

CREDIT OPINION

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New Issue

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State of Idaho

New Issue - Moody's assigns MIG 1 to Idaho's \$500M Tax Anticipation Notes Series 2016

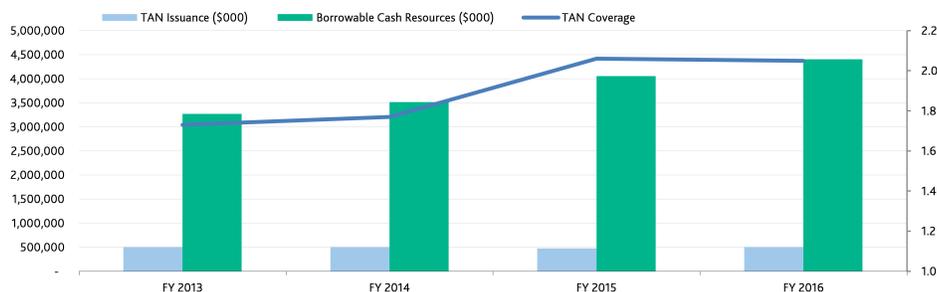
Summary Rating Rationale

Moody's Investors Service has assigned a MIG 1 rating to the State of Idaho's \$500 million Tax Anticipation Notes (TANs) Series 2016.

The highest quality short-term note rating reflects a history of conservative cash flow projections for the general fund, very strong projected cash coverage of TAN principal at maturity, and the strong underlying credit quality of the State of Idaho (Aa1 Issuer Rating). In addition, the state has a history of effective and active cash management.

Exhibit 1

State of Idaho's TAN Coverage Has Remained Solid



Source: State of Idaho

Credit Strengths

- » Very strong projected cash coverage of TAN principal at maturity by general fund and other borrowable cash resources
- » History of strong financial management
- » History of early funding of the note repayment account
- » Strong long-term credit quality of Idaho

Credit Challenges

- » Lack of a formal set-aside deadline for note repayment

Factors that Could Lead to a Downgrade

- » Significant revenue underperformance, resulting in strained cash flows
- » Reduction in other borrowable cash resources

Key Indicators

Exhibit 2

| Idaho | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|-----------------------------------|-----------|-----------|-----------|-----------|
| TAN Coverage | 1.73 | 1.77 | 2.06 | 2.05 |
| TAN Issuance (\$000) | 500,000 | 500,000 | 475,000 | 500,000 |
| Account Fully Funded Date | 4/16/2013 | 4/21/2014 | 4/23/2015 | 4/25/2016 |
| Borrowable Cash Resources (\$000) | 3,268,639 | 3,515,761 | 4,054,894 | 4,403,170 |

Source: State of Idaho

Detailed Rating Considerations

Long Term Credit Quality

Idaho's credit strength is derived from its adherence to structurally balanced finances, a low debt burden and a growing economy. Idaho has had a history of conservative budgeting and has adjusted midyear appropriations when revenue shortfalls have occurred. The state currently does not have long term obligations secured by its full faith and credit, however, the state regularly has issued TANs secured by its faith and credit to address cash flow shortfalls during the fiscal year. The state continues to bolster its reserve funds and as of fiscal 2015, its budget stabilization fund stood at \$243.8 million, up 51% year-over-year.

Cash Flow

Idaho's projected TAN coverage at maturity is solid at 2.2 times using fourth quarter general fund revenues of \$1.1 billion. Even in a downside scenario with revenues falling 50%, there would be sum sufficient coverage. If adequate funds are not available in the note repayment account, the state treasurer covenants to access alternative cash resources in other state funds to ensure repayment. These projected borrowable cash resources of \$3.8 billion provide 7.62 times in additional coverage for the notes. The state has not had to utilize borrowable cash resources since the state began issuing TANs in 1986. The new series 2016 TANs represent 46% of Idaho's projected fourth quarter fiscal 2017 general fund tax revenues.

The majority of general fund revenues 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.

LIQUIDITY

As noted above, liquidity remains solid and there are added note holder protections in the event of an unlikely scenario where general fund fourth quarter revenues are insufficient to repay the TANs.

Debt Position and Legal Covenants

All fourth quarter general fund revenues will be deposited into a note payment account until funds are sufficient to pay principal and interest on the TANs. In the event there are not tax revenues fully sufficient for TAN repayment on or before maturity on June 30, 2017, the state will take other legally available actions to repay TANs, including utilizing other borrowable resources.

While the repayment structure of the notes lacks a formal segregation schedule, outlining a deposit date for the full par amount in advance of final maturity, the state covenants that all income collected during the fourth quarter shall be deposited first 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 30, 2017. The state has consistently funded the note repayment

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account in full, well in advance of June 30. The series 2015 tax anticipation notes were fully funded by April 25, 2016, and we note that in most of the past ten years, the note repayment account has been fully funded about two months prior to the June 30 maturity date of each series of the notes.

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. Monies in the Note Payment Account will be invested in direct obligations of the Federal Government and in certain fully collateralized investments. The State Treasurer has covenanted to invest all monies in the Note Payment Account in securities that mature no later than June 30, 2017. The State Treasurer has also covenanted not to invest monies in the debt obligations of the State.

DEBT STRUCTURE

In Moody's 2015 State Debt Median's Report, Idaho ranked 41st for debt per capita, at \$455 compared with the 50-state median of \$1,025. Idaho's debt as a share of personal income was a low 1.2% in the 2015 report, below the 2.5% US median.

We note that these metrics reflect a lack of long term borrowing by the general fund and conservative debt practices.

Idaho's total net tax-supported debt, which in 2015 amounted to about \$753 million, includes \$137 million of Idaho State Building Authority debt and \$591 million of GARVEEs issued by Idaho Housing & Finance Association on behalf of Idaho Department of Transportation.

DEBT-RELATED DERIVATIVES

Idaho has no variable rate debt and is not party to any debt-related derivatives. However, Idaho State Building Authority has \$36.1 million notional in a pay fixed interest rate swap that matures Sept. 1, 2025, and the current mark-to-market is negative \$6.1 million against the authority. We believe the authority has sufficient liquidity to withstand additional market moves if there is a collateral positing.

PENSIONS AND OPEB

Based on 2014 data, we have calculated the state's adjusted net pension liability (ANPL) at \$1.6 billion, or 23% of state governmental revenues. This amount ranks below the 50-state median ANPL to revenues of 59% and places Idaho 48th when the states are ranked by this metric. Our adjustments to reported state pension data include an assumed 13-year duration of plan liabilities and a market-based discount rate to value the liabilities, rather than the long-term investment return used in reported figures.

Management

We consider Idaho's governance and financial management to be solid. The state has a track record of proactively responding to budgetary imbalances through the executive branch's holdback expenditure reduction authority. In addition, the state Division of Financial Management publishes a monthly update on revenue and economic trends. The treasurer's office manages state liquidity under strict investment guideline and annual formal review.

Legal Security

The notes are secured by an irrevocable pledge general tax revenue to be received in the fourth quarter of fiscal 2017, the state's faith and credit pledge, and other borrowable resources in the event fourth quarter general fund revenues are insufficient.

Use of Proceeds

Proceeds will be used to fund temporary cash flow imbalances in the state's general fund during fiscal 2017.

Obligor Profile

Idaho is the 40th largest state, with a population of 1.66 million. It had a gross domestic product of \$66.1 billion as of Q3 2015, which ranks 42nd in the US, and per capita income of \$37,509.

Methodology

The principal methodology used in this rating was Short-Term Cash Flow Notes published in April 2013. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 3

Idaho (State of)

| <u>Issue</u> | <u>Rating</u> |
|-------------------------------------|---------------------------------------|
| Tax Anticipation Notes, Series 2016 | MIG 1 |
| Rating Type | Underlying ST |
| Sale Amount | \$500,000,000 |
| Expected Sale Date | 06/06/2016 |
| Rating Description | Note: Tax and/or Revenue Anticipation |

Source: Moody's Investors Service

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