

### Summary:

## Idaho; Note

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### Table Of Contents

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Rationale

Related Criteria And Research

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### Credit Profile

US\$500. mil TANs ser 2011 due 06/29/2012

Short Term Rating

SP-1+

New

### Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Idaho's series 2011 tax anticipation notes (TANs).

The rating reflects our view of the state's:

- Very strong projected 6.12x coverage of TAN payments by combined available general fund and alternative cash sources; and
- Conservative financial management, including a second consecutive year of assuming lower-than-forecast budgeting purposes revenues.

A faith and credit pledge of general tax revenues that the state received in the fourth quarter of fiscal 2012 secures the notes. In addition, the state has the option to repay all or a portion of the notes prior to the fourth quarter, and the state 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 29, 2011, the final business day of the state's fiscal year.

The state annually issues TANs to alleviate cash flow deficiencies. Series 2011 is equal in size to series 2010, for which the state fully set aside funds for repayment on May 5, 2011. The \$500 million for series 2011 represents 19% of management's projection for total expected receipts (excluding TANs proceeds) in fiscal 2012.

Based on management's projections and a 2% interest expense assumption, which we consider conservative, we calculate that receipts and disbursements will result in fiscal 2012 ending legally available general fund cash of \$83 million, or 1.16x coverage of TAN principal and interest payments, which we consider adequate. If the state deems doing so necessary, it can also borrow from what management estimates will be \$2.5 billion in alternative cash resources, of which the state's local government investment pool accounts for 56%. Inclusive of these sources, coverage rises to 6.12x, which we consider very strong. Borrowable funds at the end of the fiscal year have ranged from \$2 billion to \$4 billion during the past five fiscal years (including projections through fiscal 2011).

Underlying the state's cash flow projections are its \$2.81 billion official general fund revenue forecast, reflecting the opinion of the state economist, and an expenditures budget built on the assumption of 3% annual revenue growth rather than the official 6.88% growth forecast (for a difference of \$91.5 million). We understand that the decision to use this lower revenue assumption, which the governor proposed and the legislature accepted, partly reflected a desire to avoid the need to make midyear budget reductions to balance the state budget as was the case in fiscals 2009 and 2010. The recession put pressure on the state tax revenues in those years, and could have in fiscal 2011 without a similar "haircut" incorporated into that year's budget. Management projects that overall pre-TANs

receipts and disbursements will both rise by 5.4% relative to projected fiscal 2011 performance.

The fiscal 2012 budget echoes fiscal 2011 in that it sets its baseline revenue growth below the official revenue forecast. The governor and legislature calculated a \$193 million baseline shortfall for fiscal 2012 that it closed in part with cuts to K-12 expenditures (\$13.3 million relative to fiscal 2011, excluding non-general-fund sources) and Medicaid (\$34.5 million). One-time actions included a transfer from the state's tobacco-settlement-funded Millennium Fund (\$21.9 million) and a suspension of a multiyear phase-in of a grocery sales tax credit (\$15 million). Including these changes, the state forecasts an ending general fund balance of \$3 million and reserve funds totaling \$24 million, or approximately 1% combined, which we consider adequate.

Concurrent with spending cuts adopted for fiscal 2012 were changes to the structures of the K-12 school system and Medicaid system following cuts in prior years that, we understand, have put strains on service delivery. The state's changes to its K-12 system approved in the 2011 legislative session primarily have long-term implications at the local level, we understand, rather than immediate budget implications. House Bill 1108 makes it easier for school districts to terminate teachers and Senate Bill 1108 limits the scope labor collective bargaining agreements and their timing to one year. House Bill 315 phases out after fiscal 2012 the ability of school districts with declining enrollment to receive substantially all of their revenues under the state funding formula under their average daily attendance in the prior year. We understand that opponents of these laws, which took effect under emergency statutes, have gathered enough signatures to place measures on the ballot that would repeal their provisions. Management reports that should the measures appear on the ballot and be approved, it does not expect a material effect on fiscal 2012 state expenditures.

The state's official economic forecast, which is based on a modified IHS Global Insight model, shows an accelerating, if still modest, expansion during 2011 and 2012. After a 23-month seasonally adjusted decline through November 2009, the state's count of employed residents has generally been in a holding pattern, with monthly fluctuations of less than 0.2%. However, March and (preliminary) April 2011 employment have risen by 0.3% and 0.5%, respectively, and the state economist projects a 1.3% increase in non-farm employment for 2011 and a 2.7% increase in 2012, which we consider modest. Within this forecast are divergent patterns by sector, with continuing budgetary stresses contributing to a 1.5% projected drop in government employment in 2011 but 2.9% growth in services. Management projects personal income, which turned positive in 2010, to rise by 3.6% in 2011 and 4.7% in 2012.

## Related Criteria And Research

USPF Criteria: Short-Term Debt, June 15, 2007

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