

Tax Supported
New Issue

State of Idaho

Ratings

New Issue Tax Anticipation Notes, Series 2009	F1+
Outstanding Debt Tax Anticipation Notes, Series 2008	F1+

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New Issue Details

Sale Information: \$500,000,000 Tax Anticipation Notes, Series 2009, the week of June 22 via negotiation.
Security: An irrevocable pledge of taxes and other revenues received by Idaho in the fourth quarter of fiscal 2010, borrowable resources to the extent necessary, and the state's faith and credit pledge.
Purpose: Finance operating purposes during the fiscal year ending June 30, 2010.
Final Maturity: June 30, 2010.

Related Research

- [State of Idaho, June 17, 2008](#)
- [State of Idaho, June 13, 2007](#)

Rating Rationale

- The series 2009 tax anticipation notes bear faith and credit of Idaho with holdbacks employed, if necessary, to ensure payment.
- Good coverage exists from a first claim on fourth-quarter general fund revenues equal to 1.7x note principal.
- Coverage is broadened by available borrowable reserves to 5.6x note principal.
- Surplus balances are fully funded and are now close to 14% of revenues.
- The pace of economic growth has slowed, with projected revenues and ending cash balances reduced.
- Tax relief led to a permanent 1% increase in the sales tax, as the state assumed a larger share of education funding and accelerated the distribution of education aid, requiring enlarged cash deficits offset by rising external and internal borrowing.

Key Rating Drivers

- Further payment shifts that would enlarge cash deficits in the beginning of the fiscal year, potentially reducing coverage from pledged revenues.

Credit Summary

The 'F1+' rating on the \$500 million series 2009 notes reflects the security provided for the notes by an irrevocable pledge of taxes and other revenues received by the state in the fourth quarter of fiscal 2010, borrowable resources to the extent necessary, and the state's faith and credit pledge. Fourth-quarter projected fiscal 2010 revenues are \$858.5 million. Pledged revenues provide 1.7x coverage of note principal. The cash flow safety margin is 1.6%. Borrowable resources provide 5.6x coverage of note principal. Additionally, the state has a practice of reducing expenditures as necessary through holdbacks to ensure sufficient funds for note repayment.

While reduced from last year, note principal has trended higher in recent years due to legislation enacted in the middle of fiscal 2007 accelerating payment of school aid to provide property tax relief, as the state now provides 79% of education funding. The sales tax was raised 1% to accommodate increased school funding to 6%. As a result of the change in education aid, more than 80% of education aid is disbursed in the first five months of the fiscal year, enlarging cash flow imbalances and the need to borrow internally and externally. The timing differences between revenue collections and disbursements result in projected negative general fund cash balances in almost every month throughout fiscal 2010 prior to borrowing. The operating borrowing is necessary, as 37% of fiscal-year revenues are collected in the fourth quarter.

Pledged revenues are deposited into the note repayment account. Once made into the account, deposits cannot be withdrawn or loaned back to the general fund. The state has usually funded deposits to the note repayment account earlier than the scheduled fourth quarter. Deposits for the \$600 million fiscal 2009 notes due June 30, 2009 were made earlier, between January and May 2009. The state instituted budgetary holdbacks along with use of \$525.8 million in federal stimulus moneys in order to resolve revenue

Rating History

Rating	Action	Outlook/ Watch	Date
F1+	Assigned	—	6/12/09

shortfalls. Fiscal 2009 is projected to close with an ending cash balance of \$57.7 million. Major reserve funds are projected to hold \$238.7 million.

Fiscal 2010 revenues have been revised to reflect current sluggish economic conditions and legislative changes for tax relief, including phase in of grocery tax credit and personal property tax exemptions. On a cash basis, total fiscal 2010 general fund revenues of \$2.53 billion are projected to decline 7.7% from revised fiscal 2009 receipts. Sales taxes and personal income tax receipts are projected to decline 1.5% and 0.9%, respectively, from the fiscal 2009 levels. Fiscal 2010 corporation income taxes are projected to rise 3.6% from the fiscal 2009 level following three years of decline.

After note repayment, the projected general fund cash balance on June 30, 2010 will be \$42.5 million, including a \$30 million transfer from the budget stabilization fund. Federal stimulus moneys included in the fiscal 2010 budget amount to \$510 million. The state has built up its reserves, which, on a combined basis, equal \$238.7 million projected on June 30, 2009 and rising to \$280.9 million on June 30, 2010, almost 11% of expenditures. The budget stabilization fund is projected to hold \$101.7 million on June 30, 2010, with another \$69.4 million held in the economic recovery reserve fund. The property tax relief act of 2006 funded a \$100 million public education stabilization reserve, which is expected to close fiscal 2010 with \$109.1 million. Borrowable resources are substantial at \$2.7 billion, equal to 5.6x coverage of fiscal 2010 note principal and 3.1x coverage of fiscal 2010 fourth-quarter revenues.

Notes

The notes are issued pursuant to the state constitution and chapter 32, title 63 of the Idaho Code (the act). The series 2009 notes are secured by an irrevocable pledge of taxes and other revenues received by the state in fourth-quarter fiscal 2010 from borrowable resources and the state’s faith and credit pledge. The notes are not general obligations. Fourth-quarter revenues, as they are received by the state, are deposited into a note payment account until the balance is sufficient to pay the principal and interest on the notes and are irrevocably appropriated and set aside solely for note payment. Funds in the note account may only be invested in direct obligations of the federal government and certain fully collateralized time certificates of deposit and repurchase agreements permitted under the state code.

The act limits borrowing to 75% of taxes reasonably anticipated to be collected for the fiscal year. In fiscal 2010, tax receipts are estimated for at least \$2.45 billion, resulting in a limit of \$1.83 billion. The notes are 19.4% of fiscal 2010 cash flow. The state does not anticipate another external borrowing for fiscal 2010 but expects internal interfund borrowing of about \$242.2 million to meet the midyear operating low point of negative \$742.2 million on Nov. 15, 2009. With the accelerated disbursement of state school aid, 64% of state education aid is paid during the first five months of the fiscal year. In contrast, about 34% of state tax revenues are received in the fourth quarter of the fiscal year.

Finances

The state’s general fund budgeting and accounting are on a cash basis, although comprehensive annual financial reports in conformance with generally accepted accounting principles (GAAP) have been issued since fiscal 1996. Individual and corporate income and sales tax collections now account for about 94% of revenues.

The state’s revenue forecasting, monitoring, and budget control mechanisms are excellent. The executive revenue forecast is made in January, six months prior to the start of the fiscal year, and forms the basis of the budget. A second forecast occurs

after the commencement of the fiscal year, and a third midyear reforecast occurs in January. A joint legislative committee reviews the executive revenue forecast. A broad-based revenue monitoring group consisting of the executive and legislative branches reviews actual receipts and projections monthly. The state Legislature and governor are constitutionally responsible for achieving a balanced budget, and the governor uses across-the-board holdbacks of appropriations, when necessary, to achieve balance.

Strong revenue growth and conservative financial management practices led to a rise in unobligated general fund balances between fiscal years 1999 and 2001, to \$182.7 million from \$46.6 million. Another \$73 million was added to the budget stabilization fund at the start of fiscal 2002, allowing a financial cushion to weather the economic and financial downturn of that period, when fiscal 2002 revenues were revised downward several times, with a total decline of 14.3%. About one-half of the reduction can be attributed to changes in the law, particularly adjustments to the individual income tax, with the remainder reflecting lowered collections due to the weakening economic environment. However, the extent of the recession required the state, in fiscal 2003, to exhaust its fund balances, reduce appropriations, and institute one-time transfers of \$193 million into the general fund. The general fund closed with a \$15.7 million unobligated balance on June 30, 2003.

Since fiscal 2003, the state has effectively replaced the one-time measures with a similar amount of tax increases, including the now permanent 1% sales tax hike and a permanent increase in the cigarette tax. These measures helped fund increased education aid in order to provide \$250 million in property tax relief per enacted legislation for school building repairs, to resolve school finance litigation. This change does not increase education funding. However, the state's share of education funding has risen to 79.5% from 65.0% by replacing the local maintenance and operating property tax levy with the state's 1% sales tax increase and periodic use of surplus balances. A total of \$238.7 million in reserves is projected on June 30, 2009, including \$140.6 million in the budget stabilization fund, declining to \$101.7 million in fiscal 2010 due to use of \$30 million to support the general fund. Total reserves of \$280.9 million are projected on June 30, 2010.

Following good growth in fiscal 2007, when general fund revenues rose 15.6%, including the impact of the 1% sales tax increase, fiscal 2008 general fund revenues gained only 3.4%. Fiscal 2009 general fund revenues are now projected to reflect a 9.5% decline from the fiscal 2008 level with holdbacks instituted. The ending general fund cash balance as of June 30, 2009 is projected to decline to \$57.7 million, down from a beginning balance of \$273.8 million. The budget for fiscal 2010 on a cash basis anticipates general fund revenues of \$2.53 billion, a decline of 0.8% from the fiscal 2009 level. Personal income tax collections in fiscal 2010 are projected to decline 1.6%, with a 1.6% rise in corporation income tax collections from the fiscal 2009 level. Sales tax collections are slated to decrease 1.5% year over year.

Cash Flow

Projected fiscal 2010 total revenues will amount to \$2.58 billion, with \$2.59 billion in expenses, for an ending balance of \$42.5 million that covers note repayment 1.1x. Timing differences between revenue collections and disbursements result in negative balances before borrowing in 11 months of the fiscal year due to legislation accelerating disbursement of educational aid, which is forecast to occur in almost every month of the year. The maximum deficit in fiscal 2010 occurs in November 2009, when the negative balance is estimated at \$647.7 million and the midmonth deficit is \$742.2 million. In addition to the series 2009 notes, the state has the ability to issue internal notes, whereby the general fund borrows moneys from other state funds and

accounts. These notes, which typically are outstanding for periods of 12–66 days and repaid before the close of the fiscal year, were issued in fiscal years 2007 and 2008 following the educational disbursement changes. No internal notes have been required in fiscal 2009. Following legislative changes in fiscal 2007 to accelerate school funding, the state borrowed \$100 million externally and internally borrowed \$170 million. In fiscal 2008, a total of \$49.3 million of internal notes were issued. Prior to the internal borrowing of fiscal years 2008 and 2007, the state issued internal notes in fiscal 2003, when \$130 million was required.

Approximately 34% of the year's revenues are received in the first five months of the fiscal year, with disbursements equal to 64% occurring during this period. The state supports 80% of school spending, equal to \$1.22 billion in fiscal 2010, or 47% of general fund spending. With legislative changes, more than 80% of such payments will be disbursed over the first five months of fiscal 2010. In fiscal 2007, such amounts represented about 61%. The new disbursement schedule provides for 30% of aid to be disbursed in August and October, 20% in November, and 10% each in February and May.

The three major taxes are individual income, corporate income, and sales taxes, which together make up 94% of general fund revenues. The individual income tax makes up about 47% of general fund revenues, fairly consistent with prior years, with 49% estimated to have been collected in the first one-half of fiscal 2009. Sales tax collections received in the first one-half of the fiscal year are projected to be 61% of the total. At 33%, the bulk of the fiscal year's collections are accounted for in the fourth quarter, allowing for a projected \$42.5 million positive ending cash balance for the fiscal year ending June 30, 2010, when the notes are paid. In past years, to accommodate smaller balances, the state identified unbudgeted resources that were available to support financial operations. Furthermore, across-the-board appropriation holdbacks are used as necessary, including in fiscal 2009 and previously in fiscal years 2002 and 2003, to achieve balance. However, the requirement of first moneys applied to note repayment is an important offsetting risk factor, as are the ample borrowable funds.

Coverage by fourth-quarter fiscal 2010 pledged revenues of \$858.5 million will provide 1.7x coverage of the \$500 million external notes. While note payment fund deposits are not required until the beginning of the fourth quarter (April 1), deposits have been made earlier in prior years. For the outstanding \$500 million notes due June 30, 2009, deposits to the note account were made in January and then between April 2009 and May 2009. While early deposits are discretionary, once made they cannot be withdrawn or loaned back to the general fund. Given enlarged borrowing due to the acceleration of education aid, coupled with slower growth in revenues, payments prior to April are not as likely to be made in future years. A month-end general fund cash balance of negative \$152.9 million for May 2010 is forecast. However, substantial borrowable funds are available until the balance of projected revenues is collected by the fiscal year end to generate the June 30 balance. Borrowable resources were projected to be \$2.9 billion on May 31, 2009, or 8.0x the May 31 cash balances and 3.5x the fourth-quarter cash flow. Relative to the \$500 million of external notes, borrowable resources provide an additional 5.6x principal coverage of the notes at fiscal year end. The \$600 million of notes represents 19.4% of revenues, or 18.9% of cash flow, with the cash flow safety margin a satisfactory 1.6%.

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