Global Credit Research
New Issue
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Moody's Investors Service

New Issue: Iowa (State of)

MOODY'S ASSIGNS MIG 1 RATING TO IOWA'S $575 MLN TAX AND REVENUE ANTICIPATION NOTES, SERIES 2003

Iowa (State of)
State
IA

Moody's Rating

ISSUE	RATING
Tax and Revenue Anticipation Notes, Series 2003	MIG 1

Sale Amount	$575,000,000
Expected Sale Date	12/16/03
Rating Description	Tax and Revenue Anticipation Notes

Opinion

NEW YORK, Dec 12, 2003 -- Moody's Investors Service has assigned a rating of MIG 1 to the State of Iowa's $575 million in Tax and Revenue Anticipation Notes, Series 2003. The notes are being issued to address anticipated imbalances between revenues and expenditures in the second half of the state's current fiscal year. Moody's highest-level short-term debt rating reflects the security afforded by the pledge of available General Fund revenue collections to repay the notes. The rating also is based on the credit strength of the state itself, which has an issuer rating of Aa1 with a stable outlook, a substantial cushion against forecast error provided by projected general fund cash balances, and the state government's demonstrated ability to cut spending in response to revenue shortfalls.

NOTES WILL ADDRESS SEASONAL IMBALANCES BETWEEN RECEIPTS AND EXPENDITURES; FORECAST FOR APRIL IS LOW POINT

Iowa is issuing the notes to alleviate imbalances between revenues and expenditures that are most acute in March and April. State cash-flow projections show the difference between receipts and expenditures widening to $234 million in March and to $265 million for March and April combined. The gaps, the largest monthly cash deficits projected for the fiscal year, result from a mismatch between quarterly personal income tax collections and payment of operating expenses, which occur on a level monthly basis. The cash shortfalls in the two months are expected to reduce the General Fund's ending balance to a low of $144.5 million, compared with an average monthly balance of about $405 million for the fiscal year. The note financing will assure adequate cash balances to make timely payment of important school aid due in April. The state, which executed a similar financing two years ago, plans to offer the notes for sale on Dec. 16, and the notes are scheduled to mature June 29, 2004.

NOTES ARE OBLIGATION OF GENERAL FUND; BUT SOME FEDERAL RECEIPTS NOT AVAILABLE FOR NOTE REPAYMENT

The notes are a direct obligation of the General Fund, payable from a primary lien on available tax and revenue collections of the fund, prior and superior to any other lien or security interest. The fund's projected receipts for the current fiscal year are $7.44 billion. Most of that revenue, consisting of Iowa's taxes on income, sales and other transactions, would be available for repayment of the Series 2003 notes. Federal payments to the fund that are made in advance of corresponding expenditures by the state cannot be used for repayment of the notes. However, more than 70% of the fund's revenue, or $5.2 billion, is expected to be eligible for note repayment, based on the state's past two fiscal years.

IOWA HAS RESPONDED PROMPTLY TO REVENUE SHORTFALLS IN THE WAKE OF 2001 RECESSION

Iowa's financial position has weakened since its last note sale, in November of 2001. But its government has responded promptly to the revenue weakness that has affected most states in the wake of the 2001 recession. Iowa's governor on Oct. 14, 2003, imposed across-the-board spending cuts of 2.5%, or $82.5 million, for the current fiscal year. With those reductions, the year's spending is expected to fall 3.6% below the prior year's level. Still to be addressed is a $45.8 million budgetary basis shortfall that the state General Fund experienced in the year ended June 30, 2003. The governor has called for an immediate discussion of remedies for this deficit once the legislature reconvenes in January 2004, and he has advocated use of the Cash Reserve Fund, which had a $207.3 million balance at the fiscal year's end.

The state regularly revisits forecasts of collections and on Dec. 8, its Revenue Estimating Conference cut fiscal 2004 projections by $14.9 million. On a GAAP basis, the state's unaudited results for fiscal 2003 show an unreserved fund balance of $180.8 million. A $200.4 million unreserved balance is projected for the current fiscal year.

GENERAL FUND'S PROJECTED $319 MLN YEAR-END BALANCE PROVIDES CUSHION AGAINST FURTHER DETERIORATION IN NEXT SIX MONTHS

The state projects a general fund cash-flow balance of $319 million at June 30, the day after the notes mature. This figure, amounting to about a quarter of total, projected cash receipts in the second half of the state's fiscal year, effectively provides a cushion against forecast risk. It is equal to 3.7% of projected cash receipts for the full fiscal year. In the past five fiscal years, Iowa's actual General Fund revenues have ranged from 6.4% below to 1.9% above initially projected amounts.

The projected balance for the end of fiscal 2004 includes the state's Cash Reserve Fund and Senior Living Trust Fund, which are considered to be part of the General Fund for cash-flow purposes. Together, those two funds are projected to have a $536.1 million balance at the end of the fiscal year. The general fund balance also includes $3.3 million in the state's rainy-day fund. Under a 1986 state law that mandated a gradual adoption of GAAP, Iowa can use repay borrowings from those funds using revenue that is anticipated to accrue to the 2004 fiscal year and that is not actually received as cash until two months after the fiscal year ends. The state projects such receipts will amount to about $360 million in the two months after the end of the current fiscal year.

ISSUER RATING REFLECTS IOWA'S LOW DEBT LEVEL, ALONG WITH SLOWER GROWTH EXPECTATIONS FOR ECONOMY AND POPULATION

The Aa1 issuer rating reflects Iowa's low debt levels that have helped restrain growth in fixed costs overall. Iowa's ranked 47th among the 50 states based on its level of net tax-supported debt per capita and based on its net tax-supported debt as a percentage of personal income in Moody's 2003 State Debt Medians report. The state is not authorized to issue general obligation debt. The rating also acknowledges an economy that is characterized by slower growth in new jobs and personal income levels than the nation. The state's economic stability, however, has served as a source of strength over the course of economic cycles. Iowa's jobless rate, at 4.5% for October 2003, is below the unemployment rates for most of its six neighbor states. The state also has lower population growth than most states, expanding by 5.4% from 1990 to 2000, compared with 13.1% for the nation.

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