FITCH RATES IDAHO'S $500MM TANS 'F1+'

Fitch Ratings-New York-01 June 2016: Fitch Ratings has assigned an 'F1+' rating to the following State of Idaho tax anticipation notes (TANs):

--$500 million series 2016.

The notes will be sold via negotiation on or about June 7.

Additionally, Fitch has affirmed the Long-Term Issuer Default Rating (IDR) of the State of Idaho at 'AA+' and the rating on the following appropriation-backed debt that is rated one notch below the state's IDR:

--State building revenue bonds of the Idaho State Building Authority (SBA) at 'AA'.

The Rating Outlook for the Long-Term ratings is Stable.

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 borrowable resources to the note repayment fund, and a pledge of the faith and credit of the state.

KEY RATING DRIVERS

The 'F1+' rating on the $500 million series 2016 notes reflects the security provided by an irrevocable pledge of taxes and other revenues to be received by the state in the fourth quarter of fiscal 2017, borrowable resources available for note repayment if needed, and the state's faith and credit pledge. Fourth-quarter fiscal 2017 revenues are projected to total $1.087 billion, providing almost 2.2x coverage of note principal. Borrowable resources from outside of the general fund are forecast at just over $3.8 billion in June 2017, a level that provides 7.6x coverage of note principal. The notes benefit from the state's conservative approach to fiscal management.

Idaho's 'AA+' Long-Term IDR, reflects the general credit quality of the state. Although Idaho may issue GO bonds, no such bonds are outstanding and no issuance is expected. The 'AA' Long-Term rating on SBA building revenue bonds reflects the pledge of repayment from annual state appropriations.

Idaho's credit strengths include broad powers and willingness to ensure fiscal balance, a low liability burden and a growing economy. Although the last recession was more severe in Idaho than in the nation as a whole, economic and fiscal performance has rebounded, enabling the state to rebuild balances that were depleted in the downturn.

Economic Resource Base
Idaho enjoyed two decades of rapid economic growth in the 1990s and 2000s, driven by a rising population and the growth of construction, technology and services alongside the state's traditional strengths in agriculture and mining. Although the last recession severely affected its fastest growing sectors, the economy since then has gradually accelerated and most measures of growth are again exceeding national averages.

Revenue Framework: 'aa' factor assessment

Idaho's diverse revenues, including individual income and sales taxes, are economically sensitive, with income taxes in particular subject to cyclicality. Fitch believes the overall revenue trend going forward is likely to match historical experience, with revenues in Idaho rising slightly faster than the median for states overall, in part due to the state's rapid population growth, while remaining subject to economic shifts. The state has full control over tax rates.

Expenditure Framework: 'aaa' factor assessment
Ample flexibility is based on a low carrying cost burden and the solid ability to cut spending common to most U.S. states. Providing education and social services to its growing population will drive spending growth over time.

Long-Term Liability Burden: 'aaa' factor assessment
Idaho's long-term liabilities are very low, driven by a reluctance to rely on debt and a pension burden that is low for a state.

Operating Performance: 'aaa' factor assessment
Very strong gap-closing capacity stems from the state's practice of building up reserves during periods of economic expansion and a willingness to make significant spending cuts if necessary, including mid-year, to address economic and revenue weakness.

RATING SENSITIVITIES

CONSISTENTLY CONSERVATIVE BUDGETARY MANAGEMENT: The ratings assume a continuation of the state's prudent approach to managing its budget, including prioritizing reserve balances.

CREDIT PROFILE

All general fund revenues and receipts are deposited into the repayment account for the TANs beginning in the fourth quarter of the fiscal year until the balance is sufficient to repay the notes. Once deposits are made, they cannot be withdrawn or loaned back to the general fund. The state treasurer may make deposits to the note repayment account earlier than scheduled from excess general fund resources. The treasurer has consistently done so, resulting in the note repayment fund being fully funded by the end of April; the $500 million in notes issued for fiscal 2016 cash needs were fully covered by April 25, 2016.

Fiscal 2017 is projected to end on June 30, 2017 with a general fund cash balance of $45 million following note repayment, below the $65 million currently forecast ending balance for fiscal 2016. Borrowable balances, consisting of other balances held in the state treasury in multiple funds outside the general fund, are forecast to average nearly $3.6 billion through the fiscal year, above the $3.4 billion projected at last year's note sale; borrowables at fiscal year end are forecast at just over $3.8 billion. Excluding cash balances held for other entities would still leave more than $1.9 billion in borrowables.

Cash flow borrowing is driven by the timing of school disbursements, which are weighted heavily to the early part of the state fiscal year. More than 55% of fiscal 2017 public school operating transfers will be disbursed by the end of August, and 73% by the end of November. By contrast, general fund cash receipts are stronger in the second half of the fiscal year, reflecting in part the timing of individual income tax payments in April. The resulting mid-month cash imbalances for August, at $921 million, and November, at $866 million will be met by the TANs and other internal borrowing. Repayment of other internal borrowing is subordinate to repayment of the TANs

Economic Resource Base

Idaho's economy has resumed the rapid pace of growth it benefited from prior to the last downturn. The state's population is younger than the U.S. median and growing rapidly; gains were more than double the nation's pace through the 1990s and 2000s, and though growth has slowed since 2010 it remains well ahead of U.S. averages.

The state's labor market is more cyclical than the U.S. overall. The rate of job gains in Idaho has exceeded the nation's since the recovery began, but job losses in the recession were steeper than the nation's as well. Unemployment rates in Idaho are consistently below the nation's. The economy is gradually diversifying beyond traditional strengths in agriculture and mining. Construction and technology have seen significant gains, although both have been subject to sharp drops in the past, affecting overall economic performance. Other service sectors have experienced strong growth, including professional services, education and health care, and leisure and hospitality. Personal income gains are generally slower than national levels, and wealth is low as measured by personal income per capita.

Revenue Framework

Idaho's revenues are diverse, with individual income tax the primary source of revenues, accounting for nearly half of general fund receipts. Sales taxes are also important, corresponding to more than 40% of general fund receipts. Tax revenue performance is sensitive to changes in the economy, particularly the component of individual income tax derived from non-withholding.

Historical revenue growth, adjusted for policy changes, has generally been solid over time, reflecting the state's overall rapid economic gains, although revenue declines during recessionary periods are often severe. Fitch expects revenue performance going forward to match this historical performance with growth slightly faster than the median for U.S. states.

Idaho has no significant legal limitations on its ability to raise revenues.

Expenditure Framework

As with most states, education and health and human services are the largest spending commitments. Support for public schools comprises nearly half of general fund appropriations, and has grown rapidly in recent years reflecting a variety of factors, including the ongoing recovery of spending from reductions made in the last downturn, growing enrollment, higher teacher salaries to encourage retention, and instructional upgrades. As with other states, Medicaid is also a significant cost driver. Spending is likely to grow faster than revenues over time in the absence of policy action given the state's rapidly growing population and rising service needs.

Idaho retains ample expenditure flexibility. As with most states, most spending supports service delivery by other levels of governments, rather than directly by the state. The state has generally been willing to make significant cuts to spending, including transfers to local levels of government, in order to address revenue weakness.

Long-Term Liability Burden

Idaho has a conservative approach to liabilities, with a low burden overall. As of Fitch's 2015 state pension update, the combined burden of net tax-supported debt and adjusted unfunded pension obligations equaled 2.2% of personal income, well below the 5.8% median for U.S. states and among the lowest of the states.

Net tax-supported debt of approximately $753 million, or 1.2% of personal income, is low for a state. Debt consists largely of outstanding GARVEEs (about 78% of total net tax-supported debt) and SBA bonds; the latter are the state's primary means of financing public facility capital. 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.

The state's major pension system, covering state and local retirees, has generally remained well funded on an actuarial basis in recent years despite the higher volatility that stems from its longstanding practice of not smoothing assets. Amortization is maintained at 25 years and employer contributions are statutorily fixed; although the latter was recently increased, actual contributions have been slightly below actuarially-determined levels in recent years. State contributions for its share remain a small percentage of overall state spending.

As of its 2015 valuation, system assets covered 90.4% of liabilities on a funding basis and 91.4% based on GASB statement 67 data. Using Fitch's more conservative 7% discount rate (versus the 7.5% rate used by the system for funding) would lower the funded ratio to 85.6%.

Operating Performance
Idaho's financial resilience is linked to its practice of setting aside excess resources in reserve accounts and its very strong budget control, highlighted by a willingness to sharply cut spending when confronted with recessionary revenue underperformance. The state maintains multiple reserves, including a budget stabilization fund, economic recovery reserve, public education stabilization fund and higher education stabilization fund. Balances in these four funds, with totaled nearly $319 million as of fiscal 2008 (10.9% of general fund revenues), were drawn to a low of $11 million (0.5% of general fund revenues) by fiscal 2011. Over that same time frame, appropriated expenditures fell nearly 16% as the state sharply cut spending to cope with recessionary revenue declines.

During periods of economic recovery the state has a history of gradually rebuilding reserve balances and restoring spending cuts. Balances in the four reserve funds noted earlier have grown to an estimated $336 million, or 10.2% of projected fiscal 2017 general fund revenues.

Recent Developments

State fiscal performance has remained steady in recent years. Fiscal 2016, which ends on June 30, is expected to close with an unobligated general fund cash balance of $50.4 million, excluding budgetary reserve balances. Fiscal 2016 revenues are estimated to rise 3.3%, with slower individual income tax gains offset by faster growth in sales taxes. Fiscal 2016 appropriations rise 4.3%, faster than revenues, given rising support for education. The adopted budget for fiscal 2017 forecasts an ending unobligated general fund cash balance of $45 million, with revenue growth of 4.5%. Individual income taxes are expected to rise more quickly. General fund appropriations rise 4.1%, driven by appropriations for public education and for higher education.

Contact:

Primary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Eric Kim
Director
+1-212-908--0241

Committee Chairperson
Karen Krop
Senior Director
+1-212-908-0661

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
Rating U.S. Public Finance Short-Term Debt (pub. 17 Nov 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=873508
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478