Fitch Ratings

FITCH RATES IDAHO'S $500MM TANS 'F1+'; AFFIRMS BLDG AUTHORITY AT 'AA'

Fitch Ratings-New York-14 June 2011: Fitch Ratings assigns an 'F1+' rating to the following state of Idaho tax anticipation notes (TANs):

--$500 million series 2011.

The notes will be sold via negotiation on or about June 20. In addition, Fitch takes the following action on Idaho State Building Authority (SBA) as part of its continuous surveillance effort:

--Approximately $236 million in Idaho SBA state building revenue bonds, affirmed at 'AA'.

The Rating Outlook on the long-term rating is Stable.

RATING RATIONALE:
--The notes benefit from solid coverage by a first claim on state of Idaho (the state) general fund revenues in the fourth quarter of the fiscal year. Coverage is broadened by available borrowable resources well in excess of note borrowing.
--The notes bear the faith and credit of the state with holdbacks employed if necessary to ensure note payment.
--The state has faced considerable fiscal stress in recent years, although conservative budget practices and a willingness to use broad balancing actions have enabled it to respond effectively to the downturn.
--Although well-funded prior to the downturn, reserve balances have largely been drawn down over the last three fiscal years.
--Debt levels are low, though rising with recent transportation issues, and pension assumptions are conservative.
--The economy is returning to growth after severe recessionary weakness, although construction remains a drag.

KEY RATING DRIVER:
--Maintenance of sufficient coverage on TANs by projected fourth-quarter revenues as well as by borrowable resources.

SECURITY:
--The TANs are valid and binding obligations secured by general tax revenue to be received in the fourth quarter of the fiscal year, the treasurer's covenant to transfer sufficient borrowables to the note repayment fund, and a pledge of the faith and credit of the state.

CREDIT SUMMARY:

The 'F1+' rating on the $500 million series 2011 notes reflects the security provided by an irrevocable pledge of taxes and other revenues received by the state in the fourth quarter of fiscal 2012, borrowable resources to the extent necessary, and the state's faith and credit pledge. Fourth-quarter projected fiscal 2012 revenues are $817.4 million, providing 1.6 times (x) coverage of note principal. Borrowable resources in June 2012 alone provide 5.1x coverage of note principal. Additionally, the state has a practice of reducing expenditures as necessary through holdbacks to ensure sufficient funds for note repayment and budget balance.

All state revenues and receipts are deposited into the note repayment account beginning in the fourth quarter until the balance is sufficient to repay the notes. Once deposits are made, they cannot be withdrawn or loaned back to the general fund; in fiscal 2011, the note repayment account for the $500 million in fiscal 2010 notes was fully funded by May 5, 2011. The state treasurer may make deposits to the note repayment account earlier than scheduled.

Fiscal 2012 is projected to end on June 30, 2012 with a cash balance of $93 million following note repayment, up from $45.9 million projected in fiscal 2011 at year-end. Borrowable balances, consisting of balances in multiple funds outside the general fund, are forecast to average approximately $2.8 billion through the fiscal year, higher than the $2.6 billion projected at last year's note sale. The state has an established history of annual borrowing for cash flow needs, with par amounts expanding somewhat in recent years to reflect 2007 legislation accelerating state aid for schools as part of a plan to provide property tax relief. At the time, the sales tax was raised to 6%, from 5%, to accommodate the increased school funding commitment. With the changes, over 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 results in projected negative general fund cash balances in almost every month throughout fiscal 2012 prior to borrowing. The largest mid-month imbalance, forecast at $632 million in November 2011, will be covered by the notes and by internal borrowing from the state's ample internal cash resources. Note principal in fiscal 2012, at $500 million, is at the same level as the last two fiscal years.

The 'AA' long-term rating on SBA building revenue bonds reflects the state's appropriation pledge and its broad powers to ensure fiscal balance, low but growing debt burden and an economy slowly returning to growth after the severe downturn. The recently ended recession was more severe in the state than the nation as a whole, with the state's key housing-related sectors particularly hard hit. Economic expansion has resumed, with the state benefiting from a growing service sector and longstanding strengths in natural resources.

State fiscal performance is stabilizing after severe recessionary weakness in recent years. On a cash basis, general fund tax revenues fell 15% in fiscal 2009, to $2.42 billion, and 8.5% in fiscal 2010, to $2.21 billion, due to broad weakness in personal income, sales and corporate income tax receipts. The state maintained balance through holdbacks of appropriated spending, draws from several reserve funds, and use of federal stimulus, while previously ample year-end balances were depleted. Revenue growth resumed in fiscal 2011, although more slowly than initially expected. The state originally forecast tax revenues rising 6.4%, to $2.45 billion, but revenues are now forecast to have risen 4%, to $2.3 billion. As with the prior two fiscal years, reserve draws were a key component of budget balancing actions, including $30 million from the budget stabilization fund, $11.4 million from the public education stabilization fund, and $48.8 million from the economic recovery reserve fund. Fiscal 2011 is expected to end with an unobligated cash balance of $37.9 million.

Recovery is forecast to continue in fiscal 2012, with baseline general fund revenues expected to rise 6.9% prior to budget adjustments. The budget was balanced assuming a lower, 3% revenue growth forecast, in effect providing a $91.5 million cushion; moreover, the phase-in of a personal income tax credit on groceries was delayed to provide $15 million in additional revenues. Including legislated changes, revenue is expected to rise 8.4%, to $2.55 billion. The state is absorbing higher spending needs prompted by the end of federal stimulus support, with appropriated expenditures rising 5.9%, primarily for health and welfare. The fiscal year is forecast to end with an unobligated cash balance of $93 million and remaining reserve balances of approximately $24 million.

The state has a conservative approach to long-term borrowing, with a low burden overall and no general obligation debt. Tax-supported debt amounts to approximately $818 million, a low burden at 1.6% of personal income. Debt rose in recent years with issuance of federal grant anticipation revenue vehicles (GARVEEs) for highway purposes; there is approximately $543 million in GARVEEs outstanding. SBA debt is the state's primary means of facility financing, of which $236 million is outstanding. SBA bonds are supported by a pledge of annual appropriation. Leases renew automatically absent action by the state at least 10 months prior to scheduled expiration and payments are made within 30 days of the beginning of the fiscal year. A debt service reserve is set aside for each project. Pensions are conservatively managed, with reported funding at 78.9% in fiscal 2010; among other conservative policies, the pension system does not smooth asset values. Using Fitch's more conservative 7% return assumption (compared to the 7.75% rate used by the system), funding would remain adequate at 72.6%.

While the state's economy traditionally depended on natural resources, rapid expansion in the past decade centered on high-technology electronics, services and housing. The recession was unusually severe in the state, with job losses of 6% and 1.1% in 2009 and 2010, respectively, more severe than the job losses of 4.4% and 0.8% reported nationally for the same period. Recovery is underway, although at a slower pace than national averages. April 2011 employment rose 0.5%, compared to 1.1% nationally, while the state's unemployment rate was 9.6%, higher than in recent downturns and well ahead of the 9% national rate. Personal income growth is resuming, with fourth-quarter 2010 personal income up 3.8% year-over-year, just below the 3.9% national rate. The state is ranked 49th in personal income per capita in 2010 at 80% of the national average.

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Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 16, 2010;
--'U.S. State Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.
--'Rating Municipal Short-Term Debt', dated Oct. 18, 2007.

Applicable Criteria and Related Research:
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564546
Tax-Supported Rating Criteria
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