

Rating Action: Moody's upgrades Idaho issuer rating to Aaa; outlook stable

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New York, February 03, 2022 -- Moody's Investors Service has upgraded to Aaa from Aa1 the State of Idaho's issuer rating. Moody's has also upgraded to Aa1 from Aa2 the lease appropriation rating on approximately \$341 million of Idaho State Building Authority Revenue Bonds; upgraded to Aa2 from Aa3 the lease appropriation rating on about \$25 million of Idaho Fish and Wildlife Foundation, Inc. bonds; and upgraded to Aa2 from Aa3 the programmatic rating on the Idaho Public Charter School Facilities Program. In conjunction with these actions, Moody's has affirmed the Aa1 programmatic rating on the Idaho School Bond Sales Tax Guaranty Program; the Aa1 rating on \$242 million of Idaho Bond Bank Authority bonds; and the MIG 1 short-term rating on the State of Idaho's \$300 million Tax Anticipation Notes, Series 2021. In total the state has approximately \$1 billion of net tax-supported debt. The outlook is stable.

Additionally, the obligor of the Aa1 rated special tax revenue bonds will no longer be the Idaho Bond Bank Authority but the State of Idaho with the Idaho Bond Bank Authority remaining as issuer.

Please click on this link http://www.moody.com/viewresearchdoc.aspx?docid=PBM_PBM907558053 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The upgrade to Aaa reflects the state's continued positive economic and demographic outlook and positive governance changes to increase reserves that offer increased protection against the state's volatile economic and revenue structure. The Aaa rating also reflects the state's very low liability burden, some diversification of the economy supported by strong in-migration trends. These strengths mitigate below-average socioeconomics and moderate economic concentration.

The upgrade of the Idaho State Building Authority Revenue Bonds to Aa1 is based on the upgrade of the state's issuer rating. The rating of Aa1 is one notch below the state of Idaho's issuer rating, reflecting the need for annual legislative appropriation of the lease payments backing the bonds. The lease agreements include moderate legal provisions and more essential leased assets. In addition, Idaho currently has no general obligation debt outstanding, and the authority's capital financing program is an essential market access tool for the state.

The upgrade of the Idaho Fish and Wildlife Foundation bonds to Aa2 reflects the state's upgrade. The two notch distinction from the state's issuer rating is based on the need for annual legislative appropriation of the revenues funding lease payments, the moderate lease legal structure, and the narrow revenue base supporting lease payments. The rating also considers the essential nature of the leased asset, bondholder's leasehold interest on the asset, and the State of Idaho's incentive to retain market access to appropriation debt for its capital financing program.

The upgrade of the Idaho Public Charter Schools Facilities Program programmatic rating to Aa2 is based on the upgrade of the state of Idaho's issuer rating to Aaa. The Aa2 program rating is two notches below the state rating, reflecting the weaknesses inherent in the contingent, subject-to-appropriation nature of the state's support. The program's strengths include statutory requirements that the Idaho Housing and Finance Authority and the governor request the legislature to make an appropriation to replenish the bonds' debt service reserve fund in the event of a draw on that fund. The rating also reflects the essentiality of charter schools in the state's K-12 education system and the state's established track record of making appropriation-backed debt payments under certain financing agreements for state projects.

The Aa1 rating on the Idaho Bond Bank Authority bonds is based on the pledge of the State of Idaho's sales tax revenues to the bonds, and reflects the solid, statewide economic base for tax collections, the breadth of the revenue pledge, as well as the strong revenue growth trend and ample debt service coverage. In addition, the rating is supported by the authority's excellent mechanisms for monitoring and ensuring timely debt service payments, as well as the state's ability to intercept intergovernmental revenues disbursed to most underlying participants. Payment of debt service by this program is subordinate to the state's pledge of fourth quarter

general fund revenue to repay its annual tax anticipation note borrowing.

The Aa1 programmatic rating on the Idaho School Bond Sales Tax Guaranty Program is based on the state's pledge of its sales tax revenues to pay debt service if necessary on qualified school district bonds, and reflects the solid, statewide economic and revenue base, as well as a strong revenue growth trend and ample debt service coverage of the guaranteed bonds' debt service. The pledge is also reinforced by a state statute that authorizes the program and the pledge, a continuing appropriation and the state's ability to intercept school aid to repay debt service outlays. The sales tax typically comprises at least 40% of general fund revenue and so the pledge of sales taxes is narrower than one drawing on all general fund revenue.. Payment of debt service by this program also is subordinate to the state's pledge of fourth quarter general fund revenue to repay its annual tax anticipation note borrowing.

The MIG 1 short-term rating on the outstanding Tax Anticipation Notes, Series 2021 reflects Idaho's strong underlying credit quality, ample liquidity afforded by resources available from other state funds if required to pay the notes at maturity, and solid projected coverage of TAN principal at maturity.

RATING OUTLOOK

The state's stable outlook reflects the expectation that Idaho's strong economic growth trend will continue and conservative fiscal management will balance new growth-induced needs with structurally balanced financial performance and ample reserves.

The stable outlooks on the programmatic ratings for the Idaho Public Charter School Facilities Program and the Idaho School Bond Sales Tax Guaranty Program are derived from the state's outlook.

The short-term MIG 1 rating has no outlook.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the state's issuer rating and notched lease appropriation ratings (Idaho State Building Authority bonds, Idaho Fish and Wildlife Foundation bonds and the Idaho Public Charter School Facilities Program programmatic rating):

- NA

For the special tax ratings (Idaho Bond Bank bonds and the Idaho School Bond Sales Tax Guaranty Program programmatic rating):

- Significant additional coverage by sales tax of statutory sales tax distributions

For the short-term rating:

- NA

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the state's issuer rating:

- 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

For notched lease appropriation ratings (Idaho State Building Authority bonds, Idaho Fish and Wildlife Foundation bonds and the Idaho Public Charter School Facilities Program programmatic rating):

- Downgrade of state issuer rating

For special tax ratings (Idaho Bond Bank bonds and the Idaho School Bond Sales Tax Guaranty Program programmatic rating):

- Significant additional leveraging of state sales tax revenues reducing available resources to support debt service

- Substantial, sustained decline in state sales tax revenues that pressures debt service coverage

For the short-term rating:

- Substantial weakening of the state's general credit quality
- Significant revenue underperformance, reduction in other borrowable cash resources, or sustained slowdown in reaching full funding of the note repayment account compared to recent history

LEGAL SECURITY

For Idaho State Building Authority bonds:

The bonds are paid through separate lease agreements between the Idaho State Building Authority (the authority), as lessor, and the state, through its various state departments, as lessees.

For Idaho Bond Bank bonds:

The IBBA revenue bonds are ultimately secured by statute pledging the state's general fund sales tax revenues to pay debt service in the event that participants do not make timely payments on their loans.

For Idaho Fish & Wildlife bonds:

The bonds are paid through a lease agreement between the Idaho Fish and Wildlife Foundation, Inc. (the foundation), as lessor, and the state, through its Idaho Department of Fish and Game (the department), as lessee.

For Idaho Public Charter School Facilities Program:

Idaho Code Section 33-5218 creates the Idaho Public Charter School Facilities Program, also known as the Idaho Public Charter School Facilities Program. The statute authorizes the governor to request, and the legislature to appropriate, amounts sufficient to replenish debt service reserve funds established by qualifying charter schools when drawn on if necessary.

For Idaho School Bond Sales Tax Guaranty Program:

The ISBGP revenue bonds are ultimately secured by statute pledging the state's general fund sales tax revenues to pay debt service in the event that participating school districts do not make timely payments on their voter-approved GO debt service.

For Idaho Tax Anticipation Note bonds:

The notes are secured by an irrevocable pledge of general tax revenue to be received in the fourth quarter of fiscal 2022, the state's faith and credit pledge, and other borrowable resources in the event fourth-quarter general fund revenues are insufficient.

PROFILE

Idaho is the 38th-largest state, with a population of 1.9 million. It had a gross domestic product of \$83.8 billion as of December 2020, which ranks 39th in the US, and per-capita income of \$48,759.

METHODOLOGY

The principal methodology used in the state issuer rating was US States and Territories published in April 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1084466 . The principal methodology used in the lease and Idaho Public Charter School Facilities Program programmatic ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in November 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1298498 . The principal methodology used in the special tax and Idaho School Bond Sales Tax Guaranty Program programmatic ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087 . The principal methodology used in the short-term rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1210749 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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