Idaho; Appropriations; General Obligation

Primary Credit Analyst:
Oscar Padilla, Dallas (1) 214-871-1405; oscar.padilla@spglobal.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@spglobal.com

Table Of Contents

Rationale
Outlook
Governmental Framework
Financial Management
Economy
Budget Performance
Debt And Liability Profile
Idaho; Appropriations; General Obligation

Credit Profile

<table>
<thead>
<tr>
<th>Idaho ICR</th>
<th>Long Term Rating</th>
<th>AA+/Stable</th>
<th>Affirmed</th>
</tr>
</thead>
</table>

Rationale

S&P Global Ratings affirmed its 'AA+' issuer credit rating (ICR) on the state of Idaho. At the same time, we affirmed our 'AA' rating on existing state lease-secured debt issued through the Idaho State Building Authority (ISBA) issued for Idaho. The outlook is stable.

The 'AA+' ICR reflects what we view as Idaho's:

- Sustained economic growth in the past decade relative to that of the U.S. as a whole, despite slower economic activity during and immediately following the 2008 recession;
- History of adhering to structurally balanced fiscal operations, including midyear spending holdbacks when necessary, and conservative revenue forecasting;
- Demonstrated commitment to rebuild its budget stabilization fund (BSF) following economic downturns which are good, in our view, at 10% of ongoing general fund appropriations in fiscal 2018 (budgetary basis, latest complete fiscal year) and estimated to continue growing in fiscal 2019; and
- Relatively low debt ratios, and low pension and other postemployment benefit (OPEB) liabilities, in part due to what we consider conservative debt practices and a state constitutional prohibition on long-term general obligation (GO) debt.

Partially offsetting these strengths are what we consider Idaho's economic sensitivity among its primary revenue sources—income and sales taxes—and below-average per capita gross state product (GSP) and income indicators.

Bonds issued by ISBA are secured by funds received by the authority derived from lease agreements between the authority and the state acting by and through certain agencies or departments. Funds are appropriated annually by the state legislature and certain facilities leases are subject to annual renewal. We rate ISBA's appropriation debt one notch lower than the state's general creditworthiness to reflect the appropriation risk associated with the annual payment. These obligations provide funding for projects we believe are significantly important to the state. The state also has an established track record of appropriating for resources necessary to satisfy debt service. In our opinion, there is no unusual political, timing, or administrative risk related to the debt payment.

Economic and budgetary update

Idaho's economy continues to show signs of strength, with an estimated real GSP growth of 2.7% by year-end and 3% in 2020. In our view, however, it remains somewhat cyclical, due in part to its ties to the construction and technology-related employment sectors. Year-over-year employment growth (as of April 2019) reflects 4.7% growth in professional and business services and 4.5% growth in construction and mining. Other services grew a strong 5%
relative to a year ago. IHS Markit forecasts continued employment growth of 2.2% through 2019, followed by 1.6% in 2020, which is expected to be higher than the U.S. level.

The state's GSP per capita remains near the post-recession level of 70% of the U.S. in 2018. State per capita income was also below average in 2018 at 80% of the nation, down from 82% in 2006.

Population growth has been consistently strong, even during downturns. Idaho's population grew 2.05% in 2018 to over 1.75 million, according to the U.S. Census Bureau, compared with a 0.62% increase for the nation. At the same time, Idaho's seasonally adjusted unemployment rate has remained well below that of the nation for each of the past 10 years, with the state's unemployment rate at 2.8% in 2018, below the nation's 3.9% rate. The state's preliminary unemployment rate for April (2019) stood at 2.8%, according to the Bureau of Labor Statistics, ranking it fifth among states.

We believe Idaho has had a history of conservative budgeting and timely midyear appropriations holdbacks when midyear shortfalls have occurred.

Ten months into fiscal 2019, state general fund revenues have fallen short of forecasted levels by 1.3%, or approximately $39.75 million. Of note, Idaho's individual income taxes are 5.9% short of forecasted levels for the fiscal year. Relative to fiscal 2018, fiscal year-to-date collections are down 1.2%. Favorably, sales taxes continue to show healthy growth of 7.2% relative to fiscal 2018 and 0.8% greater than forecasted. While a smaller share of total general fund revenue, corporate income taxes are up roughly 24.6% relative to forecast. Throughout the fiscal year, the state's Division of Financial Management (DFM) has indicated that shortfalls are largely the result of income tax reductions signed by the former governor in March 2018 and with changes, or absence thereof, in withholding tables.

On March 12, 2018, the former governor signed into law HB 463, which conforms Idaho's income tax code to the Internal Revenue Code (IRC), which has an estimated net positive effect of $118.8 million relative to individual income taxes and a net negative effect of $21.4 million relative to business income taxes. The estimated net conformity effect of $97.4 million is offset by tax relief provided by the bill of $201.9 million, resulting in a net reduction of $104.5 million of general fund revenue.

The state's enacted fiscal 2020 budget reflects an increase in total appropriations of 5.6% from 2019, to $3.91 billion. The estimated total general fund revenue is slightly more than $4 billion, supported by an estimated increase in individual income taxes of approximately 7.7%, to $1.95 billion, and a 5.7% increase in sales taxes to $1.67 billion. In total, general fund revenue is estimated to grow by more than 7.1% in 2020, based on estimates prior to the end of the 2019 fiscal year. The BSF is estimated to end the year at $373.18 million, or 9.2% of general fund revenue or 9.5% of appropriations. Including its public education ($95.3 million) and higher education ($10.1 million) stabilization funds, the state's reserves would total roughly 12% of ongoing appropriations.

We consider Idaho's management practices good under our Financial Management Assessment (FMA) methodology. An FMA of good indicates our view that government practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

The state's relatively rapid paydown of debt in recent years had helped keep its debt profile low, although debt
issuances in fiscal 2018 resulted in the state principal debt retirement in 10 years to slowing to average levels. Annual debt service has also remained very low as a percentage of the operating budget; the carrying charge was approximately 0.2% of expenditures in fiscal 2018. We calculate Idaho's net tax-supported debt burden at fiscal year-end 2017 at approximately $367 million. Based on audited fiscal 2018 data, the state’s debt levels produced what we consider a low, roughly $210 tax-backed debt per capita and 0.5% of total personal income. The state is prohibited from issuing long-term full faith and credit GO debt and does not have current plans to issue additional appropriation debt. Idaho annually issues tax anticipation notes (TANs) to manage uneven income tax receipts and payments to schools that are weighted toward the first half of the fiscal year.

In our view, the debt and liability profile reflects a focus on keeping long-term liabilities low, although the state’s pension liability has demonstrated a degree of volatility in the past. Idaho's unfunded pension liability is approximately $230 per capita and 0.5% of personal income, which we consider below average and a credit strength. While the state fully funded its pension actuarially determined contribution (ADC) for its largest plan (Public Employee Retirement System of Idaho [PERSI]) and indeed exceeded it in the past two years, actual contributions in recent fiscal years were short of the ADC. Based on the state's fiscal 2018 comprehensive annual financial reports (CAFRs), we estimate Idaho's share of the net pension liability to its major plan (PERSI) at about $405.17 million, which is manageable, in our view. In our opinion, Idaho reduced its OPEB exposure substantially beginning in 2010 with the exclusion of Medicare-eligible retirees or dependents from the state-sponsored health benefit and by fixing its retiree health insurance premium benefit at $1,860 per year, with no increase over time. The state last calculated its unfunded OPEB liability at $99.5 million as July 1, 2017 (valuation based on preceding year).

Based on the analytic factors evaluated for Idaho, on a four-point scale where ‘1.0’ is the strongest and ‘4.0’ the weakest, S&P Global Ratings assigned a composite score of ‘1.7’ to Idaho, which is commensurate with similarly rated peers.

**Outlook**

The stable outlook reflects our opinion of a structurally balanced budget, growing reserves, relatively low long-term liabilities, and continued economic growth. We do not expect to raise the rating in our two-year outlook horizon due to income levels that are below average and what we consider cyclical elements that could affect state financial performance, although trends have remained favorable.

Should income levels rise closer to the national mean and the state continue to demonstrate a commitment to building its budget stabilization closer to its cap, we could raise the rating.

While we do not anticipate it, if state budgets fell significantly out of structural balance over a sustained period either as a result of broader economic weakness or policy decisions to draw on reserves substantially, we could lower the rating.
Governmental Framework

The Idaho Constitution requires that the legislature adopt a balanced budget each fiscal year and that it increase appropriations within the fiscal year or adopt tax changes sufficient to offset any increases.

However, it does not require that the governor or legislature adjust spending on release of semiannual revenue forecast updates by the state's economist. During the Great Recession, we observed that the executive branch was also willing to exercise its "holdback" authority, which allows the governor to reduce expenditures in advance of the preceding legislative session in proportion to weaker-than-forecast revenue performance. Idaho reports that the governor has discretion to reduce agency-level spending by different degrees, but that in general, the total holdback must match the revenue shortfall.

We understand the only major constitutional spending mandate is the provision of "a general, uniform, and thorough system of public, free common schools," a requirement that the Idaho Supreme Court ruled in 2005 and that the state failed to meet, particularly because of inadequate facilities in some districts. The court did not specify the actions that the legislature should take to meet the constitutional standard nor did it set a timeline. The legislature responded by adopting, in 2006, a 1% sales tax increase and a concurrent elimination of local education maintenance and operations levies, which we understand made it easier for school districts with shallow tax bases to finance capital projects. In 2007, Idaho also raised its ceiling on the amount of debt it would cover under its credit enhancement program for school district GO bonds. However, during previous low points in the revenue cycle, the state has been willing to reduce local support (including grade K-12 education) to achieve structural balance.

In fiscal years 2009 and 2010, Idaho lowered general fund appropriations 3.2% and 14.3%, respectively. We understand that the legislature has discretion over the timing of payments within the fiscal year and that the executive branch can adjust some disbursements, but public school payments, which make up 50% of the state's fiscal year 2019 and 2020 general fund budgets, are specified in the annual budget statutes. With the start of the state's fiscal 2020 budget, the legislature will have increased education aid for the fifth fiscal year in a row. Nevertheless, Idaho has some discretion as to when payments are made. It does not have significant constitutional restrictions on its ability to raise taxes, but it did not adopt significant tax increases during the last recession.

The electorate has also been reluctant to raise taxes in the past, with the latest citizen initiative to do so (for education) failing in 2006, although the state legislature did raise the gas tax rate and vehicle registration fees in fiscal 2016 to pay for additional transportation fund projects.

Although citizen initiatives are allowed, we think that initiative activity in the state has not been used particularly frequently, and requirements to get on the ballot are relatively strict. A successful citizen initiative in 2012 repealed certain recent state laws pertaining to education, but with what we view as minor effects on the state budget. In 2013, Idaho changed the threshold to put a citizen initiative on the ballot to require 6% of registered voters in at least each of 18 legislative districts, in addition to the previous requirement of 6% of all registered voters in the state. While we believe this makes it harder for future initiatives to get on the ballot, Proposition 2 (to expand Medicaid to certain qualified individuals), which was based on a citizen initiative, was favorably supported by the state's electorate in
November 2018. In early April 2019, the governor signed into law Senate Bill 1204, which amended state statute to include certain provisions pertaining to the expansion.

The state constitution does not allow Idaho to issue long-term obligations secured by its full faith and credit, but the state regularly issues TANs secured by its faith and credit pledge to address uneven revenues and front-loaded school district payments during the fiscal year.

Idaho also provides credit support on a contingent basis to school district GO debt that is accepted into its bond guarantee program. Under the program, the state must take one or more of four actions to ensure full and timely debt service payments, including borrowing from any legally available source, and can recover such payments with corresponding intercepts of state school district operating aid. As of June 30, 2018, Idaho had guaranteed $1.4 billion in the principal amount of school district bonds. It also guarantees local municipal bonds under a separate program, with $316.7 million guaranteed as of that date.

The state is an infrequent issuer of appropriation obligations through its building authority, which can issue lease revenue bonds secured by state payments for the use of state and community college facilities. Idaho also has issued bonds to repay the federal government for unemployment insurance fund draws payable from unemployment taxes on employers; these bonds have since matured.

On a four-point scale where '1.0' is strongest ad '4.0' the weakest, we have assigned a score of '1.7' to Idaho's governmental framework.

**Financial Management**

We view Idaho as having a strong record of responding to downward revisions to forecast revenues through the executive branch's holdback expenditure reduction authority and a generally structured approach to addressing budgetary imbalances. The governor and legislature reduced expenditures midyear in fiscal years 2009 and 2010 by what we consider a significant 8.8% and 8.0%, respectively, of general fund expenditures on a budgetary basis of accounting. Moreover, within the regular budget process, the state's political leadership has been willing to consider difficult fiscal adjustments, and for fiscal years 2011 through 2014, it set revenue assumptions below the official executive revenue forecast, in part to minimize the potential for midyear budget adjustments. For fiscal 2020, the Economic Outlook and Revenue Assessment Committee approved a revenue estimate of 2.5 percentage points lower than the governor's revenue estimate for the fiscal year. The fiscal 2020 adopted budget reflects a relatively lower (1%) revenue estimate than initially recommended by the DFM in January. We understand that the state has not considered any significant tax rate increases when individual income and sales tax revenues began to decline in fiscal 2009, although it raised gas tax rates and vehicle registration fees in fiscal 2016 for transportation purposes.

We consider Idaho's management practices good under our FMA methodology. An FMA of good indicates our view that government practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. The state prepares annual budgets based on quarterly economic forecasts generated from both internal and external data. Its DFM publishes a monthly update on revenue and economic trends, and the legislature and governor have revised budgets within the year when revenues have deviated significantly from the forecast. The
The governor's budget recommendation includes rolled-up general fund revenues and expenditures for the current fiscal year and four subsequent fiscal years (including the budget year). The legislature annually reviews capital improvement projects for the current year, and identifies projects for future years. However, for general governmental projects other than transportation maintenance and other capital renewal, the state does not maintain a formal, long-term rolling capital improvement plan.

The treasurer's office manages state cash with strict investment guidelines and annual formal review. There is no formal debt management policy, but the constitution tightly controls state debt issuance for any multiyear commitment.

On a four-point scale where '1.0' is the strongest and '4.0' the weakest, we have assigned a score of '1.5' to Idaho's financial management.

**Economy**

Idaho has experienced the strong population growth common in the Rocky Mountain region in the past decade, and ranked second among states with growth of 2.1% to 1.75 million in 2018, according to the U.S. Census. Its average unemployment rate declined to 2.8% in 2018, 1.1 percentage points below the nation's 3.9%. The state's annual unemployment rate has been on average 1.1 percentage points below the national level since 2015.

We believe there has been some cyclicality associated with the construction sector and the state's high-technology employment, with Micron Technology Inc. and HP Inc. as significant employers in the Boise area, as well as various software companies. Although construction sector employment as a percentage of total state employment increased slightly in the past three years to 6.7% in 2018, it is still higher than the nation's construction sector share of 4.9%. Other state employment sectors in 2018 mirror U.S. averages, with manufacturing slightly greater at 9.2% of employment (Micron Technology and HP have facilities in Boise) compared with 8.5% for the U.S., and professional and business services slightly lower at 12.8% compared with 14% for the U.S. Trade, transportation, and utilities declined modestly to 19.3% of employment compared with 18.6% for the nation, and education and health services was 14.3% compared with 15.9% for the nation. We also believe Idaho has a larger farming sector compared with the nation, with potatoes a major crop, as well as wheat, barley, sugar beets, and dairy. Mineral and commodity products, such as gold and silver and timber, also have a presence in state economic activity. Idaho does not have significant oil and gas activity. There is a growing call center industry, although these jobs tend to have lower wages.

Idaho has a reputation for a low cost of living and of doing business, both of which have attracted out-of-state residents. However, compounded annual GSP growth in the past decade of 1.59% in real dollars lagged behind the U.S. (1.75%), in part due to a steeper GSP decline than that of the nation during the last recession. Idaho's per capita GSP and per capita personal income were below average at 70% and 80% of the national average, respectively, in 2018.

IHS forecasts continued employment growth above national levels of 2.2% in calendar 2019 and 1.6% in 2020, compared with 1.6% and slightly less than 1.2%, respectively, for the nation. It expects real state product to rise 2.7% in 2019 and 3% in 2020, in line with its forecast for U.S. GDP growth of 2.7% in 2019 and ahead in 2020 with estimates...
reflecting 2.1% growth.

On a four-point scale where '1.0' is the strongest and '4.0' the weakest, we have assigned a score of '2.5' to Idaho's economy.

**Budget Performance**

Idaho's budgetary performance in recent years has been characterized by the accumulation of significant reserves during the period before the most recent recession, followed by expenditure reductions and measured but near-total draws on its rainy day funds as individual income and sales taxes declined following the recession, and a subsequent partial buildup of fund balances during economic recovery periods. Idaho's accumulated reserves, which make up its general fund, BSF, public education stabilization fund, and economic recovery reserve fund, peaked at $558.3 million, or 20% of expenditures at the end of fiscal 2008. However, from fiscal 2008-2010 during the recession, the state drew down reserves to what we view as minimal levels, leaving the BSF at only $99,672 at fiscal year-end 2011. Idaho made midyear expenditure reductions in fiscal years 2009 and 2010 to balance its operations in response to a darkening revenue picture, and we believe that its decision to subsequently adopt a conservative revenue assumption relative to the official executive forecast positioned it to avoid a third consecutive major midyear budget revision in fiscal 2011. Beginning in fiscal 2012, the BSF began to rebuild and is estimated to total $373.2 million in fiscal 2019.

The state ended fiscal 2018 with $100.7 million (2.8%) more general fund collections than forecasted. Relative to 2017, general fund collections were up 8.2% in fiscal 2018. The state's two largest revenue streams—individual income and sales taxes—grew at strong rates of 10.7% and 7.8%, respectively. Officials attribute the strong growth to continued broad economic growth across the state. On a budgetary basis, the BSF ended the fiscal year with a $353.6 million balance, or slightly over 10% of ongoing appropriations (fiscal 2018). Including its public education stabilization ($64.35 million) and higher education stabilization funds ($5.3 million), the state's reserves totaled slightly more than 12% of ongoing appropriations. The state's leading general fund revenue sources, individual and corporate income taxes (collectively) and sales taxes, were up 12.5% and 10.2%, respectively, over 2017, as reported in the state's 2018 CAFR.

On a generally accepted accounting principles (GAAP) basis, Idaho's assigned and unassigned available general fund balance at fiscal year-end June 30, 2018 (the most recent audited year), was approximately $956.75 million, or what we view as a strong 25% of general fund expenditures and transfers out, and up from $269 million from the year before. The GAAP total general fund balance of nearly $1.75 billion was also large, in our opinion, at 45% of general fund expenditures and transfers out.

Ten months into fiscal 2019, state general fund revenues have fallen short of forecasted levels by 1.3%, or approximately $39.75 million. Of note, the state's individual income taxes are 5.9% short of forecasted levels for the fiscal year. Relative to fiscal 2018, fiscal year-to-date collections are down 1.2%. Favorably, sales taxes continue to show healthy growth of 7.2% relative to fiscal 2018 and 0.8% greater than forecasted. While a smaller share of total general fund revenue, corporate income taxes are up roughly 24.6% relative to forecast. Throughout the fiscal year, the state's DFM has indicated that shortfalls are largely the result of income tax reductions signed by the former governor
in March 2018 and with changes in withholding tables.

As passed in the 2018 legislative session, House Bill 463 conformed Idaho's income tax code to the IRC, and had an estimated net positive effect of $118.8 million relative to individual income taxes and a net negative effect of $21.4 million relative to business income taxes. The estimated net conformity effect of $97.4 million was estimated to be offset by $201.9 million in tax relief provided by the bill, resulting in a net reduction of $104.5 million of general fund revenue. With respect to changes in withholding tables, DFM indicates actual withholdings may be under-withholding tax liabilities, which would result in offsetting higher-than-expected filings in the spring of 2019. Indeed, April collections were 32.2% higher relative to a year ago. Whether or not the shortfall will be completely eliminated by fiscal year-end, officials have remained highly vigilant about developments month over month, reflecting prudent budget oversight and management. In our view, while individual income tax collections have softened below initially estimated levels, total revenue misses remain relatively modest and have not adversely pressured the state's budget. Given the state's demonstrated willingness to align its budget accordingly, we would anticipate that even if income tax collections softened further, the state maintains sufficient capacity to ensure balance.

The state's enacted fiscal 2020 budget reflects an increase in total appropriations of 5.6% from 2019, to $3.91 billion. The estimated total general fund revenue is slightly more than $4 billion, supported by an increase in individual income taxes of approximately 7.7% to $1.95 billion and a 5.7% rise in sales taxes to $1.67 billion. In total, general fund revenue is estimated to grow by more than 7.1% in 2020, based on estimates prior to the end of the 2019 fiscal year. The BSF is estimated to end the year at $373.16 million, or 9.2% of general fund revenue or 9.5% of appropriations. Including its public education ($95.3 million) and higher education ($10.1 million) stabilization funds, the state's reserves would total roughly 12% of ongoing appropriations.

Pursuant to statutory law, the BSF receives transfers of general fund revenues that are more than 4% of the previous year's receipts, up to 1% of actual general fund collections for the year-end. The BSF is normally capped at 10% of general fund appropriations for that fiscal year as per statutory law; however, the 2015 legislature removed the cap until May 31, 2017 and subsequently extended it until May 31, 2019. The legislature also specified that any excess cash balance in the general fund at the end of the fiscal year during that period be transferred 50% to the BSF and 50% to the Idaho transportation department strategic initiatives program fund. After the fund balance reaches 10% of general fund receipts, appropriations from the fund are limited to 50% of the balance.

With the successful voter initiative to expand the state's Medicaid program, the legislature set certain provisions (Senate Bill 1204a) to align with the expansion, including a work, job training, or volunteering requirement for certain individuals. Among other provisions, SB1201a directs the director of the department of health and welfare to seek federal waivers to allow certain individuals receive Medicaid if they are in institutions for mental disease, seek waivers to allow certain qualified individuals to remain on health care exchanges rather than Medicaid rolls, require legislative and administrative review of the expansion if federal resources are reduced, and require legislative fiscal review of cost of the expansion. Coverage is set to begin on Jan. 1, 2020, with the legislature appropriating roughly $20 million from reserves from the state's Millennium Fund (monies deposited from tobacco master settlement litigation). In our view, consistent with prudent budget management, we anticipate the state will work to ensure sufficient resources are allocated to manage the expansion while concurrently working to limit the total ongoing expense through its current
initiatives, which will require federal approval or other programmatic changes. As we do with other states that have expanded Medicaid, we will continue to monitor state-specific efforts and the overall net effect on long-term budgetary performance. Given that Idaho's expansion is set to take place in the middle of its next fiscal year, the total effect may not fully clear until well into the fiscal 2021 budget.

A regular TAN borrower, Idaho has access to considerable liquidity even without cash-flow borrowing in the form of the ability to tap other funds, including its local government investment pool. We understand that the state has legal flexibility to defer disbursements to local governments if it believes it necessary, but that it is not considering doing so. In fact, we understand that, starting in fiscal 2007, Idaho moved its disbursements forward for school districts, and that in fiscal 2015, it moved disbursements forward further within the fiscal year; 50% of nonspecial disbursements to public school districts are now made in August, two months into the fiscal year. The executive branch cannot alter the disbursement schedule for K-12 education.

The state economist produces independent economic forecasts bi-annually and provides monthly updates on revenue performances to budget, which we believe give Idaho time to consider midyear appropriation holdbacks, if necessary.

On a four-point scale where '1.0' is the strongest and '4.0' the weakest, we have assigned a score of '1.8' to Idaho's budgetary performance.

**Debt And Liability Profile**

We view the state's debt burden as relatively low, based on our calculations, including tax-supported debt relative to population ($209 per capita), personal income (0.5%), and GSP (0.5%). We believe that these ratios reflect both a constitutional prohibition on issuing long-term GO debt and a general aversion to long-term borrowing supported by the general fund. We calculate paydown of tax-supported debt and other obligations as average, with slightly more than 45% of principal amortized over 10 years, a decrease relative to fiscal 2017, when amortization was very rapid at approximately 80%. The change reflects the issuance of debt in fiscal 2018 by ISBA, which increased total principal outstanding to $351.18 million from $132.8 million. The state maintains nearly two dozen private capital leases, which we do not believe pose a financial risk based on its representations that there are no lease acceleration triggers.

Idaho's unfunded pension liability represents its proportionate share in several pension plans, of which PERSI is the largest. Idaho is a contributing employer to PERSI, with an allocable share of 25.8%. The overall average pension funded ratio over the previous three years was approximately 90%, which we view as relatively strong, although it is close to the "good" threshold of 80%-90%. The pension funded ratio, expressed as the plan fiduciary net position as a percentage of the total pension liability, for PERSI was 91.69% as of June 30, 2018. Contribution rates are set contractually by the system board and are not set to an annual ADC, although based on actuarially determined rates. The state's contributions fell short of their ADC from 2011-2014 and in 2016; contributions exceeded the ADC in fiscal years 2015, 2017, and 2018. Statute requires that at minimum, PERSI pays off current liabilities over 25 years, although there is an estimated amortization (for fiscal 2018) of slightly more than 16 years. PERSI's five-year average rate of return is 8.4% (money-weighted), which is in line with the assumed rate of return of 7%.

We understand that there were no material legislative changes to the system during the current legislative session. On
the whole, management factors and actuarial inputs do not significantly encumber our view of the state's overall pension funding discipline. The PERSI assumes an open amortization schedule of 25 years; the amortization method is based on a level percentage of pay. The plan assumes member contributions are made at current rates, with employer contributions made equal to the difference between the ADC and member rates. Accordingly, the system does not project a future crossover date. The system's ratio of active members to beneficiaries is 1.52, which we believe is sustainable, and slightly above the median national ratio of 1.50. PERSI incorporates experience trends and industry standards through experience studies produced at least every five years.

As of June 30, 2018, the state reported a 25.8% share, or roughly $405.17 million of a net pension liability of $1.57 billion. Including Idaho's other plans, the pension liability is low at approximately $230 per capita. Relative to total personal income, the state's share of the net pension liability was 0.5%, which we consider low and a favorable credit characteristic.

We consider Idaho's OPEB liability low. In our view, the state substantially reduced its OPEB exposure beginning in 2010, with the exclusion of Medicare-eligible retirees or dependents from the state-sponsored health benefit and the fixing of the maximum health care premium contribution at $1,860 per year rather than the historical practice of indexing the benefit to changes to the benefit given to current employees. Based on the most recent July 1, 2017, valuation, the state calculates its unfunded OPEB liability (combined) at $99.5 million.

On a four-point scale where '1.0' is strongest and '4.0' is the weakest, we have assigned a score of '1.1' to Idaho's debt and liability profile. The modest change to '1.1' from '1.0' reflects the updated amortization of outstanding debt, which is now average rather than very rapid.
<table>
<thead>
<tr>
<th>Rating Object</th>
<th>Rating</th>
<th>Outlook</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idaho St Bldg Auth (Idaho) (State Brd of Ed Proj) APPROP</td>
<td>AA/Stable</td>
<td>Affirmed</td>
<td></td>
</tr>
<tr>
<td>Idaho St Bldg Auth (Idaho) (State Office Campus Proj) APPROP</td>
<td>AA/Stable</td>
<td>Affirmed</td>
<td></td>
</tr>
<tr>
<td>Idaho St Bldg Auth (Idaho) (St Office Campus Proj) APPROP</td>
<td>AA/Stable</td>
<td>Affirmed</td>
<td></td>
</tr>
<tr>
<td>Idaho St Bldg Auth (Idaho) (University of Idaho Proj) APPROP</td>
<td>AA/Stable</td>
<td>Affirmed</td>
<td></td>
</tr>
<tr>
<td>Idaho St Bldg Auth (Idaho) (Wtr Ctr Proj) APPROP</td>
<td>AA/Stable</td>
<td>Affirmed</td>
<td></td>
</tr>
<tr>
<td>Idaho St Bldg Auth (Idaho) st bldg rev bnds</td>
<td>AA(SPUR)/Stable</td>
<td>Affirmed</td>
<td></td>
</tr>
</tbody>
</table>

Many issues are enhanced by bond insurance.