

MOODY'S

INVESTORS SERVICE

Rating Action: **Moody's assigns Aa2 to \$30M Washington State COPs; outlook stable**

Global Credit Research - 18 Feb 2015

Approximately \$684M COPs outstanding

New York, February 18, 2015 --

Moody's Rating

Issue: Certificates of Participation, Series 2015A (State and Local Agency Real and Personal Property); Rating: Aa2; Sale Amount: \$30,215,000; Expected Sale Date: 3/2/2015; Rating Description: Lease Rental: Appropriation

Opinion

Moody's Investors Service has assigned a Aa2 rating to the State of Washington's Certificates of Participation, Series 2015A (State and Local Agency Real and Personal Property). Following the issuance of these COPs, the state will have approximately \$684 million similarly-secured COPs outstanding, all rated Aa2. The outlook on all of these ratings is stable.

SUMMARY RATINGS RATIONALE

The Aa2 rating on the COPs, one notch below the Aa1 rating on the state's general obligation bonds, reflects the limited subject-to-appropriation nature of the state's 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 payments under a variety of financing programs.

Washington's Aa1 general obligation rating incorporates the state's sound management tools such as its quarterly consensus revenue forecasting process and demonstrated willingness to address budget shortfalls, along with an economy that is improving 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 a sizable budget gap for the 2015-17 biennium driven largely by education spending mandates, exposure to the cyclical aerospace industry, 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.

OUTLOOK

Washington's rating outlook is stable, reflecting economic gains that are boosting revenues, improving reserve position, and budget balancing solutions that are largely recurring. Moody's expects that the state will continue to address any budget gaps that emerge, as it has in the past, and absorb the substantial increase in mandated basic education funding. 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 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

- Slower recovery that restrains consumer confidence, leading to renewed revenue weakness and large budget shortfalls
- Employment erosion

- Protracted structural budget imbalance
- Increased reliance on one-time budget solutions
- Deterioration of the state's cash position

OBLIGOR PROFILE

Washington is the thirteenth largest state by population, at 6.9 million. Its state gross domestic product is fourteenth largest. The state is wealthy, with per capita personal income equal to 107% of the US level and a poverty rate in the bottom third among states.

LEGAL SECURITY

The Series 2015A COPs are secured by and expected to be paid from payments made by participating agencies including: (1) lease payments made by participating local agencies for real property projects financed with the COPS, and (2) installment purchase payments made by participating state and local agencies for the personal property financed with the COPs. The local agencies consist of five cities, four school districts, four fire districts, and one park and recreation district located throughout the state.

Payments made by the state agencies are subject to appropriation by the legislature and executive order reduction by the governor. The state has never failed to make needed appropriations to meet the payment obligations related to its COPs.

Payments made by the local agencies are secured by the full faith and credit of the local agencies, effectively general obligation, limited tax obligations. In the event any local agency fails to make its scheduled payment, the state treasurer is obligated to make the payment on behalf of the local agency using state funds; such payments, if necessary, are subject to appropriation by the legislature and executive order reduction by the governor. The treasurer is further obligated to withhold an amount equal to payment from the local agency's share of state aid, to the extent legally permissible. No local agency has ever failed to make a payment obligation related to state-issued COPs.

USE OF PROCEEDS

Proceeds of the Series 2015A COPs will be used to finance and/or refinance the acquisition and construction of real property projects for participating local agencies and the acquisition of personal property for participating state and local agencies.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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