

RatingsDirect®

Summary:

Idaho; Note

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Credit Profile

US\$500.0 mil tax antic nts ser 2016 dtd 07/01/2016 due 06/30/2017

Short Term Rating

SP-1+

New

Rationale

S&P Global Ratings has assigned its 'SP-1+' short-term rating to Idaho's \$500 million tax anticipation notes (TANs), series 2016, issued for cash flow purposes during fiscal 2017.

The rating reflects what we view as the state's:

- Very strong 8.71x projected cash coverage of TAN principal at maturity by combined available general fund and other borrowable cash resources;
- Strong long-term creditworthiness (issuer credit rating: AA+/Stable); and
- Conservative cash flow projection at the time the state issued its fiscal 2016 TANs in 2015.

A faith and credit pledge of general tax revenue the state receives in the fourth quarter of fiscal 2017 secures the notes. In addition, Idaho has covenanted to take any or all legally available actions, including transfers from other available funds if necessary, to pay principal and interest. The TANs mature on June 30, 2017, the final business day of the state's fiscal year.

Idaho issues TANs annually to alleviate cash flow imbalances in the first part of the year. This year's TAN is the same size as last year's annual TAN issuance. Idaho fully set aside funds to pay its previous year series 2015 note for fiscal 2016, due June 30, 2016, in its note repayment account on April 25, 2016. The new series 2016 TANs represent 15% of Idaho's projected fiscal 2017 general fund cash receipts, excluding TAN proceeds.

In our opinion, the state's projected TAN cash coverage at maturity by general fund cash alone is adequate, but becomes very strong when including other borrowable resources. Idaho forecasts its general fund will end with a \$45.3 million cash balance at fiscal year-end June 30, 2017, the final maturity date, down slightly from an estimated \$65.4 million at fiscal year-end 2016. We calculate this would produce adequate, but low, pro forma 1.09x cash coverage of TAN principal by available general fund cash balances alone at maturity. However, this does not include the state legislative staff's estimate of an additional \$243.8 million that would be in Idaho's budget reserve stabilization fund (BSF) at fiscal year-end June 30, 2017, as well as the state's projection of \$89.2 million in a public education stabilization fund, \$3.0 million in a higher education stabilization fund, and \$7.9 million in the Idaho Millennium Fund, which receives 20% of tobacco settlement funding and is available for general spending, although the state intends to use it for health care. These projected balances, combined with the general fund, would total \$389.3 million.

In addition, the state has other much larger borrowable resources it can access across fiscal years, if necessary, to pay note debt service. Idaho projects it will have \$3.8 billion altogether in general fund and other available non-general

fund borrowable resources at fiscal year-end 2017, including the BSF and other funds. Combining the state's projected fiscal year-end 2017 general fund balance and the state's projection of other borrowable resources, we calculate projected cash coverage at what we view as a very strong 8.71x at TAN maturity. The state's other borrowable resources have been above at least \$2.5 billion every fiscal year-end since 2008; at every month-end, they have ranged from \$2.4 billion-\$4.4 billion in each of the past six fiscal years, including projections through fiscal 2017.

Using only the state's projection of \$1.09 billion of fiscal 2017 fourth-quarter general fund revenues pledged on a first dollar basis (not cash balances), we calculate pledged revenue covers note principal 2.17x.

At the time Idaho sold its series 2015 TANs last year, it projected a fiscal year-end 2016 general fund balance that we calculate would have produced a 1.02x cash balance coverage of its fiscal 2016 TANs at maturity by general fund cash alone, and much stronger 8.01x cash balance coverage when including the then-projected other borrowable resources. Based on Idaho's current estimate of fiscal 2016 cash flow using actual monthly results through April 2015, we calculate actual fiscal 2016 TAN pro forma cash coverage in fiscal 2016, using general fund cash only, will be slightly greater than originally projected at 1.13x. Full actual cash coverage of 9.94x using other available cash resources is also estimated to be stronger than originally projected at fiscal year-end 2016. The previous series 2014 TANs for fiscal 2015 also had very strong better-than-projected actual cash coverage of 8.33x, including all borrowable resources.

Through April 2016, the state reports that general fund revenue was \$14.0 million, or 0.5%, below its revised fiscal year-to-date forecast for fiscal 2016, primarily the result of lower-than-forecast income tax revenue, offset by higher-than-projected sales tax.

Idaho projects fiscal 2017 general fund cash revenue and receipts of \$3.31 billion and expenditures and disbursements of \$3.33 billion, excluding note borrowing. It projects a \$20.1 million general fund cash decrease to end the fiscal year with a \$45.3 million cash balance, not including the state BSF. The state forecasts the BSF will remain the same at \$244.0 million, or 7.3% of fiscal 2017 budgetary basis appropriations. The BSF receives general fund receipts in excess of 4% growth from the previous year, up to a maximum of 1% of actual collections for the fiscal year just ending. Last year's legislature also specified that any excess cash balance in the general fund at the end of fiscal 2016 be transferred 50% to the BSF and 50% to the Idaho Transportation Department strategic initiatives program fund.

The most recent audited financial report for the year ended June 30, 2015, shows Idaho's available assigned and unassigned general fund balance, reporting on a generally accepted accounting principles (GAAP) basis, at \$540.9 million, or what we view as a strong 16.1% of general fund expenditures and transfers out, and up from \$438.6 million the year before. The GAAP total general fund balance of \$1.16 billion was also large in our opinion, at 34.6% of general fund expenditures and transfers out.

(For more information on Idaho's long-term creditworthiness, please refer to our most recent analysis of Idaho on RatingsDirect.)

Related Criteria And Research

Related Criteria

- USPF Criteria: Short-Term Debt, June 15, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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