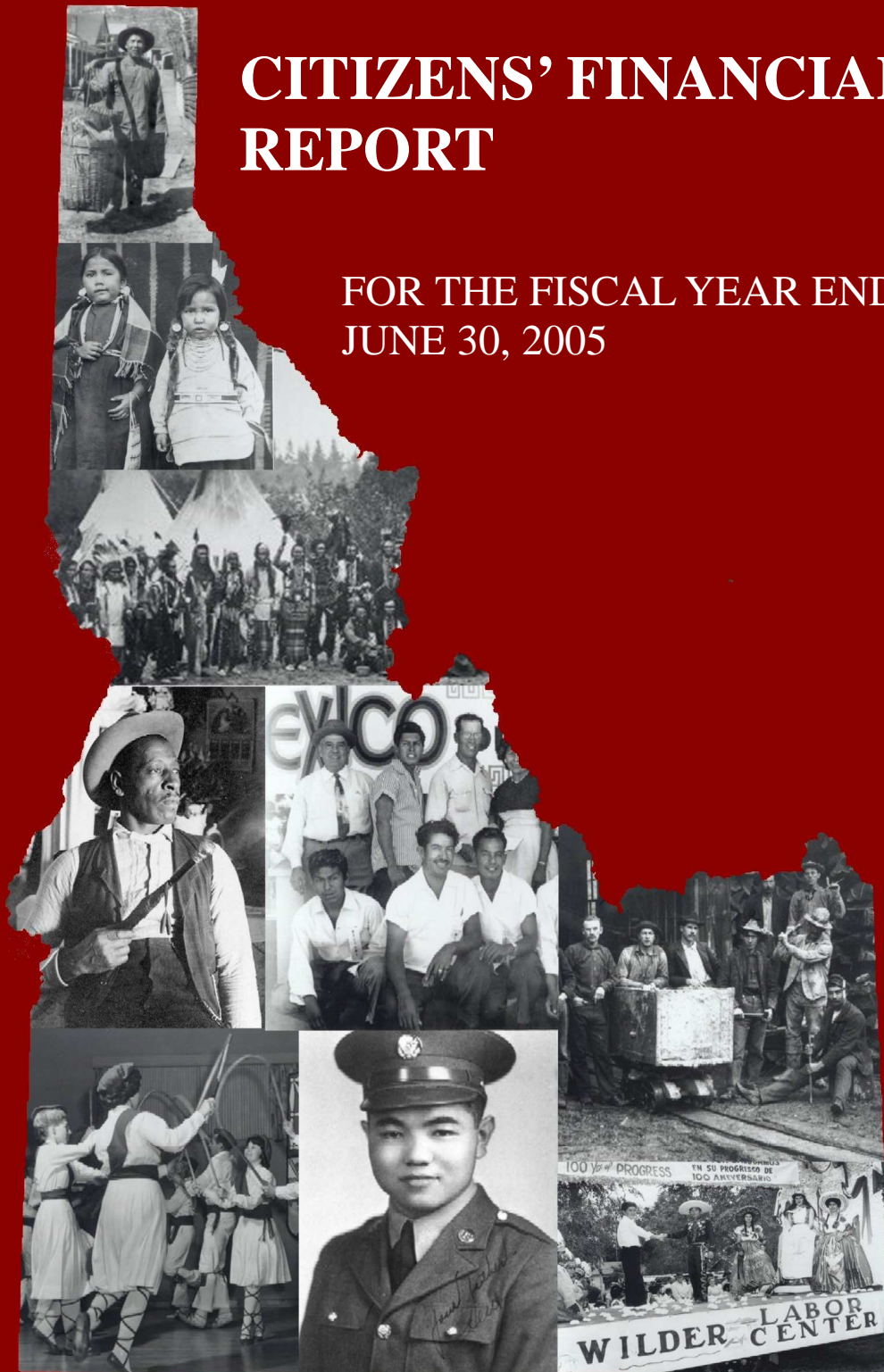


# *State of* **IDAHO**

## **CITIZENS' FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005



# Idaho Citizens' Financial Report

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Front cover pictures are courtesy of the Idaho Historical Museum, the Bonner County Historical Society, and the private collection of Hero Shiosaki, Blackfoot, Idaho



## *A Message from*

### **Keith L. Johnson State Controller**

I am pleased to present the eighth annual Idaho Citizens' Financial Report (also known as the Popular Annual Financial Report) for the fiscal year ended June 30, 2005. This report is a less detailed presentation of the State's Comprehensive Annual Financial Report (CAFR). The CAFR is complicated and lengthy; therefore, this Report provides a brief, easy-to-understand discussion of Idaho's finances in a non-technical format and presents a brief explanation of where the State's resources come from and how they are spent.

The contents of this Report include the State's financial condition as well as the State's revenues and expenses for the year ended June 30, 2005. This Report also highlights financial matters that are of current interest to Idaho citizens, such as the following:

- Idaho's rising cost of Medicaid and the impact on education.
- Idaho's debt issuances. Idaho issues debt for certain reasons to bring benefits to the State earlier than otherwise possible.
- Idaho's use of tobacco revenues. In fiscal year 2000, Idaho began receiving tobacco settlement money. This article explains how Idaho's tobacco money has been and is being put to use.
- Idaho's GARVEE bonding. Legislation was passed authorizing the State to use federal-aid highway funds to finance a specified list of eligible highway projects.
- Idaho water related issues. The Snake River is the lifeblood of Idaho. Tough decisions were made this last legislative session regarding Idaho's precious resource.



**Keith L. Johnson  
State Controller**

My intention is to provide an informative report, furthering your capability to make better-informed decisions regarding the State's finances. Your feedback regarding the Idaho Citizens' Report is greatly appreciated. You can provide comments and suggestions by:

Writing: Office of the State Controller  
700 W. State Street  
Boise, Idaho 83720-0011  
E-mailing: [cafr@sco.state.id.us](mailto:cafr@sco.state.id.us)  
or Calling: 208-334-3150

A handwritten signature in black ink that reads "Keith Johnson". The script is fluid and cursive.

Keith L. Johnson  
State Controller

The Idaho Citizens' Report briefly explains the financial condition of the State of Idaho and presents some major state programs. Its purpose is to summarize and simplify the presentation of information contained in the Comprehensive Annual Financial Report (CAFR).

This report is not intended to replace the detailed financial position set forth in the CAFR, which will continue to be provided by the Office of the State Controller. A copy of the CAFR may be obtained by writing or calling our office.

The financial statements presented in this report are in accordance with Generally Accepted Accounting Principles (GAAP), except when noted otherwise. The report depicts trends in state revenues and spending in selected economic and demographic areas affecting the State that are of particular public interest.

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the State of Idaho for its Popular Annual Financial Report for the fiscal year ended June 30, 2004. The Award of Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, with contents that conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.

# Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

**STATE OF IDAHO**

**for the Fiscal Year Ended  
June 30, 2004**



*Carol E. Prange*

President

*Jeffrey L. Essler*

Executive Director

# The State's Assets and Liabilities

Comparative Statement of Net Assets						
June 30, 2004 and 2005						
(dollars in thousands)						
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	FY 2005	FY 2004 as restated	FY 2005	FY 2004	FY 2005	FY 2004 as restated
<b>ASSETS</b>						
Cash	\$841,097	\$639,233	\$352,593	\$333,020	\$1,193,690	\$972,253
Investments	987,551	943,412	203,898	263,871	1,191,449	1,207,283
Securities Lending Collateral	734,896	542,371			734,896	542,371
Taxes/Accounts Receivable, Net	353,403	322,124	120,961	107,137	474,364	429,261
Due from Other Governments or Funds	176,821	154,188	79,383	3,609	256,204	157,797
Loans/Notes Receivable, Net	6,840	6,766	139,168	132,976	146,008	139,742
Capital Assets	4,180,941	3,969,564	758,176	711,648	4,939,117	4,681,212
Other Assets	44,878	39,200	26,648	26,123	71,526	65,323
<b>Total Assets</b>	<b>\$7,326,427</b>	<b>\$6,616,858</b>	<b>\$1,680,827</b>	<b>\$1,578,384</b>	<b>\$9,007,254</b>	<b>\$8,195,242</b>
<b>LIABILITIES</b>						
Medicaid/Accounts Payable	\$258,005	\$223,415	\$21,313	\$25,736	\$279,318	\$249,151
Securities Lending Obligations	734,896	542,371			734,896	542,371
Amounts Held in Trust for Others	6,078	7,377	2,591	2,846	8,669	10,223
Bonds and Notes Payable	206,699	217,177	342,492	324,871	549,191	542,048
Other Liabilities	258,672	231,526	96,041	92,067	354,713	323,593
<b>Total Liabilities</b>	<b>1,464,350</b>	<b>1,221,866</b>	<b>462,437</b>	<b>445,520</b>	<b>1,926,787</b>	<b>1,667,386</b>
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	3,968,562	3,755,317	447,206	411,159	4,415,768	4,166,476
Restricted	1,291,077	1,230,263	619,352	556,540	1,910,429	1,786,803
Unrestricted	602,438	409,412	151,832	165,165	754,270	574,577
<b>Total Net Assets</b>	<b>5,862,077</b>	<b>5,394,992</b>	<b>1,218,390</b>	<b>1,132,864</b>	<b>7,080,467</b>	<b>6,527,856</b>
<b>Total Liabilities and Net Assets</b>	<b>\$7,326,427</b>	<b>\$6,616,858</b>	<b>\$1,680,827</b>	<b>\$1,578,384</b>	<b>\$9,007,254</b>	<b>\$8,195,242</b>

Statement of Net Assets Includes Governmental and Proprietary Funds

**Governmental Activities** include most of the State's basic services, such as general government, public safety, health and human services, education, economic development, and natural resources. The governmental activities services are primarily paid for by state taxes and federal grants.

**Business-Type Activities** account for operations that function in a manner similar to private business, where the cost of providing goods or services is paid for mainly through user charges.

**Net Assets** measure the difference between what the State owns (assets) versus what the State owes (liabilities).

**Invested in Capital Assets, Net of Related Debt**, measures the value of capital assets the State owns (such as roads, bridges, buildings, machinery, equipment, and land) less depreciation and any debt owed from buying or building the assets.

**Restricted Net Assets** are assets that are not available for general use due to external restrictions, constitutional provisions, or enabling legislation.

**Unrestricted Net Assets** are assets that may be used for any appropriate purpose, but their use may be limited by state statutes.



# Where the Money Comes From

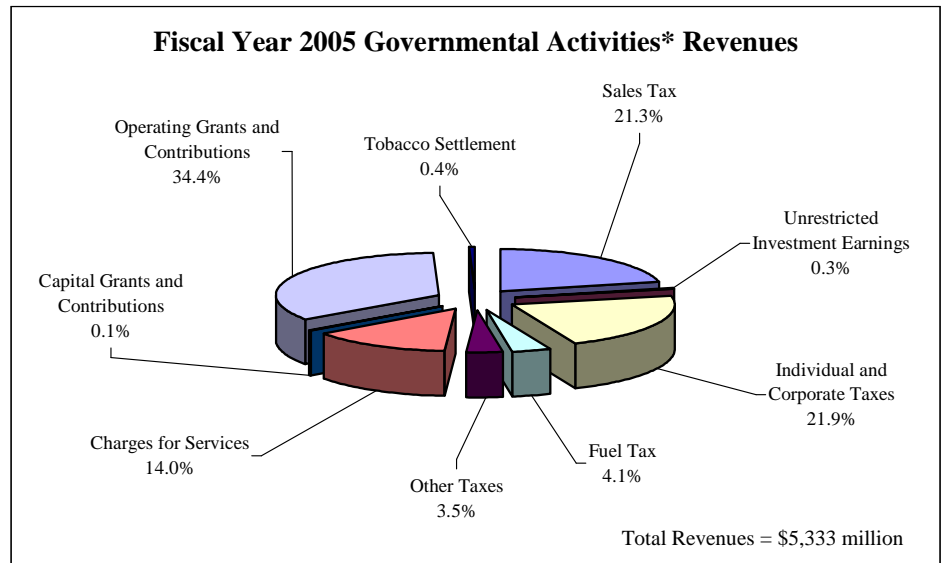
Taxes, federal grants, and miscellaneous revenues are Idaho's sources of income.

Tax collections are Idaho's largest source of revenues. State income taxes are collected both from individuals earning wages and businesses earning profits in Idaho. Sales taxes are collected from retail transactions occurring in Idaho.

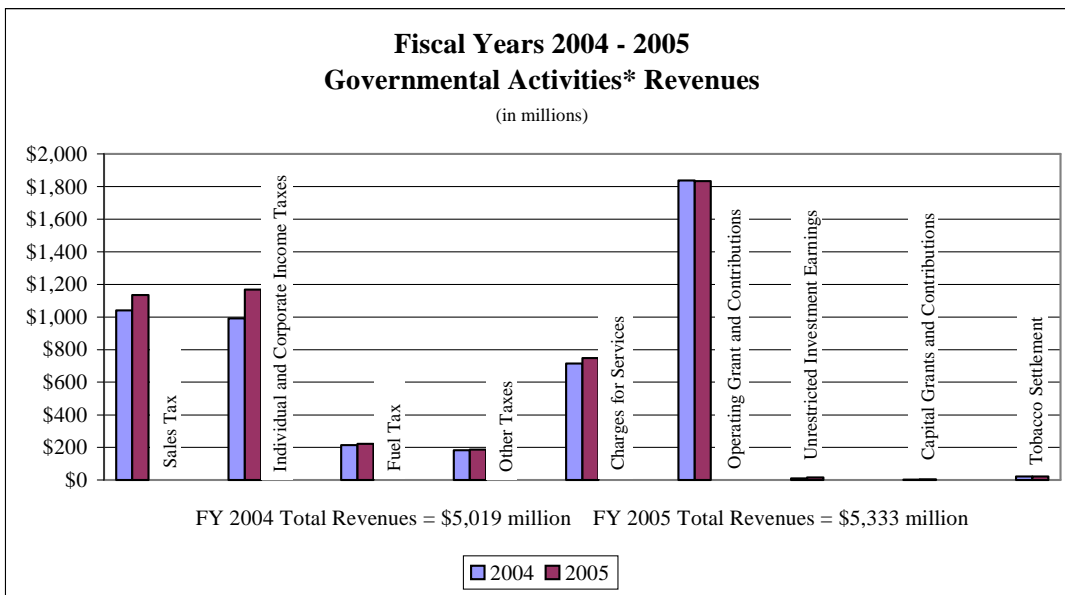
Federal grants are the next largest source of revenues for Idaho. Grants are awarded for specific purposes. For example, the Federal Department of Health and Human Services gives grant money to Idaho for Medicaid and Child Support services. Grant money is also given for the maintenance and construction of highways as well as for education purposes.

Fees, charges for permits, investment earnings, and other miscellaneous types of income are the third largest source of state revenues. Fees are charges for services provided by state agencies. For example, the Department of Fish and Game charges a fee for issuing a fishing license. Permits are issued to businesses and individuals. For example, the Department of Parks and Recreation issues permits which allow citizens to use state parks for one year. The money raised by issuing these permits helps pay for the maintenance of the state parks.

Compared to fiscal year 2004, total governmental activities revenues for fiscal year 2005 increased by \$314.2 million. This was primarily due to an increase in individual and corporate income taxes of \$176.3 million, sales taxes of \$95.5 million, and charges for services of \$33.1 million. Individual income tax alone increased by \$139.3 million.



\*Includes governmental and internal service funds



\*Includes governmental and internal service funds

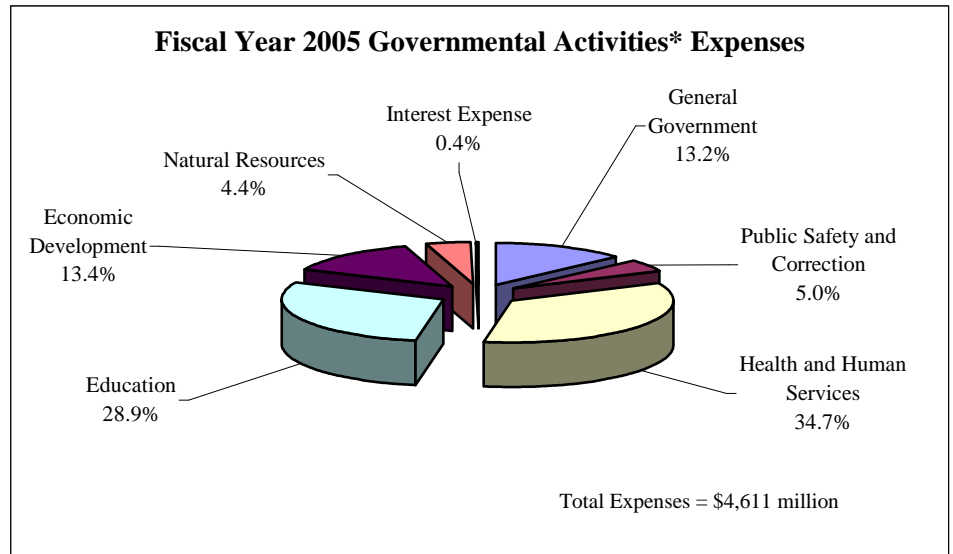
# Where the Money Goes

Each year the Idaho Legislature sets a budget for the State. This past year the two largest programs in the State's budget were education and health and human services.

Health and human services spent 34.7 percent of the State's budget, with Medicaid programs receiving over half of the health and human services budget. Medicaid assists those who are unable to pay for medical and dental services because of youth, old age, pregnancy, or disability. Additional health and human services programs include an AIDS drug assistance program, child adoption, children's mental health, and child protection referrals.

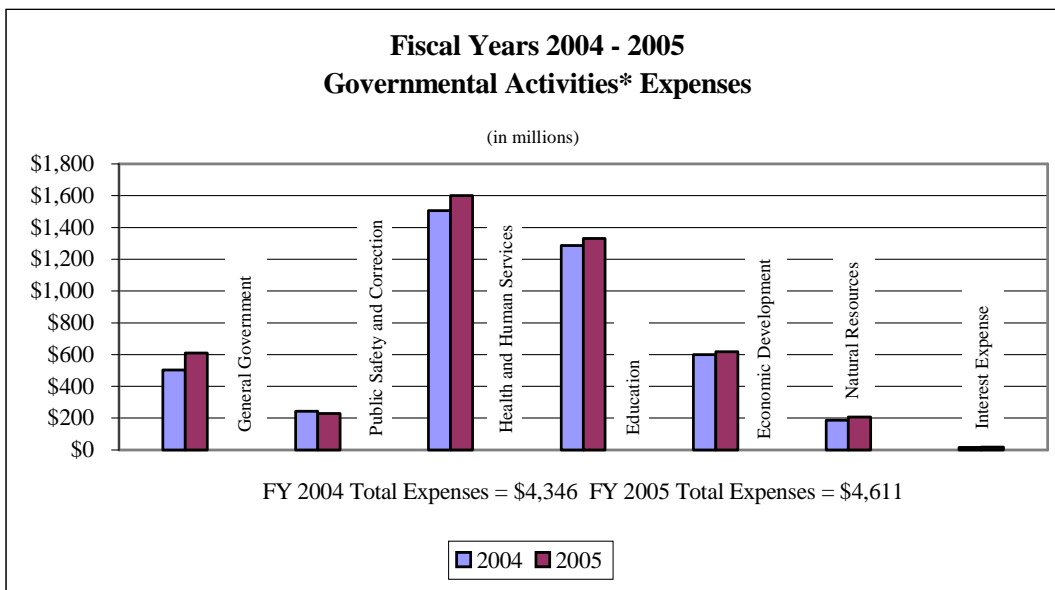
Education spent the second largest share of state funds, accounting for 28.9 percent of expenses in fiscal year 2005. The money was used for public schools and other education.

As can be seen by the chart below, the most significant change in expenses from fiscal year 2004 to 2005 was an increase of 20.7 percent (\$104.6 million) for the general government function. This increase was



\*Includes governmental and internal service funds

primarily related to distributions of increased tax collections and premium increases for health insurance and property and general liability risk. Health and human services expenses increased by 6.2 percent (\$92.8 million) mainly due to greater medical assistance payments, which are discussed further on the following page.



\*Includes governmental and internal service funds

The remaining governmental expenses were spent on programs such as public safety, natural resources, and economic development. These programs help to protect the people and the land as well as provide for future economic development.

# The Rising Cost of Medicaid and the Impact on Education

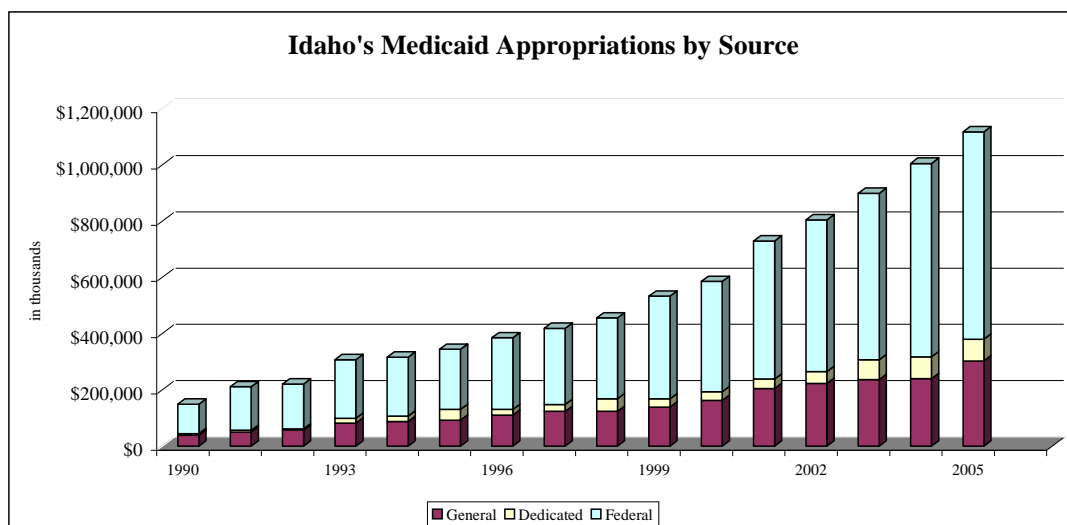
## Medicaid Nationally

Medicaid is a federal/state program that pays for medical assistance for certain individuals and families with low incomes and resources. Currently Medicaid covers an estimated 53 million low-income individuals. The states and the federal government share the responsibility to finance Medicaid. National Medicaid costs have dramatically increased during the last 36 years—\$5 billion in 1970 to an expected \$329 billion in 2005. Costs of the elderly and disabled account for 70 percent of the total Medicaid expendi-

tures; however, the elderly and disabled represent only 25 percent of all Medicaid recipients.

## Medicaid in Idaho

Idaho's fiscal year 2005 appropriation for Medicaid was \$1,117 million, funded with 66 percent federal, 27 percent State General Fund, and 7 percent other dedicated revenues. The number of Medicaid clients in Idaho has increased an average of 11.2 percent per year since 1990. The number of children enrolled in Medicaid has increased by 158 percent between fiscal years 2000 and 2004.



Source: Idaho Legislative Fiscal Report, 1992 to 2005

Appropriation is the authority provided by the Legislature to an agency to spend revenues derived from a variety of sources including the General Fund.

Dedicated revenues represent revenue received from a specified source and disbursed for a specific function of government as required by law.

## How is Idaho Controlling Medicaid Costs?

The largest Medicaid expenditure in Idaho was for hospital charges, \$197 million for fiscal year 2004. Efforts to reduce these costs include encouraging Medicaid recipients to have regular office visits rather than emergency room visits.

The second largest expenditure in fiscal year 2004 was prescription medications at \$146 million. Efforts to reduce these costs include encouraging the use of generic drugs through prior authorization of brand-name drugs and a price cap on generic prescription drugs. Clients are required to use 75 percent of the prescription prior to a refill. Pharmacy cost-control initiatives have saved Idaho more than \$46 million since fiscal year 2002.

Savings have also been achieved by providing services in the client's home or a similar setting instead of in a nursing home.

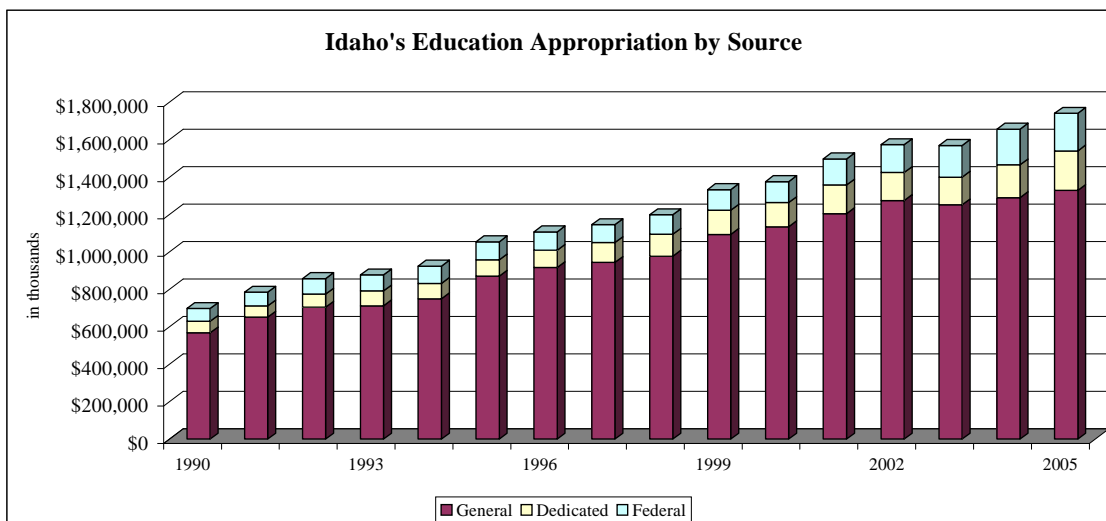
Healthy Connections, a state-developed health care delivery system, was implemented in fiscal year 1993 to offer managed care, organize client's health care, and minimize duplicate or unnecessary services. By the end of fiscal year 2004, enrollment was 79 percent, up from 30 percent in fiscal year 2000. Over \$23 million of program costs have been avoided between fiscal years 2002 and 2004 with the increased client participation in the Healthy Connections program.



## Education Spending in Idaho

Education spending in Idaho includes public schools, colleges and universities, professional-technical education, vocational rehabilitation, and several specialized programs. Similar to Medicaid, education is

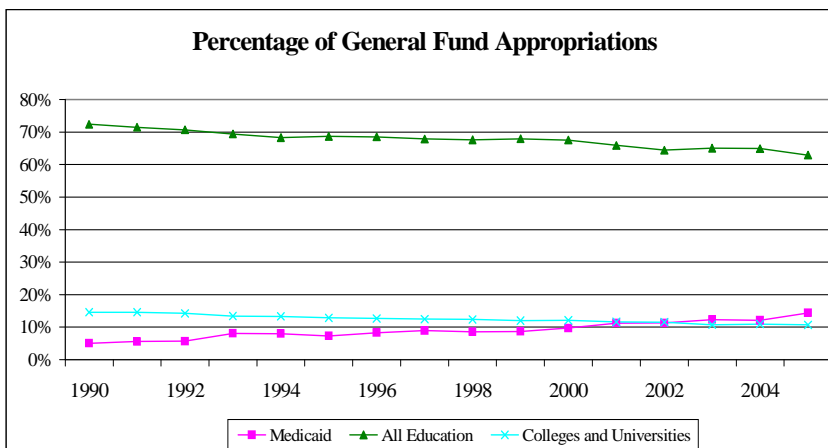
funded with federal grant dollars, the State's General Fund, and other dedicated revenues. Idaho's fiscal year 2005 appropriation for education was \$1,740 million, funded with 12 percent federal, 76 percent General Fund, and 12 percent dedicated revenues.



Source: Idaho Legislative Fiscal Report 1992 to 2005

## Education versus Medicaid

Idaho mainly uses the General Fund to support Medicaid programs. The chart to the right illustrates that Medicaid's portion of the General Fund is increasing while education's (all education including colleges and universities) is decreasing. Prior to 2003 the colleges and universities received a larger appropriation from the General Fund than did Medicaid.



Source: Idaho Legislative Fiscal Report 1992 to 2005

Since 1991 the General Fund's appropriations for all state services averaged an annual increase of 6.9 percent while the General Fund's appropriation for Medicaid has grown at 15.2 percent. Total education appropriations have increased at an average 5.9 percent per year. Because the *Idaho Constitution* requires a balanced budget, Medicaid's sharp increase in expenditures is having an impact on other state programs.

### Data Sources:

- Idaho State Legislature, Office of Performance Evaluations, *Idaho's Medicaid Program: Follow-up Review*, June 2004.
- Legislative Services Office, *Legislative Budget Book*, Fiscal Years 2004 and 2006; *Legislative Fiscal Report*, Fiscal Years 1992 – 2005.
- National Association of State Budget Officers, *The Fiscal Survey of States*, June 2005; *State Expenditure Report*, 2003.

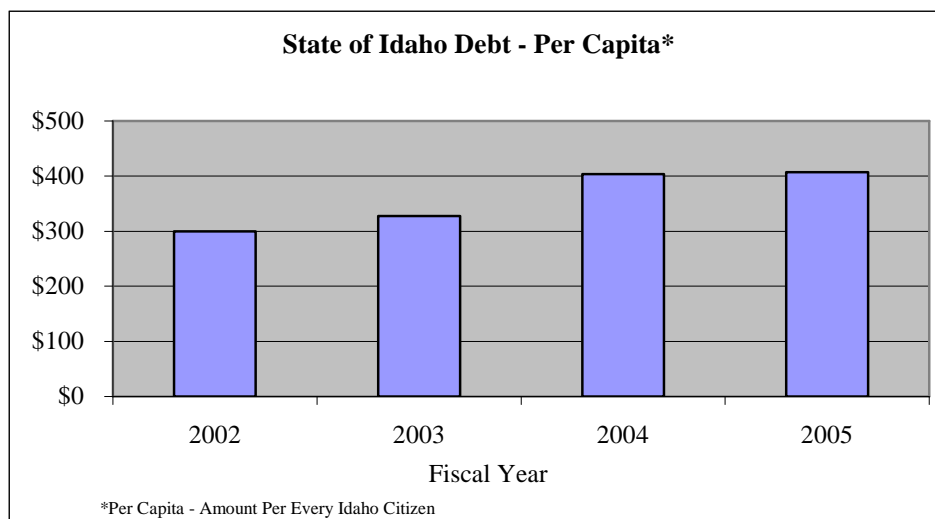
# The State's Debt Picture

The term “debt” is generally used to describe bonds, notes, and capital leases. Each of these types of debt has principal and interest payments. The leases are used to purchase capital assets to meet operating needs of state agencies, while the bonds and notes are used to meet major infrastructure and building needs.

## Direct Debts of the State

The State of Idaho's long-term debt totals \$563.6 million for the fiscal year ended 2005. The State's colleges and universities, the State Building Authority (SBA), and the Water Resources Board are the State's main issuers of debt. The colleges and universities and the SBA primarily issue debt to construct build-

ings because the State cannot raise the entire construction cost in a single year. The \$526.1 million debt burden of the colleges and universities and the SBA for fiscal year 2005 made up approximately 93 percent of the long-term (multiyear) burden for Idaho. The SBA revenue bonds are backed by rental payments the state agencies pay to the SBA. The college and university bonds are backed by a variety of revenue sources, which include student fees and sales and service revenues. The General Fund of the State is not obligated for these bond payments. These debts are discussed further in the Comprehensive Annual Financial Report's (CAFR) long-term debt note disclosure and are reflected on the government-wide Statement of Net Assets under “Liabilities.”



Since much of the State's revenues are received late in each fiscal year, the State's revenues are not always sufficient to meet day-to-day expenses. While the State receives revenues unevenly during the year, the State's expenses are paid out fairly evenly during the year. To manage this mismatch of expenses-to-revenues, the State borrows annually to smooth out its revenue flow. The State Treasurer's Office (STO) annually issues tax anticipation notes. For fiscal year 2005 the total of these notes was \$230 million. These notes are short-term in nature and are paid off during

the same fiscal year. General Fund revenues are used to pay these obligations. This activity is further discussed in the CAFR's short-term debt note disclosure.

In the future the State expects to incur additional debt for highway construction, which is discussed on page 12 of this report. These highway obligations will be paid with federal transportation grant dollars. General Fund monies are not expected to be used to pay these bonds.

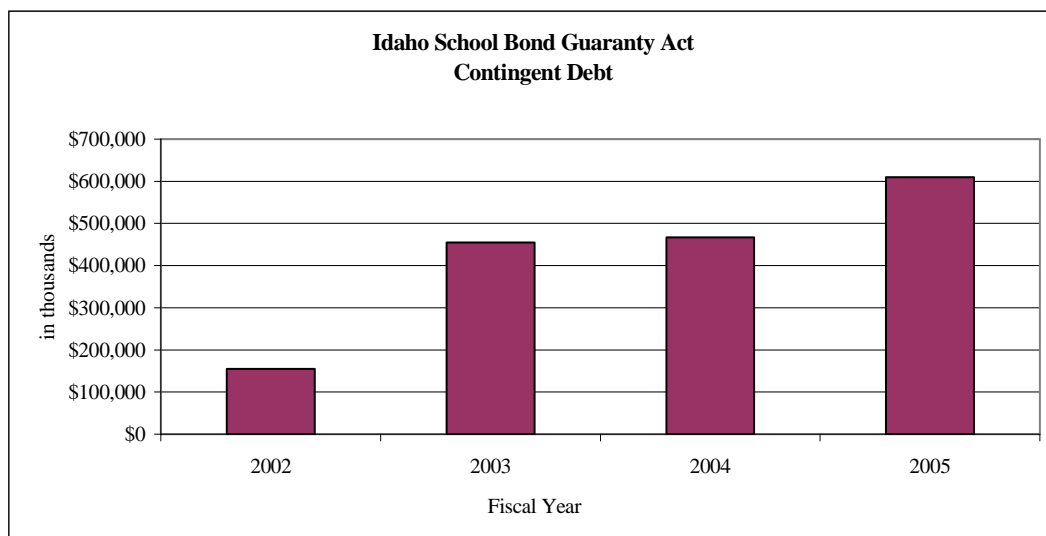
## Debt Management

In the 2005 legislative session, the following legislation was passed permitting Idaho to better manage its debt:

- *Idaho Code*, Sections 67-1224 and 1225, created the Idaho Credit Rating Enhancement Committee. The purpose of this Committee is to advise the Governor and the Legislature regarding policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing.
- *Idaho Code*, Title 67, Chapter 87, amended existing law to allow more municipal debt issuances to be pooled, thus reducing the cost of local government debt issuances.

## Idaho School Bond Guaranty Act

In addition to the State's direct debts, the *Idaho School Bond Guaranty Act* requires the State to underwrite bonds issued by Idaho school districts. Should a school district be unable to pay its bond obligations, the State would help the school district meet its obligation. The State would then redirect funds, otherwise meant for distribution to the school district, to reimburse the State. These *contingent* debts of the State are disclosed in the Litigation, Contingencies, and Commitments note disclosure of the CAFR but are not entered on the financial statements as actual state liabilities, since in all likelihood the school districts will be able to meet their bond obligations. School districts have benefited by achieving AAA credit ratings because the State was underwriting their issuances. The high credit ratings allow school districts to issue debt for less.



## Idaho Bond Bank Authority

The State assists Idaho cities and counties by pooling multiple municipal debt issuances, thereby improving the municipalities' credit rating and allowing them to qualify for lower interest rates. If a municipality is unable to meet its obligations, the State will step in and take one of the following two courses of action to make the bondholders whole:

- Intercept monies that would normally be turned over to the municipality
- Use state sales tax revenues.

Should the State be forced to take either of these actions, the STO will take necessary action to ensure the State is compensated by the municipality.

# Idaho and the Tobacco Settlement

## Background

In November 1998 the 5 largest tobacco manufacturers, 46 states, the District of Columbia, and the 5 U.S. territories entered into an agreement under which the states would recover the Medicaid costs of treating tobacco-related illness. This agreement is known as the Master Settlement Agreement (MSA). The MSA imposed restrictions on the tobacco industry to limit advertising, marketing, and promotion of tobacco products. The tobacco companies were initially required to make annual payments totaling an estimated \$206 billion through 2025. Idaho estimates its share to be approximately \$25 to \$30 million per year. The MSA did not stipulate how recipients could spend proceeds of the settlement.

In 2000 Idaho lawmakers established the Idaho Millennium Fund to receive, invest, and disburse funds as determined by annual legislative appropriations. Legislation passed in fiscal year 2003 was intended to preserve the principal of the monies and allow 5 percent of the Fund's average monthly market value to be available for appropriation by the Legislature for the following year's programs. State leaders envisioned that the amount available for appropriation would grow along with the principal and earnings during the ensuing years. Like many other states, Idaho's economy slowed between 2001 and 2003 because of the national recession. Idaho found that spending cuts alone would not balance the budget, as required by the *Idaho Constitution*. To manage the revenue shortfall, emergency legislation transferred approximately \$92 million from the Millennium Fund to the General Fund in fiscal years 2002 and 2003.

## Millennium Fund Grants

In 2002 the Legislature created the Joint Millennium Fund Committee, which is made up of five senators and five representatives. The Committee meets at least twice a year to review grant applications and to evaluate the actual and potential success of programs funded with monies from the millennium income fund. The Committee then presents funding recommendations to the full Legislature. You can read the Committee meeting minutes under Interim Committees and Task Forces at <http://www.legislature.idaho.gov>.



## Idaho Smoking Statistics

- One-fifth of Idaho deaths each year are attributed to smoking-related diseases
- Twenty-one percent of all Idaho adults smoke
- Approximately half of young adults who try cigarettes become daily smokers
- Approximately 25 percent of Idaho's young adults smoke
- Approximately 61,000 Idaho children are exposed to second-hand smoke at home
- The average age smokers first try cigarettes is 14.7 years
- Idaho children buy or smoke 3 million packs of cigarettes each year
- Young people vastly underestimate tobacco's addictiveness

## Financial History

Fiscal year 2005 marks six years since Idaho began receiving tobacco settlement money. The amounts presented below include the tobacco settlement revenues and interest earnings. These amounts agree with the Millennium Fund, presented as part of the General Fund Accounts in the Statistical Section of the Comprehensive Annual Financial Report. At June 30, 2005, the Millennium Fund had an unspent balance of \$44.9 million.

### Millennium Fund Revenue

2000	\$ 30,700,288
2001	21,609,807
2002	22,908,633
2003	28,856,365
2004	22,807,492
2005	23,772,755
Total Revenue	<u>\$ 150,655,340</u>

The table on the following page shows that in spite of the national recession, Idaho has continued to fund programs aimed at preventing children from trying tobacco, helping those already addicted to quit, investigating underage tobacco purchases, and helping counties cut the costs of treating indigent people with smoking-related diseases.

History of Millenium Fund Appropriations						
Agency/Program	Purpose	FY 2001	FY 2002	FY 2003	FY 2004	FY2005
American Cancer/Society	Camp expenses for Idaho children with cancer or who are cancer survivors			\$34,000		
American Cancer Society Magic Valley Youth Tobacco-Free Coalition	Support tobacco-free coalitions and help businesses develop standards for tobacco control in certain Idaho counties			10,000		\$60,700
American Lung Association	Smoking prevention and cessation programs and Teens against Tobacco Use program			148,600	\$157,200	
Blue Cross of Idaho Foundation for Health	Encourage health care providers to utilize the Centers for Disease Control and Prevention recommended tobacco control model and provide cessation counseling and pharmacological assistance				67,500	
Boise State University	Evaluate the variety of substance abuse programs in Idaho		\$95,000	121,000		
Catastrophic Health Care	Reduce the \$10,000 deductible paid by counties for the costs of caring for indigent persons with tobacco-related illness	\$735,000	735,000	435,000	435,000	500,000
Catastrophic Health Care	Offset the state's expense of caring for indigent persons			1,251,400	400,000	
Children's Trust Fund	Establish and expand healthy behaviors in Idaho youth	100,000	200,000	150,000		
Department of Health and Welfare	Collect data and develop recommendations for a comprehensive program for tobacco and substance abuse	200,000				
Department of Health and Welfare	Media campaign to counter tobacco use in Idaho	500,000	500,000	500,000	500,000	500,000
Department of Health and Welfare	Media campaign to reduce adolescent pregnancy		400,000			
Department of Health and Welfare	Planning funds for proposed public/private partnership to implement a small business health insurance model			50,000		
Idaho State Police	Offset costs of youth tobacco investigations			94,000	94,000	94,000
Idaho Supreme Court	Youth courts and community based programs that address tobacco and/or substance abuse	170,000	170,000	120,000	120,000	120,000
Idaho Supreme Court	Expand the Status Offender pilot program, identify high-risk youth and provide services to stop the incarceration cycle		150,000	150,000	150,000	150,000
Idaho State Legislature	Legislative subcommittee technical support and biannual meeting expenses of the Joint Millennium Fund Committee	100,000				
Public Health Districts	Tobacco cessation program available to any Idaho citizen	500,000	506,500	515,200	515,000	515,000
Total		\$2,305,000	\$2,756,500	\$3,579,200	\$2,438,700	\$1,939,700

Data Sources:

- Governor Dirk Kempthorne, "Kempthorne Launches Statewide Ad Campaign to Reduce Smoking in Idaho," November 28, 2000, <<http://gov.idaho.gov/mediacenter/press/pr00/November/Pr1128.html>>, accessed on June 2, 2005.
- Secretary of State, *Idaho Session Laws*, Fiscal Years 2000-2004, Millennium Fund Appropriations.
- Legislative Service Office, *Idaho Legislative Fiscal Reports*, 2000-2004, Idaho Millennium Fund.
- Matt Freeman, Budget and Policy Analyst, Legislative Service Office, "Millennium Fund History," e-mail message, June 3, 2005.
- National Center for Chronic Disease Prevention and Health Promotion, "Incidence of Initiation of Cigarette Smoking, United States, 1965 – 1996," October 9, 1998, <[http://www.cdc.gov/tobacco/research\\_data/youth/initfact.htm](http://www.cdc.gov/tobacco/research_data/youth/initfact.htm)>, accessed on June 2, 2005.
- Strategic Intelligence, Inc., Idaho Department of Health and Welfare, "2004 Tobacco Counter Marketing Evaluation: Teens," Presented to Tobacco Program Bureau of Community and Environmental Health, December 2004.

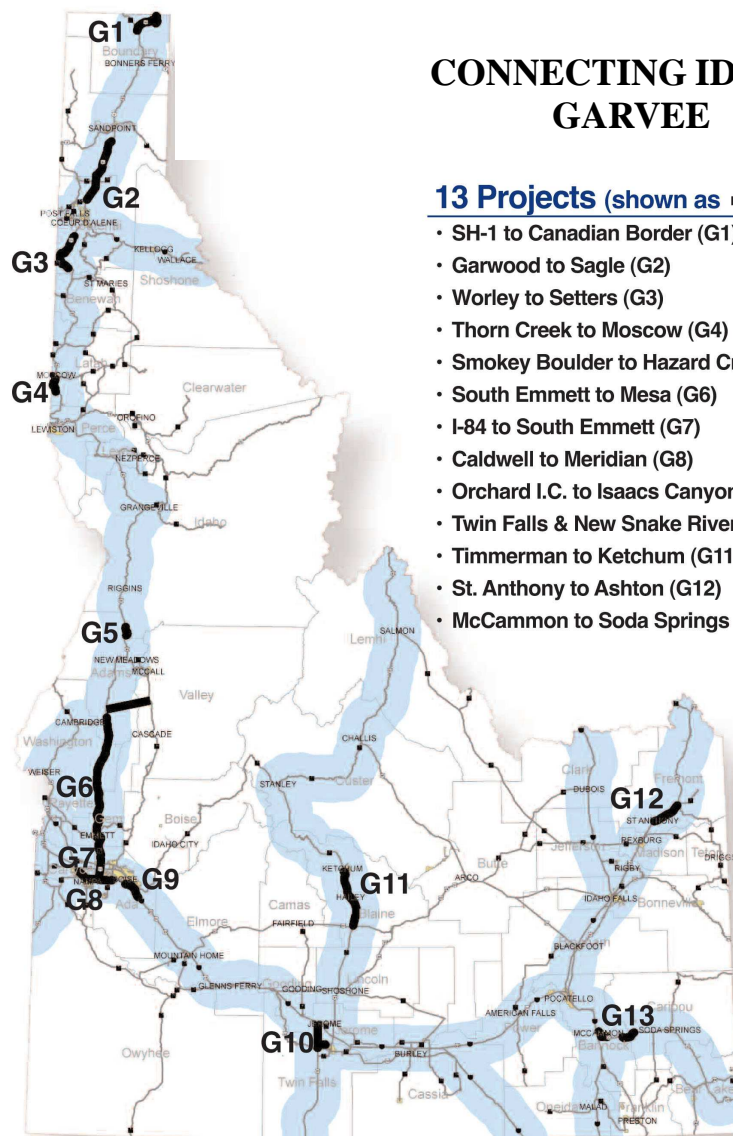


# Grant Anticipation Revenue Vehicles–GARVEE Bonds

GARVEE is an acronym that stands for Grant Anticipation Revenue Vehicles and is defined as a bond or any debt issuance that will be repaid, mostly or entirely, with future federal-aid highway funds. In the 2005 legislative session, *Idaho Code*, Title 40, was amended to allow the State of Idaho to use GARVEE bonds to fund major highway construction projects throughout the State. *Idaho Code*, Section 40-315, allows the Idaho Transportation Board to enter into agreements with the Idaho Housing and Finance Association who will manage all aspects of the bond issuances. These bonds allow the construction of highways now and the bond payments to be made later as future federal monies are received.

The Federal Highway Administration states, “Some transportation projects or programs of projects are so large that their costs exceed available current grant funding and tax receipts, or would consume so much of these current funding sources as to delay many other planned projects.” Since states have high demands for highway construction, and the costs are so large, states have been looking for other ways to fund these projects. GARVEE bonds provide such a funding tool.

In Governor Kempthorne’s *State of the State* address, January 2005, he proposed that Idaho make use of this financing technique and invest \$1.6 billion in



## CONNECTING IDAHO— GARVEE

### 13 Projects (shown as — )

- SH-1 to Canadian Border (G1)
- Garwood to Sagle (G2)
- Worley to Setters (G3)
- Thorn Creek to Moscow (G4)
- Smokey Boulder to Hazard Creek (G5)
- South Emmett to Mesa (G6)
- I-84 to South Emmett (G7)
- Caldwell to Meridian (G8)
- Orchard I.C. to Isaacs Canyon I.C. (G9)
- Twin Falls & New Snake River Crossing (G10)
- Timmerman to Ketchum (G11)
- St. Anthony to Ashton (G12)
- McCammon to Soda Springs (G13)

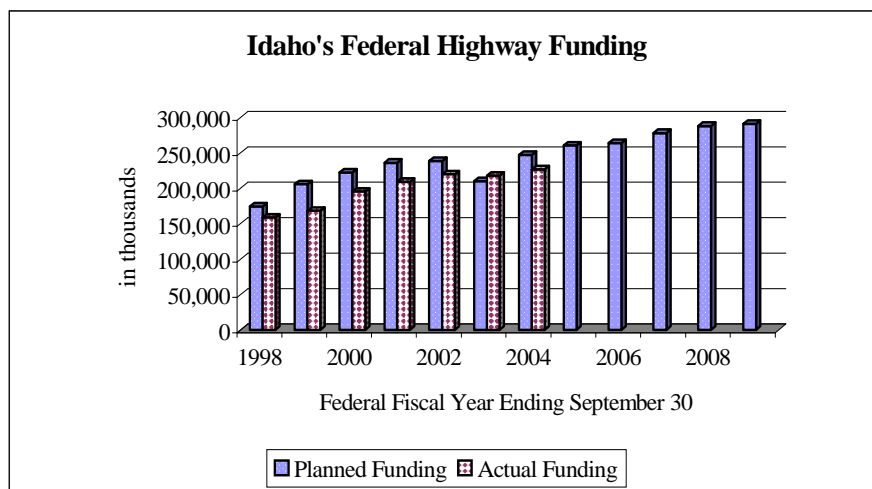
### Where is Idaho in the Process?

- January 2005–Governor Kempthorne proposed that the State make use of GARVEE bonds
- April 2005–GARVEE legislation passed by Legislature and signed by the Governor
- August 2005–Idaho Transportation Department approves the Statewide Transportation Improvement Program (STIP) including GARVEE related projects
- August 2005–Federal Transportation Bill (SAFETEA-LU) Enacted
- December 2005–Anticipated STIP approval date from the Federal Highway Administration
- Spring 2006–Legislative approval for issuance of initial bonds

Source: Idaho Transportation Department

Idaho highways. The recent GARVEE legislative changes put a limit on how much of the federal funds could be used to pay for the debt and debt-related expenses—20 percent for the first four years, 30 percent in year five, and the 30 percent could be ex-

ceeded in year six. The chart below shows the amount of federal highway monies planned for Idaho versus what was actually funded. The revenues have had an average annual increase of 6.1 percent.



Source: Idaho Transportation Department

#### Anticipated benefits of GARVEE bonding:

- The State can complete highway projects earlier.
- The State will save on construction costs due to inflation.
- The State may see employment gains and other economic benefits.
- The State expects safer highway travel.
- The State does not anticipate an increase of taxes due to this legislation.

#### Potential challenges with GARVEE bonding:

- The State's issuance of GARVEE bonds does not guarantee continued federal grant awards.
- The State will limit its future spending flexibility with the bond issuances due to debt service requirements. The State plans to stagger the bond issuances over a period of time to allow for decisions based upon current factors.

#### Other States

Other states have taken advantage of GARVEE bonding since 1998. Below is a listing of states and the amount of bonds they have issued to finance highway and public transit construction as of May 2004.

STATE	AMOUNT OF BONDS (in millions)
Alabama	\$ 175.0
Arizona (multiple bonds)	441.9
California	614.9
Colorado (multiple bonds)	2,096.1
Georgia	300.0
Massachusetts (multiple bonds)	1,499.3
Michigan (multiple bonds)	600.0
New Jersey	385.6
New Mexico	18.5
Ohio	113.8
Rhode Island	216.8
Virginia (multiple bonds)	1,098.0
Puerto Rico	139.9

#### Data Sources:

- David R. Amick (Manager of Investments, Idaho Transportation Department), telephone conversation, November 3, 2005.
- Federal Highway Administration, "Chapter 3—Debt Financing," *Innovative Finance*, March 2004, <<http://www.fhwa.dot.gov/innovativefinance/ifp/debtfin.htm>>, accessed on May 19, 2005.
- Idaho Transportation Department, *Connecting Idaho*, January 31, 2005.
- *Idaho Code*, Title 40.

# The Snake River—The Lifeblood of Southern Idaho

The Snake River is the lifeblood of Southern Idaho. It provides recreation, irrigation, power generation, and a habitat for wildlife. It is vital for Idaho to preserve this precious resource.

One of the ways the State has been working to preserve the Snake River is by the process known as the Snake River Basin Adjudication (SRBA). The term “adjudication” means to hear and settle a case by judicial procedure. For Idaho, it means that the court system will decide which claims to the waters of the Snake River are valid. The court system is involved due to the 1984 Swan Falls Agreement which required a legal accounting of water rights in the Snake River Basin.

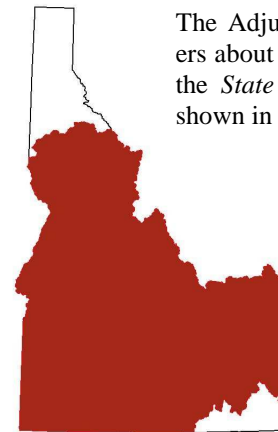
The biggest claim in the adjudication, the Nez Perce Claim, was settled this last legislative session. As part of the settlement, the Legislature approved the purchase of water rights from the Bell Rapids Mutual Irrigation Company to help fulfill the Nez Perce Water Rights Settlement and to help increase flows in the Snake River.

## Snake River Basin Adjudication

The SRBA, which began in 1987, is the review and settlement of about 150,000 water rights in 38 of Idaho’s 44 counties. The SRBA was needed because the demand on the Snake River water outgrew supply due to years of agriculture development and limited rainfall. In 1985 the SRBA Fund was established to pay for SRBA costs. This fund derives its revenues from the participants in the SRBA. However, the fund has not covered the full costs of the SRBA. Therefore the General Fund (taxpayer money) is also being used to pay the costs of the SRBA.

Snake River Basin Adjudication Costs		
Year	Fund Source	Cost
1985-2005	General	\$ 43,186,600
	SRBA	24,550,700
2006 estimated	General	3,357,100
	SRBA	703,500
2007 funds requested	General	3,427,200
	SRBA	-
Total Costs	General	49,970,900
	SRBA	25,254,200
	Total	\$ 75,225,100

Source: Idaho FY 2006 Legislative Budget Book



The Adjudication covers about 80 percent of the *State of Idaho*, as shown in red

Source: Idaho Department of Water Resources

The preceding table shows that from 1985 to 2007, \$25.3 million of the adjudication costs have or will be paid by filing fees charged to those making claims to their water rights, as described in *Idaho Code*, Section 42-1414. Taxpayers have or will pay the remaining amount of \$50.0 million paid from the General Fund. Eighty-five to ninety percent of the adjudication process is complete and it is hoped to be fully completed by the end of calendar year 2008, but it will more likely extend longer.

## Nez Perce Water Rights Settlement

The Nez Perce Settlement has been the biggest outstanding dispute in the SRBA. The dispute began in 1998. Based upon an 1855 treaty with the United States, the Nez Perce Tribe claimed water rights that were in conflict with the State of Idaho and other water users. To resolve this conflict, a settlement was agreed upon entitled “Mediator’s Term Sheet.” The settlement describes the responsibilities of the parties (the federal government, the Nez Perce Tribe, the State of Idaho, local communities, and irrigators in Idaho) over the 30-year term of the settlement. With the passage of the complex agreement, over \$193.3 million of federal funds will be distributed.

## Federal Fund Distributions

The Nez Perce Tribe will receive \$95.8 million in return for their agreement to resolve all their water claims. Seven annual payments totaling \$83.1 million have been scheduled to be paid beginning in the federal government’s fiscal year 2007. Specific authorization for the remaining amount has yet to be made. The Tribe can use the money for economic develop-

ment, improvement of fish and wildlife habitat, as well as other uses. The Tribe will receive the right to consume water in the amount of 50,000 acre-feet per year and receive water rights to springs on federal lands. The Tribe also will receive 11,000 acres of land from the Federal Bureau of Land Management valued at \$7.0 million.

Local governments will receive \$2.2 million to make up for the loss of certain tax revenues. Efforts are being made to appropriate the expenses in the federal government's fiscal year 2006.

Private water users will receive \$70.0 million over the life of the agreement. *Idaho Code*, Section 42-1761, allows the Idaho Water Resource Board to operate a water bank. Private water users who wish to sell or lease their water rights to the Federal Bureau of Reclamation may do so through this water bank. The water bank will be used to maintain flows in the Snake River to benefit migrating fish.

The State of Idaho will receive \$25.7 million over the life of the agreement. The federal monies received by the State of Idaho are for the conservation and resto-

ration of habitat within the Salmon and Clearwater River Basins. This habitat improvement program is called the Salmon and Clearwater Habitat Management and Restoration Initiative and includes cooperative agreements between Idaho and the federal government to conserve endangered fish species. The plan will protect wildlife and help ensure that Idaho citizens will continue to enjoy the use of these natural resources.

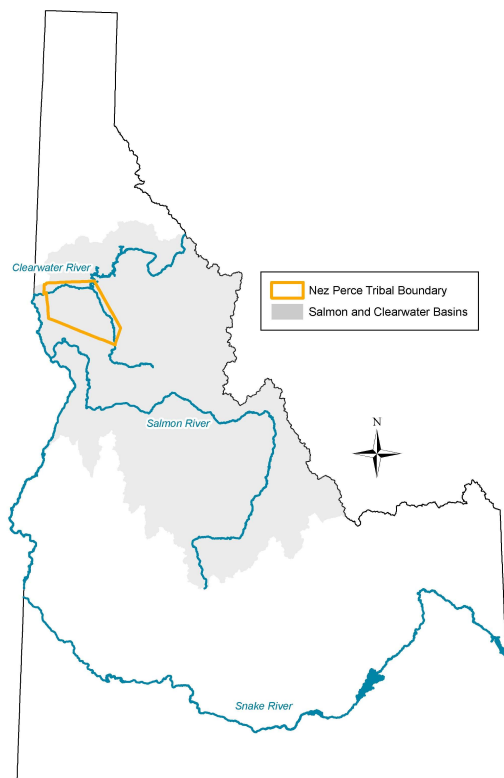
### Obligations of the State of Idaho

Idaho's obligations are to implement the habitat improvement program as mentioned in the preceding paragraph, increase the water flow within the Snake River, and maintain water flows for 205 streams in the Salmon and Clearwater River Basins. The State will implement the habitat improvement program in cooperation with the federal government under Section 6 of the *Endangered Species Act*. The State is also required to match one-third of the federal government's contribution of \$25.7 million, approximately \$8.5 million. The \$8.5 million state contribution does not have to be in the form of cash but may be in the form of services towards the habitat improvement program. The following state agencies will incur the costs of implementing the habitat improvement program:

- The Idaho Department of Lands will need additional staff to implement a forest practices program and incur costs of \$2.0 million for a biological assessment in support of the forest practices program.
- The Idaho Department of Fish and Game will incur costs to support additional staff to implement the habitat improvement program.

The Idaho Department of Water Resources and the Idaho Office of Species Conservation will be involved with implementing the agreement but are not expected to incur additional costs.

To increase the Snake River flows, the State will allow the Federal Bureau of Reclamation to lease or acquire up to 487,000 acre-feet annually from private water users and the State through the water bank.



Map courtesy of Idaho Department of Water Resources



## Bell Rapids Mutual Irrigation Company Water Rights Purchase

The Bell Rapids water rights were purchased by the State to help increase flows in the Snake River and to help fulfill the requirements of the Nez Perce Agreement. The Governor signed House Bill 392 during the 2005 legislative session, approving the fiscal year transfer of \$21.3 million from the General Fund and \$7.2 million from the Liquor Control Fund to the Idaho Department of Water Resources Revolving Development Fund. Of the \$28.5 million transferred, \$24.4 million was used to purchase the annual rights to 74,000 acre-feet of Snake River water from the Bell Rapids Mutual Irrigation Company. Sixty thousand acre-feet will be leased back to the Federal Bureau of Reclamation (for thirty years) and the rest will be used to supplement Swan Falls stream flows. The remaining \$4.1 million will be used by the State for a variety of water-related issues.

Current law states that the \$21.3 million is to be repaid to the General Fund by July 1, 2006. The Idaho

Water Resources Board will pay the money back in part with revenues received from leasing water to the Bureau of Reclamation. The remainder will be paid back through other alternatives including the potential for the Board to issue revenue bonds that will be funded with assessments on water rights held for use on the Eastern Snake Plain. No provisions were made in the legislation to reimburse the Liquor Dispensary.

### Related Legislation:

- *Idaho Code*, Sections 41-1750 through 42-1758, allows the Idaho Board of Water Resources to issue revenue bonds in order to purchase water rights and take other necessary measures to address water shortage issues.
- *Idaho Code*, Section 42-620, allows the director of the Department of Water Resources to create water districts as well as to provide for the collection of a special assessment from water users within the districts.

The two pictures below compare Shoshone Falls when they are dry versus when water is flowing. The Falls are located in South Central Idaho, 3 miles east of Twin Falls. In the summer months the water is diverted upstream and used for irrigation.



Photos courtesy of Department of Commerce and Labor

### Data Sources:

- Idaho Department of Water Resources, "Agreement Summary," SRBA, May 2004, <<http://www.idwr.state.id.us/nezperce/index.htm>>, accessed on July 26, 2005.
- Idaho Department of Water Resources, "Fact Sheet on Snake River Water Agreement," SRBA, May 15, 2004, <<http://www.idwr.state.id.us/nezperce/index.htm>>, accessed on July 26, 2005.
- Idaho Department of Water Resources, "History," SRBA, 2000–2002, <<http://www.idwr.state.id.us/water/srba/history.htm>>, accessed on October 26, 2005.
- Idaho Department of Water Resources Board, "Water Board Signs Letter of Intent to Buy High-lift Water Rights," July 1, 2005.
- Legislative Services Office, *Idaho Legislative Budget Book*, Fiscal Year 2006.
- "Mediator's Term Sheet," SRBA, April 20, 2004.
- Michael Keckler (Public Information Officer, Department of Water Resources), telephone conversation, March 10, 2005.
- Ray Houston (Budget Analyst, Legislative Services Office), personal interview, October 4, 2005.
- Secretary of State, *Idaho Session Laws*, Fiscal Year 2005, p. 461-466, 1023-1025.
- Steve Strack (Deputy Attorney General, Office of the Attorney General), telephone conversation, May 18, 2005.



# Facts About Idaho

**Name:** Originally suggested for Colorado, the name “Idaho” was used for a steamship which traveled the Columbia River. With the discovery of gold on the Clearwater River in 1860, the diggings began to be called the Idaho Mines. “Idaho” is a coined or invented word and is not a derivation of an Indian phrase “E Dah Hoe (How)” supposedly meaning “gem of the mountains.”

**Nickname:** The “Gem State”

**Motto:** “Esto Perpetua” (Let it be perpetual)

**Discovered by Europeans:** 1805, the last of the 50 states to be sighted

**Organized as Territory:** March 4, 1863, act signed by President Lincoln

**Entered Union:** July 3, 1890, 43rd state to join the Union

## GEOGRAPHY

**Land Area:** 83,557 square miles, 13th in area size

**Water Area:** 880 square miles

**Highest Point:** 12,662 feet above sea level at the summit of Mt. Borah, Custer County in the Lost River Range

**Lowest Point:** 770 feet above sea level at the Snake River at Lewiston

**Length:** 479 Miles

**Width:** 305 miles at widest point

**Geographic Center:** Settlement of Custer on the Yankee Fork River, Custer County

**Number of Lakes:** More than 2,000

**Navigable Rivers:** Snake, Coeur d’Alene, St. Joe, St. Maries and Kootenai

**Largest Lake:** Lake Pend Oreille, 180 square miles

**Temperature Extremes:** Highest, 118° at

Orofino July 28, 1934; Lowest, -60° at

Island Park Dam, January 18, 1943

**2004 Population:** 1,393,262 - 39th among states (U.S. Census Bureau)



Source: Idaho Blue Book 2005-2006, Published by the Idaho Secretary of State's Office

