Moody's Investors Service

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New Issue: Washington (State of)

MOODY'S ASSIGNS Aa2 RATING AND NEGATIVE OUTLOOK TO STATE OF WASHINGTON'S $132.74 MILLION CERTIFICATES OF PARTICIPATION, SERIES 2010A (WASHINGTON STATE CONVENTION CENTER)

APPROXIMATELY $806 MILLION IN OUTSTANDING SIMILARLY SECURED OBLIGATIONS

State
WA

Moody's Rating

ISSUE	RATING
Certificates of Participation, Refunding Series 2010A (Washington State Convention Center)	Aa2

Sale Amount	$132,740,000
Expected Sale Date	01/18/10
Rating Description	Certificates of Participation

Opinion

NEW YORK, Dec 31, 2009 -- Moody's Investors Service has assigned a rating of Aa2 with a negative outlook to the State of Washington's $132.74 million Certificates of Participation, Series 2010A (Washington Convention Center). Proceeds of the certificates will be used to refund outstanding certificates issued to finance an expansion project for the Washington State Convention Center (the Agency). The state expects to sell the certificates during the week of January 18. The refunding schedule reflects level annual savings of approximately $1.6 million through final maturity in 2017, for total net present value savings of about $11.6 million. The maturity of the original certificates will not be extended. The certificates are payable from anticipated state base rent payments, under a master financing lease, which are in turn derived from underlying rental payments by the agency.

The Aa2 rating reflects the credit standing of the State of Washington (general obligation bonds rated Aa1), the limited subject-to-appropriation nature of the state's master financing contract payment obligations, active administration of the financing program by the state treasurer's office, and the state's established track record of making appropriation-backed debt payments under a variety of financing programs. Moody's anticipates that the state will continue to avail itself of appropriation-backed financings for various purposes in the future.

State credit strengths are:

*Institutionalized conservative budgetary controls.

*Improved financial flexibility with increased rainy day fund (RDF) levels going into 2007-2009 recession

*Strong demographic trends

*Maintenance of sound liquidity levels despite recessionary stresses

State credit challenges are:

*Economic weakness and steeper-than-forecast housing downturn drive large consecutive downward revenue revisions.

*Significant use of one-time actions to balance current biennial budget reduces flexibility to address unexpected revenue shortfalls

*Exposure to cyclical commercial aerospace industry.

*Debt ratios above average and likely to increase.

*Voter initiative activity adds element of fiscal uncertainty.

CERTIFICATES ISSUED IN CONNECTION WITH MASTER FINANCING CONTRACT; STATE INSTALLMENT PAYMENTS SUBJECT TO APPROPRIATION

The certificates are issued in connection with a Master Financing Lease between the State of Washington, acting through the state treasurer, and the Washington Finance Officers Association (WFOA), a Washington nonprofit corporation. Under the terms of the master contract, the state is leasing the property, consisting of the site and project, from WFOA. The state treasurer will enter into an agency financing lease to lease the property back to the agency, which will make agency rent payments for use of the property. State base rent payments pursuant to the master financing contract are subject to appropriation and emergency executive order reduction. The state has never failed to appropriate funds for any outstanding lease obligation. Permitted termination events include non-appropriation or executive order emergency reduction in state funding, although these are not events of default. The obligation of the state to make base rent payments, and of the agency to make agency rent payments, is not subject to abatement or set-off. As with other state certificate financings, there is no debt service reserve fund.

The state treasurer is obligated to make payments on behalf of the agency, subject to the availability of appropriated funds and also subject to any executive order reduction. The legislature is not legally bound to make appropriations, and any appropriations made are subject to executive order reduction by the governor during the biennium. Should the agency default on its payment obligation to the state, it is possible that this could affect the legislature's willingness to make future biennial appropriations. Mitigating this risk, however, is the active involvement of the state treasurer, the lump sum nature of the agency appropriation, and the overall benefit of state convention center. Agency payments are due one month prior to certificate payment dates of July and January, thereby reducing the risk of non-payment in the event of a late budget. Washington has a history of adopting its budgets on time, if not early.

For additional information on the state of Washington, please see Moody's report dated December 31, 2009.

LAST RATING ACTION AND METHODOLOGY

The last rating action was on December 31, 2009, when Moody's revised the outlook on the State of Washington's debt to negative from stable and assigned a Aa1 rating to the state's Various Purpose General Obligation Bonds, Series 2010E.

The principal methodology used in rating the State of Washington's Certificates of Participation Series 2010A (Washington Convention Center) was Moody's Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations, published in 2004 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Outlook

Washington's rating outlook is negative reflecting the state's vulnerability to further downward revenue revisions given its significant reliance on sales tax income in an environment of continued weak consumer confidence. Economic concentration in some industries that are historically volatile poses longer-term credit risk. However, the state demonstrated impressive financial flexibility through the 2001 recession as it accommodated resulting economic and revenue swings and has shown a willingness to curtail spending during this economic cycle.

Moody's expects that the state's finances will remain well-managed despite its recent sizeable budget shortfalls although uncertainty surrounding the timing and strength of the economic recovery could pose additional budget challenges. Given the substantial use of one-time actions to balance budget gaps thus far, Washington's reserve levels will likely remain slim over the near term. In addition, considerable out year structural gaps will likely be challenging to resolve.

What would change the rating - 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 change the rating - DOWN

*Deeper and longer recession or muted recovery that restrains consumer confidence, leading to prolonged revenue weakness and employment erosion.

*Protracted structural budget imbalance.

*Increased reliance on one-time budget solutions.

*Cash flow narrowing, leading to strained liquidity.

*Failure to adopt plan to cover expenditures once federal fiscal stimulus monies are no longer available

*Failure to appropriate lease payments.

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