State of Idaho Tax Anticipation Notes ("TANs")

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Public School Funding Formula Committee Meeting

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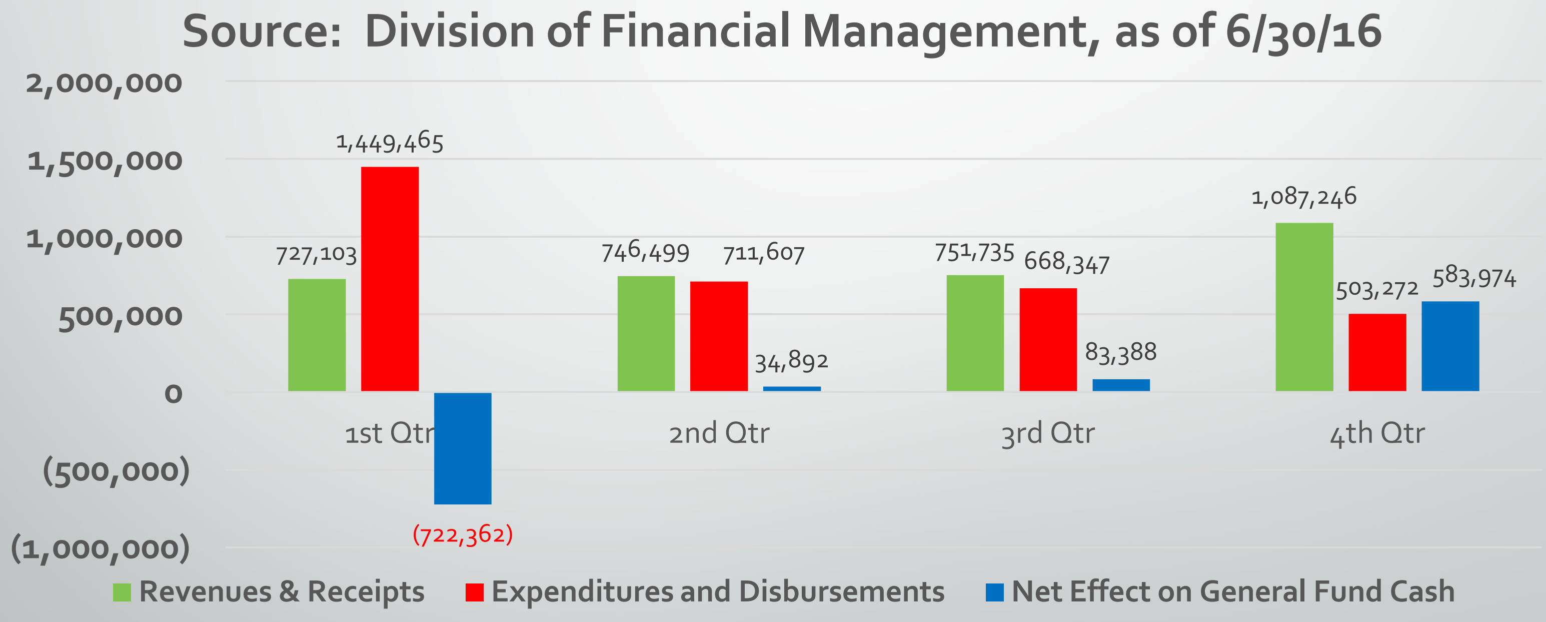
What are the TANs?

- The TANs are short-term notes issued by the State of Idaho (the “State”) to fund the State’s anticipated cash flow shortfalls during the State’s fiscal year with a final maturity of June 30th of the current fiscal year
- The proceeds from the sale of the TANs are deposited into the General Fund of the State (the “General Fund”) throughout the fiscal year to help finance the State’s daily operations in anticipation of certain tax revenues
- The TANs constitute a valid and binding obligation of the State and are payable from and secured by: (i) an irrevocable pledge of so much of the General Fund Tax Revenues to be received in the fourth quarter of the current fiscal year as may be necessary to pay the principal and interest on the TANs, (ii) the State Treasurer’s covenant to transfer, if necessary, any Borrowable Cash Resources required to fully pay the principal and interest on the TANs at maturity; and (iii) the solemn pledge of the full faith and credit of the State for the payment in full of the principal of and interest on the TANs.

Why are the TANs issued?

- The purpose of issuing the TANs is to smooth out the General Fund cash flow throughout the fiscal year and ensure we have adequate cash available should there be an unanticipated reduction in tax revenue – that could exceed internal borrowable cash
- The majority of expenditures occur in the first half of the fiscal year and tax receipts are heavily weighted toward the latter half. For example, for FY2017, as of June 30, 2016, the State anticipated that it would receive 45% of General Fund revenues/receipts in the first six months of FY2017, but disbursements during the same period account for 63% of total expenditures (source: DFM).
- Without the issuance of the TANs it is likely we would have a negative General Fund cash balance the majority of the fiscal year until April tax receipts. If the General Fund is negative for more than 30 days the Treasurer internally borrows from available funds and pays the current rate of interest being generated by the underlying investments on the borrowable funds

Fiscal Year 2017 Quarterly General Fund Cash Flow Estimate



How are the TANs issued?

- In conjunction with the DFM, bond counsel, financial advisors and municipal bond underwriters – a Preliminary Official Statement is prepared detailing the issue itself and in-depth information on the State's financials and many programs
- This team has historically traveled to New York to meet with the rating agencies and educate them on why we are issuing the TANs and the State's financial solvency. The information provided to the rating agencies impacts the bond ratings for other Idaho bond issuers such as the Idaho State Building Authority, the Idaho Bond Bank Authority and Public K-12 school districts that utilize the Idaho School Bond Guarantee Program
- Notes are "priced" based upon current interest rates and demand for the issue and an "Official Statement" is issued that includes ratings and pricing. Once the TANs settle they are held in electronic form ("book entry") until they mature and principal and interest due are credited to the underlying investors through the escrow/paying agent. The TANs are typically purchased by large institutional investors and Idaho's conservative fiscal management and subsequent positive ratings have created high demand for the TANs

What is the cost to the State of issuing the TANs?

- The interest paid on the TANs to investors; offset by any premium received on the pricing of the TANs, or alternately increased by a discount in pricing
- Underlying cost of issuing the TANs: fees paid to underwriters, bond counsel, financial advisors, rating agencies, and associated travel
- What, if anything, can offset the cost of issuing the TANs?
  - Interest income received on short-term investments made with the TANs proceeds before they roll into the General Fund
  - Reduction in internal borrowing costs if and when the Treasurer engages in short-term internal borrowing from cash balances in other funds in the State Treasury as identified as available for this purpose. Such amounts must be re-paid when General Fund monies are available, subject to the pledge of fourth quarter General Fund revenues to repay the TANs. Interest paid on internal borrowing is calculated using the current interest rate generated by the investments of such borrowable funds

What affects the cost of the TANs issuance?

- The State's credit rating and subsequently the rating assigned to the TANs
  - The State's Moody's issuer rating for 2016 : Aa1
  - The State's Standard & Poor's issuer rating for 2016: AA+
  - The State's Fitch issuer rating for 2016: AA+
  - The 2016 TANs received the highest short-term ratings from Moody's, S&P, and Fitch: MIG1, SP-1+, and F1+ respectively
- Current interest rate environment and demand for the TANs by investors
- The size of the issuance

The Big Question: Can changing the timing of School District payments reduce the need for and/or size of the TANs issuance?

- The timing of School District payments could affect the size of the TANs issuance, but other factors such as the timing of additional expenditures, when tax receipts are received, and the pledge of 4th quarter revenues to repay existing TANs are meaningful factors
- The size of the TANs issuance is determined annually taking into account the timing of these payments and forecasting provided by DFM that encompasses estimates for all State Revenues/Receipts and Expenditures/Disbursements

Potential Risks and Benefits of Reducing or Eliminating the TANs

- The potential financial benefits and risks in significantly reducing the TANs or eliminating the issuance all together are difficult to quantify due:
  - to interest rate fluctuations,
  - the possibility of unforeseen variances in General Fund cash flow from budgeted projections,
  - and potential changes in borrowable resources
  - 2008/2009 timeframe is a good example of combination of these events. We don't know what the future holds from an economic standpoint
- A less obvious risk could be complication in future issuance if we decide not to issue in good economic times and come back to the market when we are in an economic downturn. Our current relationship with the rating agencies is very strong and they are extremely familiar with the State's fiscal management. It may take significant effort to rebuild that level of comfort without the consistency of their analysis. In addition, having a current State credit rating is a positive benefit to those related State entities who issue debt regularly and whose rating is tied to that of the State