



Announcement: MOODY'S Aa2 RATING ON STATE OF WASHINGTON'S GRANT ANTICIPATION REVENUE BONDS, SERIES 2012F (GARVEE) (SR 520 CORRIDOR PROGRAM) NOT AFFECTED BY CHANGE IN ADDITIONAL BONDS TEST

Global Credit Research - 10 May 2012

APPROXIMATELY \$432 MILLION OUTSTANDING

New York, May 10, 2012 -- On April 18, Moody's Investors Service assigned an initial Aa2 rating and stable outlook to the State of Washington's Grant Anticipation Revenue Bonds, Series 2012F (GARVEE) (SR 520 Corridor Program). Since the rating assignment, the state has increased the additional bonds test (ABT) from 3 times maximum annual debt service (MADS) to 3.5 times MADS. In addition, the state revised its ABT policy to 3.75 times from 3.5 times. The new ABT does not affect the Aa2 rating.

The bonds are the state's first offering of grant-anticipation revenue vehicles (or GARVEEs). Proceeds of the bonds will be used to finance a portion of the Washington State Department of Transportation's (WSDOT) SR 520 floating bridge and eastside project. The state expects to price the bonds the week of May 21.

SUMMARY RATINGS RATIONALE

The bonds are secured solely by a first lien on the State of Washington's federal aid highway program (FAHP) revenues administered by the Federal Highway Administration (FHWA). Pledged funds include direct GARVEE reimbursements to meet annual debt service requirements on the bonds pursuant to a Memorandum of Understanding (MOU) between WSDOT and FHWA. The Aa2 rating reflects WSDOT's pledge to first obligate and use federal transportation funds for debt service payments on the bonds; the solid trend of federal highway aid received annually by WSDOT which is projected to provide solid debt service coverage; an additional bonds test of 3.5 times maximum annual debt service; and federal reauthorization risk, in common with other issuers of similar bond offerings.

CREDIT STRENGTHS

- First lien on all eligible federal highway aid revenues received by the state
- Additional bonds test in master bond resolution requires 3.5 times coverage of maximum annual service (MADS)
- Pledged federal aid revenues provide solid coverage of projected debt service, including a second planned issuance of GARVEEs in fiscal 2013, based on 2011 obligation authority

CREDIT CHALLENGES:

- Reauthorization requirement opens bondholders to periodic risk of federal highway program diminution over 12-year life of the debt
- Uncertainty regarding future strength of Federal Highway Trust Fund, particularly in light of shortfalls which have required extraordinary congressional action three times in recent years.

OUTLOOK

The rating outlook for the State of Washington's GARVEE bonds is stable, based on our expectation that the federal highway program will remain a national priority and therefore be reauthorized, resulting in a satisfactory level of federal aid highway revenue to Washington. While there is the potential for delay in reauthorization of the federal program and some risk of cuts to the federal highway program overall, the bonds have a first lien on federal highway reimbursements to Washington and sufficient obligation authority is expected to be available for debt service on the bonds.

What could change the rating -- UP?

- Stronger indenture covenants limiting additional bond issuance, consistent with higher rated comparable credits

What could change the rating -- DOWN?

- Significant declines in overall obligation authority or Washington's share of it
- Lengthening of maturity that increases exposure to reauthorization risk

RATING METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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