



Moody's Investors Service

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

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Global Credit Research - 04 Jan 2010

**RATING AND OUTLOOK APPLY TO APPROXIMATELY \$7.75 BILLION OUTSTANDING BONDS GUARANTEED BY PROGRAM**

State  
WA

**Opinion**

NEW YORK, Jan 4, 2010 -- 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.

**NEGATIVE OUTLOOK ON STATE'S RATING RESULTS IN NEGATIVE OUTLOOK ON PROGRAM RATING**

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. 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. The state closed a sizeable combined budget gap of \$9 billion as it ended fiscal year 2009 and enacted its 2009-2011 biennial budget. Since then, revenues have continued to under perform and spending pressures have risen, largely due to increased demand for social services. As a result, the state faces another large budget shortfall of approximately \$2.6 billion for the 2009-2011 biennium, representing about 8% of projected general fund revenues. The negative outlook reflects Washington's vulnerability to further downward revenue revisions given the uncertainty surrounding the timing and strength of the economic recovery; likely depletion of the rainy day fund and significantly lower projected ending balances by the end of the biennium; and considerable out year structural gaps due to substantial one-time solutions already incorporated in the enacted budget.

**GROWING PROGRAM PROVIDES FULL FAITH GUARANTEE OF SCHOOL BONDS**

The guarantee program has been very successful, growing dramatically since its inception eight years ago. Authorized through a constitutional amendment approved by Washington's voters, the program allows the state to pledge its full faith, credit, and taxing power to guarantee the voter-approved general obligation bonds of school districts. The Office of the State Treasurer issues certificates of eligibility to participating districts evidencing that the district's bonds will be guaranteed under the program for the life of the issue.

**QUALITY OF PORTFOLIO REMAINS HIGH, AIDED BY STRONG STATE OVERSIGHT OUTSIDE THE PROGRAM**

Reflecting the strong state oversight of all Washington school districts, the portfolio of debt guaranteed by the program remains strong. School districts are not subject to credit review for purposes of participation in the guarantee program, being requested simply to certify that they are fiscally solvent. However, fiscal oversight of school districts in Washington is very thorough, contributing to the credit soundness of the guarantee program.

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