MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 rating to State of Washington Various Purpose G.O. Bonds, Series 2013A; Motor Vehicle Fuel Tax G.O. Bonds, Series 2013B-1 and B-2; G.O. Bonds, Series 2013T; and G.O. Refunding Bonds, Series R-2013T; outlook is negative

Global Credit Research - 05 Jul 2012

Approximately $17.5 B G.O. bonds outstanding

New York, July 05, 2012 --

Moody's Rating

Issue: General Obligation Refunding Bonds, Series R-2013T (Taxable) (Competitive Sale); Rating: Aa1; Sale Amount: $78,455,000; Expected Sale Date: 7-18-2012; Rating Description: General Obligation

Issue: Various Purpose General Obligation Bonds, Series 2013A (Competitive Sale); Rating: Aa1; Sale Amount: $263,220,000; Expected Sale Date: 7-18-2012; Rating Description: General Obligation

Issue: General Obligation Bonds, Series 2013T (Taxable) (Competitive Sale); Rating: Aa1; Sale Amount: $40,585,000; Expected Sale Date: 7-18-2012; Rating Description: General Obligation

Issue: Motor Vehicle Fuel Tax General Obligation Bonds, Series 2013B-1 (Competitive Sale) and Series 2013B-2 (Negotiated Sale); Rating: Aa1; Sale Amount: $190,925,000; Expected Sale Date: 7-18-2012; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned a Aa1 rating to the State of Washington's general obligation bonds: $263.22 million Various Purpose G.O. Bonds, Series 2013A (Competitive Sale); $190.925 million Motor Vehicle Fuel Tax G.O. Bonds, Series 2013B-1 (Competitive Sale) and Series 2013B-2 (Negotiated Sale); $40.585 million G.O. Bonds, Series 2013T (Taxable) (Competitive Sale); and $78.4545 million G.O. Refunding Bonds, Series R-2013T (Taxable) (Competitive); the outlook is negative.

The motor vehicle fuel tax bonds are general obligations of the state, secured also by state's excise taxes on motor vehicles. The competitive and negotiated sales are scheduled for July 18. 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 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. Many states reported little or no budget gaps for fiscal 2012 as revenues improved and even over performed 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 2011-2013 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. While there are signs of stabilization, 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. In addition, public sector employment is declining as the state and local governments downsize in response to budget challenges.

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

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.

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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