Idaho (State of)

Update to credit analysis

Summary
The State of Idaho’s (Aa1 stable) credit profile is supported by a history of conservative financial management, and strong liquidity and fund balances that have improved steadily since the recession, and a very low debt burden. These strengths are somewhat balanced by below-average socioeconomics and moderate economic concentration that leads to above-average economic and revenue volatility. However, the economy is benefitting from strong in-migration and overall growth.

Idaho is also an annual cash flow note borrower, with a strong short-term credit profile (Tax Anticipation Notes, Series 2019 rated MIG 1) reflecting the strong underlying credit quality, a history of conservative cash flow projections and strong projection accuracy, solid projected coverage of TAN principal at maturity, and ample liquidity afforded by resources available from other state funds. In addition, the state has a history of effective and active cash management.

Exhibit 1
Temporary slowdown in job and revenue growth is offset by reserves accumulated during recent expansion

Credit strengths

» History of strong liquidity and solid GAAP fund balances
» State debt levels and fixed costs well below the 50-state medians
» Diversifying, growing economy supported by above-average population growth
» Sound financial management and conservative budgeting

Credit challenges

» Below average socio-economic indicators
» Concentration in more economically sensitive agriculture and technology sectors
» Variability of corporate and individual income tax receipts

Rating outlook

The state’s stable outlook reflects the expectation that strong economic growth and conservative fiscal management will support structurally balanced financial performance and solid, stable reserves.

Factors that could lead to an upgrade

» TAN: NA
» Continued long term economic growth
» Maintenance of structural balance in state finances and limited reliance on non-recurring revenue sources

Factors that could lead to a downgrade

» TAN: Significant revenue underperformance, resulting in strained cash flows and reduced coverage of TAN principal and interest; Reduction in other borrowable cash resources; A substantial and sustained slowdown in reaching full funding of the note repayment account compared to recent history
» Significant economic slowing resulting in weaker revenue performance that severely strains state finances
» A shift away from the state’s trend of well managed financial operations

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Key indicators

Exhibit 2

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund Revenues (000s)</td>
<td>$3,232,056</td>
<td>$3,521,608</td>
<td>$3,633,103</td>
<td>$3,859,436</td>
<td>$4,254,647</td>
<td>$10,869,281</td>
</tr>
<tr>
<td>Available Balances as % of Operating Fund Revenues</td>
<td>13.9%</td>
<td>16.0%</td>
<td>17.5%</td>
<td>19.0%</td>
<td>20.5%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Nominal GDP (billions)</td>
<td>$63.6</td>
<td>$66.3</td>
<td>$69.2</td>
<td>$72.3</td>
<td>NA</td>
<td>$224.4</td>
</tr>
<tr>
<td>Nominal GDP Growth</td>
<td>4.3%</td>
<td>4.2%</td>
<td>4.4%</td>
<td>4.5%</td>
<td>NA</td>
<td>3.9%</td>
</tr>
<tr>
<td>Total Non-Farm Employment Growth</td>
<td>2.5%</td>
<td>2.7%</td>
<td>3.4%</td>
<td>3.0%</td>
<td>3.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Fixed Costs as % of Own-Source Revenue</td>
<td>NA</td>
<td>2.9%</td>
<td>3.4%</td>
<td>3.3%</td>
<td>NA</td>
<td>8.9%</td>
</tr>
<tr>
<td>Adjusted Net Pension Liabilities (000s)</td>
<td>$1,629,926</td>
<td>$1,671,901</td>
<td>$1,843,160</td>
<td>$2,768,296</td>
<td>NA</td>
<td>$12,033,341</td>
</tr>
<tr>
<td>Net Tax-Supported Debt (000s)</td>
<td>$807,023</td>
<td>$753,106</td>
<td>$712,929</td>
<td>$827,014</td>
<td>$887,570</td>
<td>$4,450,975</td>
</tr>
<tr>
<td>(Adjusted Net Pension Liability + Net Tax-Supported Debt) / GDP</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.7%</td>
<td>5.0%</td>
<td>NA</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

Source: Idaho CAFRs; Moody’s Investors Service; US Bureau of Labor Statistics; US Bureau of Economic Analysis

Profile

Idaho is the 39th-largest state, with a population of 1.7 million. It had a gross domestic product of $69.9 billion as of December 2018, which ranks 42nd in the US, and per-capita income of $43,155.

Detailed credit considerations

Economy

Idaho’s economic expansion will likely exceed the average US rate over the next 1-2 years, however the state’s economy will remain exposed to concentration in the technology and agriculture sectors. While the state’s economy has outperformed the nation in recent years, it is historically more volatile than the US, and was slower to recover from the most recent recession (see Exhibit 2). Idaho has a growing technology sector, including the state’s second largest employer Micron Technology, Inc. (Baa3 stable), and agriculture contributes 4.4% of the state’s GDP, compared to 0.9% of the U.S.

Exhibit 3

Idaho’s economy is a recent outperformer, but historically more sensitive than the U.S.

The state’s YOY non-farm job growth has been consistently above the U.S. rate since mid-2012, and was 2.5% as of April 2019, above the U.S. rate of 1.8%. Idaho’s labor force growth has kept pace, resulting in a low 2.8% unemployment rate in April 2019 (3.6% for the U.S.), however the tight labor market may constrain growth going forward. Employment growth has been led by construction, business and professional services, and education and health care.

Idaho’s economic growth has been bolstered by strong in-migration and accelerating population growth. Population growth increased to 2.1% in 2018 from 0.7% in 2012, and well above the 0.6% US growth rate. In addition, personal income growth has exceeded the US rate since early-2013, and was 4.6% in third quarter 2017 (compared to 3.3% for the US). However, due to below-average wage gains,
per capita personal income (PCPI) remains low relative to the nation; annual PCPI has averaged 80% of U.S. over the past ten years, and is down slightly from 82% in the preceding decade.

Environmental Considerations
Idaho’s exposure to climate risks is related to flooding, rising temperatures and storm damage, however it is insulated from rising sea levels given its inland location. A change in temperature could increase humidity and drought, drive down agricultural productivity and impact other industries including forestry, fishing and hunting, which together constitute 4.4% of 2018 GDP. There is also moderate risk of damage from weather events and flooding. Storm damage occurring from 1980 to 2017 was equivalent to 6.7% of the state’s 2016 GDP. In addition, 6.8% of the state’s dwelling units are located in a 100/500 year floodplains and are therefore exposed to flood risk.

Finances and liquidity
Idaho’s financial performance will remain strong despite recent revenue underperformance and upcoming Medicaid expansion costs, due to the state’s history of conservative budget management and continued expected economic and revenue growth. The state’s revenues are underperforming year-to-date, however some recovery is likely through the remainder of the fiscal year, and revenue growth will likely accelerate in fiscal 2020. Through April, Idaho’s tax receipts have declined 1.2% YOY, due to a budgeted income tax cut and a higher than expected income tax decline. The fiscal 2019 budget assumed income taxes would decline 5.2% through April, compared to an actual 10.8% decline year-to-date. Some of this shortfall may be related to the income tax timing shift many states have experienced as a result of federal tax reform, and the gap may continue to narrow in the last two months of the fiscal year. The state estimates that by June 30, total general fund revenues will be 0.9% above the prior year.

The fiscal 2020 general fund budget assumes general fund revenues will grow 8% to $4.1 billion, which is somewhat optimistic compared to the current year, however more reasonable when compared to the 7% average annual growth in the prior four years. Appropriations are budgeted to increase 7.1% over the prior budget to $3.9 billion, primarily for K-12 and higher education funding, which comprises 58% of the budget.

Idaho voters approved Medicaid expansion, which will go into effect January 1, 2020. The state legislature continues to negotiate various federal waiver requests, cost offsets, and enrollment requirements that will determine the final cost of implementation. The state’s highest cost estimate is a very manageable $40 million (1% of the general fund budget).

LIQUIDITY
The state has steadily replenished reserves that were significantly reduced during the recession. As of fiscal 2018, Idaho’s GAAP basis available fund balances were $870 million (20.5% of revenues), up from $288 million (9.8% of revenues) in fiscal 2012. The Budget Stabilization Fund balance (included in available fund balances) increased to $373 million in fiscal 2019 and is budgeted to remain flat in fiscal 2020. The general fund ending balance is budgeted to grow to $219 million (5.4% of revenues) from $136 million (3.7%).

Due to the mismatch in timing of outflows versus inflows, Idaho is an annual tax anticipation note issuer. The state will be selling its $555 million Tax Anticipation Notes, Series 2019, the week of June 18 with an expected maturity on June 30, 2020. Although the TANs do not have a formal set-aside date for repayment, the state covenants that all fourth quarter general fund revenues will be deposited first into a note payment account until funds are sufficient to pay principal and interest on the TANs. As has been the case over the past 10 years, the state’s set-aside for its Series 2018 notes was fully funded approximately two months prior to their June 28, 2019 maturity.

Idaho continues to demonstrate sound cash-flow projection accuracy and reasonable projections. The state forecasts that fiscal 2020 fourth-quarter receipts of $1.4 billion will provide 2.4 times coverage of TAN principal and interest at maturity, before operating expenditures. Projected fiscal 2020 fourth-quarter receipts provide 1.2 times coverage of TAN repayment and projected operating expenditures. Projected coverage increased from prior years due to the larger share of income taxes being paid on April 15, as a result of federal tax reform.

In addition, the state projects to have fund balances available to repay TANs that are equivalent to 375% of pledged fourth-quarter receipts, and provide 9 times coverage of the TAN borrowing. The state projects a fiscal 2020 ending general fund balance of $219 million, and can also access borrowable cash resources that are projected to be $5.3 billion at June 30, 2019, and $4.9 billion at June 30, 2020.
Nearly half of the state’s borrowable resources are comprised of the local government investment pool (LGIP), which the state considers a last-resort resource. Excluding the LGIP, all other projected fiscal 2020 borrowable resources are $2.6 billion, which includes the Budget Stabilization Fund ($373 million), the Public Education Stabilization Fund ($95 million) and the Higher Education Stabilization Fund ($10 million).

**Debt and pensions**

**DEBT STRUCTURE**

Idaho has a conservative debt profile and low debt position. The state’s total net tax-supported debt, which as of December 31, 2018 amounted to $887 million, includes $368 million of appropriation-backed debt (rated Aa2) issued by the Idaho State Building Authority and $491 million of GARVEEs (rated A2) issued by Idaho Housing & Finance Association on behalf of Idaho Department of Transportation. Idaho does not issue general obligation bonds, therefore their appropriation bonding program is an essential tool for financing capital projects.

In 2017, Idaho ranked 41st for debt per capita, at $482 million compared with the 50-state median of $987 million. Idaho’s debt as a share of personal income was a low 1.2%, below the 2.3% US median. These metrics reflect a lack of long term borrowing by the general fund and conservative debt practices.

**DEBT-RELATED DERIVATIVES**

The state has no outstanding variable rate debt or debt-related derivatives.

**PENSIONS AND OPEB**

Idaho’s adjusted net pension liability (ANPL), our measure of the government’s pension burden, was $2.77 billion in fiscal 2017, or 54% of own-source governmental revenues, and ranks 39th in the U.S. The 50-state median ANPL to revenues is 107%. Moody’s ANPL reflects certain adjustments made to improve comparability of reported pension liabilities.

The state contributed $94 million to its pension systems in fiscal 2017. This amount is more than the contribution amount that would allow the state's reported net pension liability to “tread water” – or remain stable from one year to the next, assuming investment return and other actuarial assumptions are met for the year. The tread water amount is determined by the actuarial cost of the year’s benefit accruals (“service cost”) plus interest on the net pension liability at the beginning of the year.

Idaho faces minimal costs associated with other post employment benefits, or OPEB. As of June 30, 2018, Idaho reported an unfunded actuarial accrued liability of $89.2 million, which results in lower long-term fiscal pressures associated with OPEB, as compared to other states.

The state's combined debt service, pension, and OPEB contributions in fiscal 2017 were a very low 3.5% of own-source governmental revenues. If the state pension contribution were equal to the "tread water" amount, these fixed costs would have been 3.3% of revenues.

**Governance**

We consider Idaho’s governance and financial management to be solid. State financial management has been aided by the executive’s ability to rein in spending as needed. While the governor alone cannot reduce appropriations, the executive has the authority to reduce budgets in the form of spending hold-backs. Governor-implemented hold-backs have historically been accepted and ultimately approved by the state legislature. The state has been quick to react in order to stabilize finances, both in terms of expenditure cuts and implementing tax increases. 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.

The Idaho State Building Authority is the chief financing vehicle for the state’s capital needs. The Authority has issued long-term debt for the construction of governmental facilities since 1976 for educational, corrections, hospital, recreational, and state office facilities. The authority is a frequent conduit issuer for the state, and all its leases are separately secured with no cross collateralization or cross default provisions between projects.

**Rating methodology and scorecard factors**

The US States and Territories Rating Methodology includes a scorecard, which summarizes the 10 rating factors generally most important to state and territory credit profiles. Because the scorecard is a summary, and may not include every consideration in the
credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned. Idaho's Aa1 Issuer Rating is one notch lower than its scorecard outcome, because it incorporates an economy and revenue base that remains somewhat concentrated in more economically sensitive sectors as discussed in this Credit Opinion.

Exhibit 4

US states and territories rating methodology scorecard
State of Idaho

<table>
<thead>
<tr>
<th>Rating Factors</th>
<th>Measure</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1: Economy (25%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Per Capita Income Relative to US Average [1]</td>
<td>80.3%</td>
<td>Aa</td>
</tr>
<tr>
<td>b) Nominal Gross Domestic Product ($ billions) [1]</td>
<td>$72.3</td>
<td>Aaa</td>
</tr>
<tr>
<td><strong>Factor 2: Finances (30%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Structural Balance</td>
<td>Aa</td>
<td>Aa</td>
</tr>
<tr>
<td>b) Fixed Costs / State Own-Source Revenue [2]</td>
<td>3.3%</td>
<td>Aaa</td>
</tr>
<tr>
<td>c) Liquidity and Fund Balance</td>
<td>Aa</td>
<td>Aa</td>
</tr>
<tr>
<td><strong>Factor 3: Governance (20%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Governance / Constitutional Framework</td>
<td>Aa</td>
<td>Aa</td>
</tr>
<tr>
<td><strong>Factor 4: Debt and Pensions (25%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) (Moody's ANPL + Net Tax-Supported Debt) / State GDP [2] [3]</td>
<td>5.0%</td>
<td>Aaa</td>
</tr>
<tr>
<td><strong>Factors 5 - 10: Notching Factors [4]</strong></td>
<td></td>
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<tr>
<td>Adjustments Up: Growth Trend</td>
<td>0.5</td>
<td></td>
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<tr>
<td>Adjustments Down: None</td>
<td>0</td>
<td></td>
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<tr>
<td><strong>Rating:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Scorecard-Indicated Outcome</td>
<td>Aaa</td>
<td></td>
</tr>
<tr>
<td>b) Actual Rating Assigned</td>
<td>Aa1</td>
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</tbody>
</table>

[1] Economy measures are based on data from the most recent year available.
[2] Fixed costs and debt and pensions measures are based on data from the most recent debt and pensions medians report published by Moody's.
[4] Notching factors 5-10 are specifically defined in the US States and Territories Rating Methodology.

Source: US Bureau of Economic Analysis, State CAFRs, Moody's Investors Service
CLIENT SERVICES

Americas  1-212-553-1653
Asia Pacific  852-3551-3077
Japan  81-3-5408-4100
EMEA  44-20-7772-5454