Mississippi has highest poverty rate in the nation
 - 22.6% of our residents live at or below federal poverty level
 - That's \$24,300 for a family of four
- 246,000 children live in poverty in Mississippi
 - 34% or 1 in 3 children

Breaking Cycle of Poverty – Financial Literacy



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- MS ranks at or near bottom of all studies on financial habits
 - 35% credit users in MS have prime credit
 - 61.9% liquid asset poverty rate (lack 3 months savings)
 - 47.3% households are unbanked or underbanked
 - 49.4% have savings accounts
 - 8.4% high-cost mortgage loans
 - 15.5% student loan default rate

Breaking Cycle of Poverty – Financial Literacy



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- Financial Education helps people be empowered by their money
 - This is a critical life skill
- In states that have recently mandated financial education for high school graduation, credit scores for recent students increased:
 - Georgia: increased 612 to 629
 - Texas: increased 617 to 629
 - Idaho: increased 632 to 640

Breaking Cycle of Poverty – Financial Literacy



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- Legislation to make ½ credit of financial education a high school graduation requirement has been introduced past four years
 - Passed in the House 3 times
 - Never considered in the Senate
- This year, bills in both House and Senate died in committee
 - Senator Chris Caughman – SB 2751
 - Representative John Moore – HB 579
 - Representative Tom Miles – HB 527

Breaking Cycle of Poverty – Pay Equity



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- 23% of Mississippi women live in poverty
- 246,000 Mississippi children live in poverty
- Over 75% of Mississippi children living in poverty live in a household headed by a single mom
- Over 78,000 Mississippi households are headed by women with incomes below the poverty line

Breaking Cycle of Poverty – Pay Equity



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- Women are 48% of the workforce in Mississippi
- State pay gap is 27% (MS State Economist study Dec 2016)
 - National pay gap is 19%
- Today's wage gap costs a woman \$375,400 over a 40-year career
- Woman working 40-hour work week earns \$9,600 less than a man on average
- Combined lost wages of working Mississippi women amounts to nearly \$4 billion a year
 - Equal to 77 more weeks of groceries or 9 more months of mortgage and utility payments

Breaking Cycle of Poverty – Pay Equity



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- 7 bills were introduced in both House and Senate by both Republicans and Democrats
 - All died in committee without any debate
- Not a partisan issue:
 - Republican Congresswoman wrote the first equal pay legislation and her language became the federal Equal Pay Act of 1963
 - Republican Members of Congress added Title VII (prohibiting sex discrimination) to the Civil Rights Act of 1964
 - Republican Administration responsible for bringing the landmark Supreme Court case upholding the Equal Pay Act
- 48 states – including some very red ones – have wage discrimination laws on the books
 - Only Mississippi and Alabama do not protect equal pay for equal work

Contacting OST



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