



STATE OF IDAHO

OFFICE OF THE STATE TREASURER

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STATE OF IDAHO DEBT MANAGEMENT POLICY

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PURPOSE OF POLICY

The purpose of the State of Idaho Debt Management Policy is to provide policymakers with information to enable informed decisions regarding financing proposals and debt issuance. This central policy serves to protect and enhance Idaho's bond ratings and maintain the future availability of low-cost capital financing.

Authority to Issue or Guarantee Debt

Tax Anticipation Notes

Legal Authority

Tax Anticipation Notes (TANs) are issued pursuant to Article VII, Section 11, and Article VIII, Section 1, of the Constitution of the State of Idaho (the Constitution), and Chapter 32, Title 63, of the Idaho Code (the "Act"), and pursuant to a Resolution of the Board of Examiners of the State of Idaho, and a Plan of Financing approved by the State Treasurer. Each Note when duly issued and paid for will constitute a valid and binding obligation of the State. The Notes are payable from and secured by (i) an irrevocable pledge of so much of the General Tax Revenues to be received during the fourth quarter of the Fiscal Year as may be necessary to pay principal and interest on the Notes (ii) the State Treasurer's covenant to transfer, if necessary, any Borrowable Cash Resources to the Note Payment Account established for the payment of the Notes, in an amount required to fully pay the principal of and interest on the Notes at maturity; and (iii) the solemn pledge of the faith and credit of the State for the payment in full of the principal of and interest on the Notes. The Act allows the State Treasurer, with approval of the State Board of Examiners, to borrow monies in anticipation of General Tax Revenues in a principal sum not to exceed 75% of the income or revenue from such taxes that the State reasonably anticipates to be collected during the fiscal year. Pursuant to the Act, TANs issued by the State must mature no later than the end of the then current fiscal year.

Purpose

TANs are issued to fund cash flow shortfalls during the fiscal year. The proceeds of the TANs are used to alleviate temporary cash flow shortfalls and to finance the State's daily operations in anticipation of tax revenues.

State General Obligation Debt

Legal Authority

Article VIII, Section 1 of the Constitution of the State of Idaho states that the legislature shall not in any manner create any debt or debts until at a general election it shall have been submitted to the people, and shall have received a majority of all the votes cast and such approval shall include the revenue source for repayment authorized by state law. This requirement does not apply to liabilities incurred for ordinary operating expenses, nor does it apply to debts or liabilities that are repaid by the end of the fiscal year. The debts or liabilities of independent public bodies corporate and politic created by law and which have no power to levy taxes or obligate the general fund of the state are not debts or liabilities of the state of Idaho.

Purpose

The purpose is to limit the incurrence of debt to those obligations approved by a majority of voters and where the revenue source for repayment has been approved by the voters and authorized by state law. Obligations by independent public bodies corporate and politic without tax levy authority are not included. Nor are obligations repaid within the current fiscal year. Voted state obligations have not been used for many years, probably due to the perceived difficulty in obtaining the vote.

Idaho State Building AuthorityLegal Authority

Title 67, Chapter 64 created the Idaho State Building Authority as an independent public body corporate and politic to carry out the provisions of the act. The authority is constituted as a public instrumentality exercising public and essential governmental functions. The authority does not have the power to levy and collect taxes.

Purpose

In order to provide for a fully adequate supply of governmental facilities at costs that state government can afford, the legislature established the state building authority for the purpose of financing, constructing and operating facilities to meet the needs of the state government, to provide for predevelopment costs, temporary financing, land development expenses, construction and operation of governmental facilities for rental to state government. Such purpose is declared to be public purposes and uses for which public moneys may be borrowed, expended, advanced, loaned, or granted.

Idaho Housing and Finance AssociationLegal Authority

Title 67, Chapter 62, Idaho Code, the IHFA was created by the Act, as a body politic and corporate, in order to assure an adequate source of capital for housing low income persons who otherwise could not afford decent safe and sanitary housing. Subsequently, the Issuer was granted addition powers by the Idaho Legislature to finance various facilities for nonprofit corporations, transportation facilities, economic development facilities and certain agricultural facilities in Idaho. The IHFA has no taxing power.

Purpose

The IHFA's enabling legislation permits the issuance of bonds secured by future federal highway funds on behalf of the Idaho Transportation Department for specified highway transportation projects. IHFA is an active bond issuer and has provided long-term mortgage financing for single-family homes, multifamily housing developments, financing for home improvement loans for single-family dwellings and construction loans for multifamily developments which have had permanent financing provided by various government agencies. IHFA also offers financing for nonprofit facilities as well as industrial, commercial and other projects that promote economic development in Idaho.

IHFA is self-supporting. IHFA's costs are paid from fees for administering housing subsidy programs and from fees and interest earnings on the financing of housing programs, nonprofit facilities, highway projects and economic development projects.

All bonds issued by the IHFA except for its GARVEE transportation bonds are excluded from the Dept Management Policy since they have no guarantee or budgetary impact on the State of Idaho.

State Debt-Like Commitments

Idaho School Bond Guaranty

Legal Authority

The Idaho School Bond Guaranty Act (the “Guaranty Act”), Chapter 53, Title 33, Idaho Code, and the Credit Enhancement Program for School Districts (the “Credit Enhancement Program”), Idaho Code section 57-728, were enacted for the purpose of establishing a default avoidance program for voter-approved general obligation bonds issued by Idaho public school districts. Created in 1999 by the Legislature, the Guaranty Act and the Credit Enhancement Program have been revised by subsequent legislation to clarify guaranty limits and procedures. The most recent amending legislation, passed in 2009, clarified technical aspects of the Guaranty Act and the Credit Enhancement Program and created a two-tiered system of credit enhancement.

Purpose

The Guaranty Act provides a pledge of the State sales tax to guarantee timely payment of the principal of and interest on the guaranteed bonds. Under the Guaranty Act, if a school district does not make timely payment of debt service on guaranteed bonds, the State Treasurer is required to intercept any moneys due to that school district from the Public School Endowment Fund or from any other source of operating moneys provided by the State (the “Interceptable Funds”) sufficient to meet the debt service payment on the guaranteed bonds. If the Interceptable Funds are not sufficient to meet the debt service payment, the State Treasurer is required to transfer funds from the State sales tax account or issue a general obligation note to provide funds to meet the debt service payment on guaranteed bonds. Any general obligation note that is issued is repaid by the intercept of future Interceptable Funds due to the school district or from the State sales tax account.

If a school district is approved to participate in the Guaranty Act, it may also request approval from the Endowment Fund Investment Board to participate in the Credit Enhancement Program, which provides back-up liquidity provisions to the Guaranty Act. The Credit Enhancement Program makes \$200 million available from the Public School Endowment Fund to purchase any general obligation notes issued by the State Treasurer pursuant to the Guaranty Act. The amount of debt guaranteed by the Credit Enhancement Program may not be greater than four times the amount made available by the Public School Endowment Fund, which limits the guaranty of the Credit Enhancement Program to \$800 million of outstanding principal of bonds. On and after July 1, 2007, participation in the Credit Enhancement Program is limited to \$20 million in the aggregate per school district. However, bond guarantees exceeding the \$20 million limit prior to July 1, 2007, remain in effect.

Idaho Bond Bank

Legal Authority

The 2001 Legislature established a State bond bank authority pursuant to constitutional amendment (the “Bond Bank Act”). The Bond Bank Act, which took effect on July 1, 2001, created an independent public body corporate and politic to be known as the Idaho Bond Bank Authority (the “Authority”). The Authority is declared to be an instrumentality of the State within the State Treasurer’s office, but with a legal existence independent of and separate from the State.

Purpose

The Authority is authorized, among other powers, to issue bonds payable from or secured by municipal bonds of one or more municipalities (including cities, counties, school districts, and other political subdivisions), to

purchase municipal bonds, to pledge sales tax revenues of the State as a source of payment or security for bonds issued by the Authority, and to establish debt service reserve funds for its bonds.

The Bond Bank Act provides an intercept mechanism whereby the State Treasurer may make payments on the bonds of participating municipalities and, if reimbursement is not timely made, intercept the receipt of any

payment of property taxes, sales tax moneys to be distributed to the defaulting municipality, or any other source of operating moneys provided by the State to the defaulting municipality. In addition, if moneys expected to be intercepted pursuant to the intercept mechanism are expected to be insufficient to reimburse the State for its payments on the bonds, the State Treasurer will cause moneys to be transferred from the State sales tax account and deposited into the Authority's fund (so long as such transfer does not "impede or otherwise affect the payment of sales tax moneys pledged for the payment on other outstanding State bonds"). Any pledge of sales tax revenues made by the Authority is a binding lien on the sales tax revenues so pledged.

Subsequent legislation authorized the purchase by the Authority of "notes from municipalities to be utilized by a municipality in purchasing, leasing or lease-purchasing tangible personal property when the note was otherwise legally issued and authorized by a municipality and the purchase of the note from a municipality does not violate the State Constitution." The stated purpose of this legislation is to facilitate municipal lease-purchase financing by consolidating lease notes and thereby obtaining lower interest rates.

Legislation passed in 2005 provides that the bonds of Idaho municipalities may be purchased from such municipalities or from other sources, clarifies that the reserve fund secures those bonds designated by the Authority, provides that the procedures for intercept of funds coming to such municipalities from the State, in the event of a failure of a municipality to pay such bonds, would apply to funds that the municipality can legally commit to such bonds and would be limited in certain other cases, and lastly, clarifies the references to the sales tax account and the process for payment of the Authority's bonds from the State sales tax, if funds are not available from the municipalities or from other sources. The intended result of this legislation is lower interest costs for local government units throughout the State.

The 2008 Legislature amended and repealed existing law relating to the Authority to clarify that sales tax, liquor tax or other revenues that are distributed to a municipality in the State are subject to intercept by the State Treasurer if the municipality fails to make loan payments to the Authority in order that the Authority's bonds may be paid, and such State intercept operates by force of law and not by consent of the municipality.

State of Idaho Capital Planning

Permanent Building Fund Capital Planning Process

The planning process for buildings/facilities under the ownership of the state is conducted by means of an annual request for, and submission of, needs from the various agencies and institutions. Those entities required to submit such needs are prescribed in Idaho Code, 67-5711.

In April of each year, the Division of Public Works solicits input from the agencies asking them to offer a prioritized list of needs which reflect both new construction required in order to meet program needs, as well as, necessary facility alterations and repairs with estimated costs. During the submission process, a six-year capital construction plan is also required which is indicative of the out-year planning considerations each agency evaluates. While this look ahead portrays the envisioned program, it is also true that it very seldom stays the

same from year to year with each project moving up in the plan the following year. Reality seems to be that priorities adjust so frequently because of program changes or due to actual project execution as a result of alternative funding, that each year's six year plan bears only a slight resemblance to the preceding one.

The detailed submissions each summer categorize needs into (a) new or substantially renovated or remodeled capital projects, (b) alteration and repair projects, (c) asbestos-related projects, and (d) projects to comply with the Americans with Disabilities Act. Any requested project submitted for consideration in this process should be estimated at no less than thirty thousand dollars.

A related requirement is found in Idaho Code 67-5708B which establishes a comprehensive policy on state facilities with the purpose of improving facility utilization and development of a statewide facility needs plan. This plan covers all owned facilities as well as those leased to the state. Those needs identified for state-owned facilities may then feed into the previously described funding cycle.

Requests are submitted in final form in the fall and in October are presented to the Permanent Building Fund Advisory Council; which is composed of one member of the senate, one member of the house of representatives, a citizen engaged in the contracting business, a citizen engaged in banking business, and a citizen who is a member of the business community not engaged in contracting or banking. Final staff recommendation is made to the Council in November. The Permanent Building Fund Advisory Council approved list is then submitted to the Division of Financial Management for consideration in the Governor's annual budget request. With the Governor's annual budget request and the legislative action on that request through the annual appropriations process decisions are made on which projects are approved and whether they are funded by a yearly appropriation or by bonding authority.

A copy of the Permanent Building Fund Advisory Council Guide and the six year capital construction plans are available from the Idaho Department of Administration, Division of Public Works.

Transportation Capital Planning Process

Statewide Transportation Improvement Program (STIP)

The STIP planning process is made up of the Highway Capital Investment Program (HCIP) federally funded public transportation and aeronautic projects under the Department of Transportation's administrative authority. Projects in the STIP are based on the short-term and long-range needs continuously identified from statewide management systems as well as the vision and principles of the Department's long range plan entitled, Idaho's Transportation Vision 2004-2034. This multi-modal, high-level plan depicts principles and priorities surrounding corridors and regional transportation issues. It was developed after two years of public and stakeholder involvement and adopted by the Idaho Transportation Board in July 2004.

Idaho's HCIP is the major component of the State's multi-modal STIP. The HCIP represents a project funding and delivery schedule over a five-year period. State, federal and private funding sources available for capital investment are reflected. Projects are grouped and prioritized into various funded programs as established by the Idaho Transportation Board which support the long range transportation plans of the Department. Certain programs support local projects that are accomplished for local transportation agencies outside the Department. Other outcome-based programs represent project types which accomplish the system-wide safety, preservation and capacity/expansion goals adopted by the Department for the State owned highway system. Still other

programs reflect special transportation related purposes aligned with particular federal or other funding sources, such as planning, air quality improvement, research, training and others.

All project costs, priorities and delivery information in the five-year HCIP is updated annually in Idaho, although a bi-annual update is acceptable under federal laws addressing STIP requirements, and the STIP may only be three years duration. New projects are typically added to the fifth year of the HCIP, especially the more complicated capacity/expansion projects with significant social, environmental, and right-of-way challenges. Only highway and transit projects in a STIP approved jointly by the Federal Highway Administration and the Federal Transit Administration (FTA) are eligible for future federal authorization (advance construction or

obligation) for future reimbursement, provided all other applicable Federal laws and procedures are adhered to. Thus, inclusion in the STIP alone does not insure future Federal reimbursement of project cost.

A copy of the STIP can be obtained from the Idaho Transportation Department.

The Idaho Department of Transportation will decide on highway projects to be funded and will seek authorization annually from the Idaho Legislature for GARVEE bond issuance. Any GARVEE bond financing is done in accordance with this annual legislative approval.

Idaho Credit Rating Enhancement Committee (CREC)

Legal Authority

Sections 67-1224 and 67-1225, Idaho Code created the Idaho Credit Rating Enhancement Committee in the Office of the State Treasurer.

Purpose

The purpose of the Credit Rating Enhancement Committee is to advise the Governor and the Legislature regarding policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing. The committee consists of the State Treasurer (Chair), the administrator of the division of financial management, one state senator one member of the house of representatives, representatives of the following; municipal bond bank, Idaho housing and finance association, Idaho building authority, department of education as representative of the school bond guarantee fund, and one member at large.

Reporting Requirements to Credit Rating Enhancement Committee

In order to provide policymakers with advice and information from the CREC this policy requires that the following information be submitted to the CREC:

Prior to issuance of bonds or notes:

- Estimated par amount of issue
- Purpose of the issue
- Source of repayment
- Term of Issue

- Estimated interest rate of fixed or variable rates, (if variable rate include a sensitivity analysis on interest rates)
- Projected debt service schedule
- Description of anticipated credit enhancement, if any
- Description of any proposed derivative products related to issue
- Electronic link to Preliminary Official Statement

After closing of a bond or note issue update the pre-issuance information to the CREC ebank web-site, together with:

- Final par amount of issue
- Final Debt Service Schedule
- Variable rate formula, if applicable

- Final terms of derivative product, if any
- Electronic link to Official Statement
- Rating Agency Reports
- Debt service payment made by State Treasurer on bond guaranteed by School Bond Guaranty Program or the Idaho Bond Bank
- State Treasurer utilization of the intercept mechanism for School Bond Guarantee or Bond Bank

Continuing update:

Update CREC for any change to original terms of bonds or notes. Update should include an analysis and reason for the change. When change in original debt issue is completed information will be posted to CREC e-bank site.

CREC Report To Governor and State Legislative Leadership

CREC Annual Report to contain:

- A. All outstanding borrowings
- B. Rating Information
- C. Outstanding Variable Rate Debt
- D. Derivative Product used on debt issues
- E. Electronic Link to CREC e-bank site
- F. Recommendations for improving, coordination and enhancement of debt management for the State of Idaho

Annual Report on Debt Management Policy Rating Agencies

The State Treasurer, acting in the capacity of chairperson of the Credit Rating Enhancement Committee, shall annually report to the rating agencies on the State of Idaho Debt Management Policy.