MOODY'S
INVESTORS SERVICE

New Issue: **MOODY'S ASSIGNS Aa2 RATING AND STABLE OUTLOOK TO STATE OF WASHINGTON CERTIFICATES OF PARTICIPATION, REFUNDING SERIES 2010C (DEPARTMENT OF ECOLOGY)**

Global Credit Research - 16 Jul 2010

APPROXIMATELY $776M IN SIMILARLY SECURED OBLIGATIONS OUTSTANDING

State
WA

Moody's Rating

ISSUE	RATING
Certificates of Participation, Refunding Series 2010C (Department of Ecology)	Aa2

Sale Amount	$9,800,000
Expected Sale Date	08/03/10
Rating Description	Certificates of Participation

Opinion

NEW YORK, Jul 16, 2010 -- Moody's Investors Service has assigned a rating of Aa2 with a stable outlook to the State of Washington's Certificates of Participation, Refunding Series 2010C (Department of Ecology). The certificates are payable from payments by the state under a financing lease agreement, subject to biennial appropriation by the state legislature. The certificates will be sold on August 3. Proceeds will be used to refund the remaining two maturities (2011 and 2012) of the state's Series 2001 Refunding Certificates of Participation for net present value savings estimated at $253,000. The original 1991 issuance (refunded in 2001) financed construction of a 315,000 square foot office building to house the headquarters of the state's Department of Ecology.

The Aa2 rating reflects the credit standing of the State of Washington (general obligation bonds rated Aa1 with a stable outlook), the limited subject-to-appropriation nature of the state's lease payment obligation, 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.

The state's Aa1 general obligation bond rating incorporates Washington's strong management tools such as its quarterly consensus revenue forecasting process and conservative budgetary controls; absence of liquidity strain; strong demographic trends that will help propel the economic recovery once it takes hold; exposure to the cyclical aerospace industry; above average debt ratios; and frequent voter initiative activity that introduces budget challenges. 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. Last year, the state closed a sizeable combined budget gap of $9 billion as it ended fiscal year 2009 and enacted its 2009-2011 biennial budget. Over the past year, revenues continued to underperform and spending pressures rose, largely due to increased demand for social services. As a result, the state faced another large budget shortfall of approximately $2.8 billion for the 2009-2011 biennium, representing nearly 10% of projected general fund expenditures. In April, a supplemental budget was adopted to close the gap with a combination of new recurring revenues, ongoing expenditure savings, and significant one-time resources.

State credit strengths are:

*Institutionalized conservative budgetary controls.

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

*Strong demographic trends

*Satisfactory overall 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.

STATE LEASE PAYMENTS SUBJECT TO APPROPRIATION

As in other certificate financings on behalf of state agencies, debt service is secured by lease payments that are paid from lump-sum appropriations to the agency (in this case the Department of Ecology). The lease payments are dependent on biennial legislative appropriations to the agency, and may be subject to mid-year executive order reduction by the Governor. However, the non-appropriation and mid-year reduction risk is mitigated by the nature of the lump-sum appropriation and by the lease agreement which requires that the agency use all available appropriated funds for debt service payments. Non-appropriation under the lease would require specific statutory language by the legislature. The state has never failed to appropriate funds for any outstanding lease obligation.

In the event of any failure to appropriate sufficient funds, the financing lease may be terminated. The main remedy available to the trustee and certificate holders in this event would be to potentially re-let the building to one or more replacement tenants for office use. The building and associated property are subject to a ground lease and may not be sold by the trustee. Unlike other state certificate financings, there is a debt service reserve fund associated with this transaction and a parity Series 2003 issue ($25.7 million currently outstanding), in the amount of just under $6.9 million, which was funded from the 1991 certificate proceeds.

For additional credit information on the state of Washington please see Moody's report published July 16, 2010.

Outlook

Washington's rating outlook is stable reflecting Moody's expectation 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. 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.

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

LAST RATING ACTION AND METHODOLOGY

The last rating action was on May 21 2010, when Moody's assigned a Aa2 rating with a stable outlook to the State of Washington's Certificates of Participation, Series 2010B (Pooled State and Local Equipment).

The principal methodology used in rating the State of Washington's Certificates of Participation, Refunding Series 2010C (Department of Ecology) was Moody's Lease Rating Methodology, published in October 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.

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