MOODY'S
INVESTORS SERVICE

Rating Action: MOODY'S REVISES STATE OF WASHINGTON RATING OUTLOOK TO NEGATIVE FROM STABLE AND AFFIRMS Aa1 G.O. RATING AND Aa2 CERTIFICATES OF PARTICIPATION RATING ; Aa1 RATING AND NEGATIVE OUTLOOK ASSIGNED TO UPCOMING G.O BOND SALES: VARIOUS PURPOSE G.O. SERIES 2012D

Global Credit Research - 30 Jan 2012

APPROXIMATELY $17.5B OUTSTANDING G.O. DEBT AND $903M CERTIFICATES OF PARTICIPATION

New York, January 30, 2012 -- Moody's Rating

Issue: Various Purpose General Obligation Bonds, Series R-2012C; Rating: Aa1; Sale Amount: $669,075,000; Expected Sale Date: 01/31/2012; Rating Description: General Obligation

Issue: Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2012D; Rating: Aa1; Sale Amount: $260,140,000; Expected Sale Date: 01/31/2012; Rating Description: General Obligation

Issue: Various Purpose General Obligation Bonds, Series 2012D; Rating: Aa1; Sale Amount: $346,075,000; Expected Sale Date: 01/31/2012; Rating Description: General Obligation

Issue: Motor Various Purpose General Obligation Bonds, Series 2012E; Rating: Aa1; Sale Amount: $188,595,000; Expected Sale Date: 01/31/2012; Rating Description: General Obligation

Opinion

Moody's Investors Service has revised the outlook on the State of Washington's general obligation bonds to negative from stable, and affirmed the Aa1 rating on the state's general obligation bonds ($17.5 billion outstanding) and the Aa2 rating on the state's certificates of participation ($903 million outstanding). Concurrently, Moody's has assigned Aa1 ratings to the following sales: $346.075 million Various Purpose General Obligation Bonds, Series 2012D; $699.075 million Various Purpose General Obligation Refunding Bonds, Series R-2012C; $188.595 million Motor Vehicle Fuel Tax General Obligation, Series 2012E; and $260.14 million Motor Vehicle Fuel Tax General Obligation Refunding bonds, Series R-2012D. The motor vehicle fuel tax bonds are general obligations of the state, secured also by state's excise taxes on motor vehicles. The Series R-2012C and R-2012D are scheduled for competitive sale on January 31, and the Series 2012D and 2012E bonds are scheduled for competitive sale on February 28. Proceeds of the various purpose general obligation bonds will be used to fund various statewide capital projects and the motor vehicle fuel tax general obligation bonds will be used for transportation related construction projects. Proceeds of the refunding bonds will be used to refund outstanding debt for present value savings.

SUMMARY RATINGS RATIONALE

The outlook revision to negative from stable reflects the magnitude of the revenue falloff that continues to challenge the state as it struggles to recover from the recession; depleted reserves and GAAP-based balances that will remain negative at least through fiscal 2012; and high fixed costs relative to available revenues for the state's above average debt position. Many states are reporting little or no budget gaps for the current fiscal year as revenues improve and even over perform in some cases. Washington, however, announced a revenue shortfall of $1.4 billion last fall amounting to about 5% of the biennial budget. This was after the state closed a $4.9 billion budget gap going into the current biennium that

began on July 2, 2011. Forward-looking economic indicators are positive and high paying aerospace and technology jobs will eventually help Washington outperform the nation. For now, the state's construction industry continues to have a drag on the state's recovery reflecting a housing downturn that hit Washington later than most states and was worse than the state expected. Public sector employment also continues to decline as the state and local governments downsize in response to budget challenges.

The Aa1 general obligation rating incorporates Washington's sound management tools such as its quarterly consensus revenue forecasting process and demonstrated willingness to address budget shortfalls, along with strong demographic trends that will help propel the economic recovery once it takes hold. These strengths are tempered by exposure to the cyclical aerospace industry, above average debt ratios, and an economy that proved more vulnerable to the housing downturn than expected. Frequent voter initiative activity adds budget challenges although the state legislature has a history of responding effectively to maintain budget balance. As a state with heavy dependence on sales tax receipts and no personal income tax, Washington's revenues have been hit hard by the negative impact of the recession on consumer confidence.

Credit strengths:

- Institutionalized governance practices such as consensus revenue forecasting, multi-year revenue and expenditure projections, and timely budget adoption.

- Strong demographic trends

- Satisfactory overall liquidity levels despite recessionary stresses

- Healthy pension funding levels and modest retiree health insurance liability

Credit challenges:

- Economic weakness and steeper-than-forecast housing downturn that have driven sizeable consecutive downward revenue revisions.

- Diminished financial flexibility given depletion of financial reserves, significant use of one-time actions to balance budgets, and implementation of large budget reductions over the past several years

- Exposure to cyclical commercial aerospace industry.

- Debt ratios above average and likely to increase.

- Voter initiative activity adds element of fiscal uncertainty.

Outlook

Washington's rating outlook is negative reflecting the magnitude of the revenue falloff that continues to challenge the state as it struggles to recover from the recession; depleted reserves and GAAP-based balances that will remain negative at least through fiscal 2012; and high fixed costs for the state's above-average debt position. Moody's expects that the state will address its budget gaps, as it has in the past, although financial flexibility will remain strained over the near term and out year structural gaps will likely be challenging to resolve. Economic concentration in some industries that are historically volatile poses longer-term credit risk.

WHAT COULD MAKE THE RATING GO UP

*Sustained trend of structural budget balance, plus restoration and maintenance of strong reserve levels.

*Economic expansion and improved industry diversification.

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

WHAT COULD MAKE THE RATING GO DOWN

*Delayed or muted recovery that continues to restrain consumer confidence, leading to further revenue weakness and budget shortfalls

*Employment erosion

*Protracted structural budget imbalance.

*Increased reliance on one-time budget solutions.

*Deterioration of the state's cash position.

The principal methodology used in this rating was Moody's State Rating Methodology published in November 2004. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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