

Global Credit Research - 15 Jun 2011

State  
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**Moody's Rating**

ISSUE	RATING
Tax Anticipation Notes, Series 2011	MIG 1
<b>Sale Amount</b> \$500,000,000	
<b>Expected Sale Date</b> 06/20/11	
<b>Rating Description</b> Tax Anticipation Notes	

**Opinion**

NEW YORK, Jun 15, 2011 – Moody's Investors Service has assigned a MIG 1 rating to the State of Idaho's Tax Anticipation Notes Series 2011. The notes are secured by tax revenues to be received by the state's General Fund during the fourth quarter of fiscal 2012 and the state's full faith and credit general obligation pledge. In addition, the state treasurer has covenanted to access alternate cash resources in other state funds if necessary to repay the notes. The state plans a sale of \$500 million of notes on or about June 20, 2011. Proceeds will be used to fund temporary cash flow imbalances in the state's general fund during fiscal 2012, pending expected cash surpluses later in the fiscal year. The state has regularly and successfully issued short-term notes for cashflow purposes since 1986.

**RATINGS RATIONALE**

The best-quality short-term note rating reflects a history of conservative cashflow projections for the general fund, very substantial alternate resources available, and the strong underlying credit quality of the state of Idaho (Aa1 Issuer Rating).

**DETAILED CREDIT DISCUSSION**

**GENERAL FUND CASH BALANCE PROJECTED AT \$93 MILLION AFTER JUNE 2012 NOTE REPAYMENT**

The notes are payable from anticipated and pledged fiscal 2012 fourth-quarter general fund receipts. Most receipts are derived from individual income, sales, and corporate income tax collections. A larger portion of receipts accrue in the second half of the fiscal year, while disbursements, primarily for schools, are concentrated in the first half of the year. Without proceeds from the current notes, the state's cashflow projections show deficits in August through May. The greatest month-end deficit is projected to occur in November and is expected to be \$527 million.

The state's 2012 cash flow projections anticipate fourth-quarter revenues of \$817 million, providing 1.6 times coverage of the note principal. Fourth quarter revenues for 2012 are projected to increase by 9% over expected revenues for the same period in fiscal 2011, based on the state's January 2011 economic and revenue forecast used to set the fiscal 2012 budget. The full-year fiscal 2012 projection incorporates 4% revenue growth and a June 2012 ending balance, after note repayment, of \$93 million (about 4% of revenues). Based on the fiscal 2012 cashflows, expenditures are projected to increase by 5% from the prior year's level, as the federal stimulus funds that were used to balance the budget in fiscal 2011 are no longer available and were backfilled with general fund revenues. Current fiscal 2011 revenues are projected to exceed expenditures by \$35 million, leaving a narrow ending balance of \$45.8 million (2% of revenues) after repayment of the series 2010 tax anticipation notes.

**SUBSTANTIAL INTERNAL BORROWABLE RESOURCES ARE A KEY CREDIT FACTOR**

In the event of a deficiency on or before the note payment date (June 30, 2012), the state treasurer covenants to cause any legally available moneys to be deposited into the note payment account to meet principal and interest on the notes. To this end, substantial moneys are available via interfund borrowing from a variety of funds maintained by the state treasurer - the largest of which is the Local Government Investment Pool. Such internal borrowable resources are projected to total \$2.5 billion in June 2012, providing substantial alternate liquidity if needed. Available resources have consistently exceeded \$2 billion over the past five years.

The Local Government Investment Pool (\$1.4 billion) accounts for approximately 56% of the total available funds. Various other accounts are also available, including the permanent building fund, state highway and insurance funds, and the state's budget reserve. Clear statutory authority exists to borrow from these accounts over the year-end if necessary, a key factor in the MIG 1 note rating.

**HISTORY OF EARLY FUNDING OF NOTE PAYMENT ACCOUNT**

The state covenants that all income collected during the fourth quarter shall be deposited into a note payment account until the balance in the account is equal to the amount required for note interest and principal repayment. Projections indicate that the account will be fully funded by June 2012, although the state historically fully funds the account by April. The series 2010 tax anticipation notes were fully

funded by May 5, 2011.

Funds deposited in the note payment account are irrevocably appropriated and set aside solely for note payment. They are held by an escrow agent (BNY Mellon) and are invested at the direction of the treasurer. Funds may be invested only in instruments specified by Sections 67-1210 of the Idaho code. While the range of investments permitted by the code was recently expanded to include single A-rated corporate bonds, the treasurer's historical practice of emphasizing the highest liquidity and safety of principal in note payment account investments is expected to be maintained.

The principal methodology used in this rating was Short-Term Cash Flow Notes published in May 2007.

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#### Analysts

Kimberly Lyons  
Analyst  
Public Finance Group  
Moody's Investors Service

Emily Raimes  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

#### Contacts

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service  
250 Greenwich Street  
New York, NY 10007  
USA



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