



Rating Update: MOODY'S REVISES TO NEGATIVE FROM STABLE OUTLOOK ON WASHINGTON STATE SCHOOL BOND GUARANTEE PROGRAM; Aa1 RATING AFFIRMED

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RATING AND OUTLOOK APPLY TO APPROXIMATELY \$8.35 BILLION OUTSTANDING BONDS GUARANTEED BY PROGRAM

WASHINGTON STATE SCHOOL BOND GUARANTEE PROGRAM, WA
State Governments (including Puerto Rico and US Territories)
WA

Opinion

NEW YORK, February 02, 2012 --Moody's Investors Service has revised to negative from stable the outlook on the Aa1 rating of the Washington State School Bond Guarantee Program, reflecting the negative outlook on the state's rating. With the exception of the state's rating outlook, credit factors affecting the school bond guarantee program rating remain unchanged. Under the guarantee program, the state pledges its full faith, credit, and taxing power to guarantee debt service when due on qualified school districts' voter-approved general obligation bonds. Moody's assigns an Aa1 rating to school district bonds that are guaranteed under the state program and assigns underlying ratings to individual bond issues at the request of the issuing district. The Aa1 program rating reflects the pledge of the State of Washington (rated Aa1 with a negative outlook); strong state oversight of local school districts and the program mechanics.

SUMMARY RATINGS RATIONALE

PROGRAM RATING AND OUTLOOK ARE BASED ON STATE CREDIT QUALITY

As the guarantee provided by the program is the State's full faith, credit and taxing power, the rating on the program is directly related to the rating of the State (Aa1 with a negative outlook).

State 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

State 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.

DETAILED CREDIT DISCUSSION

For additional information on the State of Washington, please see Moody's report dated January 30, 2012.

OUTLOOK

The negative outlook on the Washington State School Bond Guarantee Program is directly related to the state of Washington's negative outlook. The outlook 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 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 methodology used in this rating was Moody's State Rating Methodology published in November 2004. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

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