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CREDIT OPINION
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New Issue

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Washington (State of)

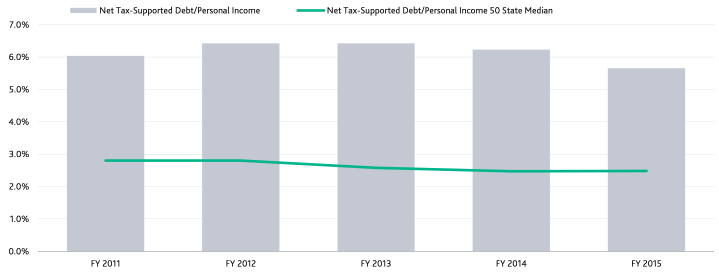
New Issue - Moody's assigns Aa1 to $225M Washington State Fuel Tax/GO bonds, 2017B&C; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned Aa1 ratings to the State of Washington's Motor Vehicle Fuel Tax General Obligation Bonds, Series 2017B and its Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program—Toll Revenue), Series 2017C. The 2017B and 2017C bonds are expected to be issued in amounts of approximately $135 million and $90 million, respectively. Following the issuance of these bonds, the state will have approximately $19.1 billion of general obligation bonds outstanding, including bonds additionally secured by fuel taxes and tolls, all rated Aa1.

Washington's Aa1 general obligation rating incorporates the state's sound management practices such as its quarterly consensus revenue forecasting process, multi-year revenue and expenditure projections, timely budget adoption, and demonstrated willingness to address budget shortfalls. The rating also reflects an economy that is growing and expected to out-perform the nation over the long term. Revenue trends are positive, supported by employment gains and improvement in the state's housing market, and available reserves are increasing. These strengths are tempered by education spending mandates, exposure to the cyclical aerospace industry and other export markets, and above average debt ratios. Frequent voter initiative activity adds budget challenges although the state legislature has a history of responding effectively to maintain budget balance.

Exhibit 1
Washington State's Debt Levels Exceed 50-State Medians



Source: Moody's Investors Service State Debt Medians Report.

Credit Strengths

» Sound institutionalized governance practices

» Strong economic and demographic trends

» Satisfactory overall liquidity levels maintained in pooled resources

» Healthy pension funding levels and modest retiree health insurance liability

» Restoration of financial reserves

Credit Challenges

» Significant future increases required in K-12 education funding

» Exposure to cyclical commercial aerospace industry and export market

» Above-average debt ratios

» Voter initiative activity adding element of fiscal uncertainty

Rating Outlook

Washington's rating outlook is stable, reflecting economic gains that are boosting revenues, an improved reserve position, and budget balancing solutions that are largely recurring. We expect that the state will continue to address any budget gaps that emerge, as it has in the past, and, over time, absorb the substantial increase in mandated basic education funding. Economic concentration in some industries that are historically volatile poses longer-term credit risk.

Factors that Could Lead to an Upgrade

» Sustained trend of structural budget balance, combined with maintenance of strong reserve levels

» Economic expansion and improved industry diversification

» Reduction of debt ratios to levels closer to Moody's 50-state medians

Factors that Could Lead to a Downgrade

» Employment erosion

» Protracted structural budget imbalance and/or increased reliance on one-time budget solutions

» Deterioration of the state's cash position

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2
Washington Has Rebuilt Reserves Since the Recession

Washington	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating Fund Revenues (000s)	16,252,763	16,099,012	17,067,211	17,765,292	18,789,958
Balances as % of Operating Fund Revenues	-0.7%	0.8%	2.4%	4.2%	7.9%
Net Tax-Supported Debt (000s)	17,677,697	19,425,533	20,386,128	20,422,165	19,800,626
Net Tax-Supported Debt/Personal Income	6.0%	6.4%	6.4%	6.2%	5.7%
Net Tax-Supported Debt/Personal Income 50 State Median	2.8%	2.8%	2.6%	2.5%	2.5%
Debt/All Governmental Funds Revenue	50.6%	56.4%	56.2%	52.7%	47.7%
Debt/All Governmental Funds Revenue 50 State Median*	22.7%	24.3%	23.8%	23.0%	20.4%
Adjusted Net Pension Liability/All Govt Funds Revenue	32.7%	25.2%	43.5%	56.7%	N/A
Adjusted Net Pension Liability/All Govt Funds Revenue 50 State Median	48.7%	63.9%	60.3%	59.2%	N/A
Total Non-Farm Employment Change (CY)	1.3%	1.6%	4.3%	2.8%	3.3%
Per Capita Income as a % of US (CY)	105.5%	107.0%	106.8%	107.7%	107.3%

*The 2015 governmental fund median number uses 2014 numbers for states that have not yet released their FY2015 audit

Sources: State audited financial statements with Moody's Investors Service adjustments; Moody' Investors Service state debt and pension medians reports; US Bureau of Labor Statistics; US Bureau of Economic Analysis.

Recent Developments

Recent developments are incorporated into the Detailed Rating Considerations. The state's next revenue forecast is scheduled to be released in September.

Detailed Rating Considerations

Economy

Washington State benefits from a high-value-added, but often cyclical, commercial aircraft industry; a fast growing information technology industry; and above average per capita income and household wealth. Significant agriculture and timber sectors are vulnerable to volatile commodity prices and export demand. First quarter 2016 exports were down 15.6% from the first quarter of 2015. Transportation equipment exports, primarily aircraft manufactured by The Boeing Company (A2 stable), declined 17.4%. Exports other than transportation equipment declined by 12.8%. The state's unemployment rate has remained relatively stable over the past year, slightly above the US rate. The state's unemployment rate was 5.8% in April 2016, compared to 5.6% for the state one year earlier and 5.0% for the US in April 2016. The state's economic forecasts expect continued although slightly slower economic growth, with increasing employment in most sectors.

Finances and Liquidity

Driven by economic growth, state revenues have grown steadily since the recession. On a GAAP basis, the state's non-federal operating fund revenues grew at a compound annual rate of 5.1% from fiscal 2010 through 2015. In its June forecast, the state projected that General Fund revenues for the 2015-17 biennium will be $37.431 billion, an increase of 11.2% from the 2013-15 biennium and an increase of $294 million from the February forecast.

Due to rising revenues and expenditure controls, reserves, which fell to negative levels during the recession, have been gradually rebuilt to pre-recession levels. On a GAAP basis, available reserves, which consist of Unassigned General Fund Balance plus the state's Budget Stabilization Account increased from a negative $107 million (0.7% of revenues) at the end of fiscal 2011 to a positive $1,477 million (7.9% of revenues) at the end of fiscal 2015. In the February forecast, the state projected that total budget-basis reserves will decline slightly from $1,524 million at the end of fiscal 2015 to $1,487 million at the end of the 2015-2017 biennium, including $701 million in the Budget Stabilization Account.

The enacted budget for the 2015-17 biennium included a significant increase in K-12 education funding in response to the State Supreme Court's ruling in the "McCleary" case. The budget also includes additional funding for higher education. In conjunction with the approval of the budget, the legislature suspended for three years Initiative 1351 which would have required additional increases in K-12 funding. Subsequent to the adoption of the 2015-17 budget, the Supreme Court ruled that the state had still not complied fully

with its ruling in the McCleary case and imposed a fine on the state of $100,000 per day. The legislature has not yet responded to the court's latest ruling.

LIQUIDITY

The state's overall liquidity is sound and has improved notably over the last four years with the improvement in GAAP-basis financial position. Average daily balances in the Treasury and Treasurer's Trust Fund were $4.4 billion for the 12 months from January through December 2015. The state does not issue cash flow notes.

Debt and Pensions

DEBT STRUCTURE

Washington's debt consists primarily of general obligation bonds. Moody's calculation of net tax-supported debt includes general obligation bonds additionally secured by motor vehicle fuel taxes but excludes general obligation bonds which are paid from vehicle tolls. The state's debt ratios are more than twice Moody's 2016 50-State Medians; net tax-supported debt as a percentage of personal income is 5.7%, compared with Moody's median of 2.5%, and net tax-supported debt per capita is $2,522, compared to a median of $1,025. Annual debt service costs relative to revenue available for debt service (Moody's calculation) was also relatively high at 7.0% in fiscal 2015 versus a median of 4.3%.

DEBT-RELATED DERIVATIVES

The state has no variable rate debt and no debt-related derivatives.

PENSIONS AND OPEB

While debt ratios are above average, the state's aggregate pension funding is relatively strong. Based on the Washington's fiscal 2013 pension data, Moody's has calculated that the overall retirement systems' adjusted net pension liability (ANPL) was 43.5% of governmental revenues, well below the 50-state median of 60.3%. Other pension ratios such as ANPL to personal income, GDP, and population are similarly below the medians.

In Washington, retiree health benefits are set as part of the biennial budget process and funded on a pay-as-you-go-basis. As of January 1, 2015, the most recent date for which a full valuation was prepared, the actuarial accrued liability attributable to the state (after retiree contributions) was $5.274 billion. The annual required contribution (ARC) for fiscal year 2014 was $354 million, about 1.4% of the state's total governmental revenues, excluding federal aid.

Governance

The state has strong governance practices including a quarterly consensus revenue forecasting process, multi-year revenue and expenditure projections, timely budget adoption, and a demonstrated willingness to address budget shortfalls. Although frequent voter initiative activity can create budget challenges, the state legislature has broad powers to amend or suspend voter-approved initiatives.

Legal Security

The 2017B and 2017C bonds are general obligations of the state, to which the state has pledged its full faith, credit and taxing power. The 2017B bonds are additionally secured by and expected to be paid from motor vehicle fuel taxes. The 2017C bonds are "triple pledge" bonds--additionally secured by both motor vehicle fuel taxes and vehicle toll revenues collected in the SR 520 corridor. The 2017C bonds and the parity 2012C triple pledge bonds are expected to be paid entirely from toll revenues.

Use of Proceeds

Proceeds of the 2017B will be used to fund various state highway projects. Proceeds of the 2017C bonds will be used to fund improvements in the SR 520 corridor.

Obligor Profile

Washington is the thirteenth largest state by population, at 6.9 million. Its state gross domestic product is fourteenth largest. The population is relatively wealthy, with per capita personal income equal to 107.3% of the US level and a poverty rate in the bottom third among states.

Methodology

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Washington (State of)

Issue	Rating
Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program--Toll Revenue), Series 2017C	Aa1
Rating Type	Underlying LT
Sale Amount	$90,325,000
Expected Sale Date	09/07/2016
Rating Description	General Obligation
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2017B	Aa1
Rating Type	Underlying LT
Sale Amount	$134,715,000
Expected Sale Date	09/07/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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