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Summary:
Washington; General Obligation

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Credit Profile		
US$487.95 mil var purp GO bnds ser 2010E due 02/01/2035		
Long Term Rating	AA+/Stable	New
Washington GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating, with a stable outlook, to the State of Washington's series 2010E various-purpose general obligation (GO) bonds. In addition, we affirmed our 'AA+' rating and underlying rating (SPUR) on the state's outstanding GO debt.

The state's credit strengths, in our view, include its:

- Relatively well-educated workforce, with what we consider good income indicators;
- A sales tax-focused revenue structure that is subject to economic cycles but, we believe, not to the degree experienced by states that rely primarily on personal and corporate income taxes;
- Historically good year-end reserve balances, including a constitutional rainy-day account (RDA), which have helped moderate the scale of corrective actions needed to balance its budgets; and
- Strong financial policies and practices.

Somewhat offsetting these strengths, in our view, are a weakening revenue forecast since the adoption of the original budget covering fiscals 2010 and 2011 and what we expect will be more difficult requirements to maintain what we consider adequate available balances.

The state's full faith, credit, and taxing power secure the series 2010E obligations and outstanding GO debt. Motor vehicle and special fuels excise taxes serve as the first pledge of the state's outstanding motor vehicle fuel tax GO bonds, but full faith, credit, and taxing power also secure these obligations.

We understand that proceeds of the series 2010E will fund various capital projects, including state and higher education building construction, water supply development, and conservation of farms and natural landscapes.

The state has experienced weakened employment conditions along with the rest of the country, but its status as one of the most export-driven states (due in part to the prominence of agricultural and aerospace production) may help it recover faster than the nation as a whole if global growth continues to outpace U.S. growth. We have observed a leveling-off in the state's seasonally adjusted employment levels since March 2009, and its preliminary November 2009 monthly unemployment rate, at 9.2%, remained nearly an entire percentage point below the 10% national average. The state's independent economist, who believes that the recession ended for the state in the third quarter of 2009, forecasts that growth will be weak into 2011. We also note that the state economist believes that consumer spending will be a key influence on the speed of economic recovery -- and state revenues -- in the current biennium because households' concerns over employment security appear to be pushing consumer spending below levels that other economic indicators suggest. We view other, typically more stable, economic indicators as favorable for the state, including what we consider good median household effective buying income of 109% of the U.S. level and a relatively highly educated population, with 30.7% of residents aged 25 and above holding a bachelor's or more advanced degree, compared with 27.7% nationwide.

On a generally accepted accounting principles (GAAP) basis, the state has maintained what we consider good available reserves in recent years, but its most recent revenue forecast suggests that it must continue revising its budgets to avoid erosion of its financial position during the fiscal 2010-11 biennium. During the five fiscal years ended 2008, generally a period of economic expansion, the state's unreserved general fund balance on a GAAP basis ranged from 5.3% of expenditures to 6.9%, and most recently stood at 5.3%, or $1.8 billion. However, the state has continuously revised down its revenue forecasts since the passage of the fiscal 2010-11 biennial budget, and the most recent forecast -- in November, falling before the legislative session that opens this month -- spurred the governor to propose reducing expenditures by $1.6 billion, or about 5%, and publicly indicate a desire to identify tax increases to moderate such cuts. These proposed cuts, which would accompany one-time actions such as the use of the state's RDA and transfers from other funds, add to $9 billion in cuts to baseline expenditures during fiscals 2009-2011 (the current biennium and the prior fiscal year) and the full use of remaining federal grants under the American Recovery and Reinvestment Act. By the end of fiscal 2011, the state's financial management office projects that the state would hold $311 million in its general fund, or what we consider to be an adequate approximately 1.43% of annual expenditures, but will have depleted its RDA, which is automatically funded with 1% of general fund revenues but can be tapped under certain circumstances.

Simplifying this round of budget revisions, in our opinion, was voters' rejection of Initiative 1033, a citizen-proposed revision to state law that would have required the state to transfer general fund revenues (excluding federal grants) above the sum of the percentage growth in population and consumer prices to a separate account, and distribute the balance to taxpayers in the subsequent calendar year. We also understand that the legislature could by simple majority suspend voter-approved statutes that create hurdles such as a legislative supermajority and a public vote should it decide to change its revenue structure. We expect that the legislature will adopt budget revisions before the scheduled conclusion of its session in March 2010.

We consider the state's management practices "strong" under our Financial Management Assessment (FMA) methodology. An FMA of "strong" indicates that practices are strong, well embedded, and likely sustainable.

The state's direct tax-supported debt burden (GO and appropriation-backed) is moderate, in our opinion, at $2,426 per capita. However, as a percentage of personal income it remains above average compared with that of other states, at 5.9%. The pro forma 2010 GO debt service carrying charge represents what we view as a low 4.6% of fiscal 2008 governmental expenditures. Management expects the state to issue an aggregate of $2.6 billion in GO debt in April-June 2010 and an additional $60 million in appropriation obligations by June 2010. Including these issuances, we expect total per capita debt to increase to what we consider a still-moderate approximately $2,800 per capita. As opposed to states that depend on income tax revenues for operations, the state has not needed to borrow for cash flow needs since 1983, and currently maintains $3 billion of available cash, or what we consider a very strong roughly 20% of annual general fund expenditures.

Outlook

The stable outlook reflects what we view as strong financial management and continuing evidence that the state is willing to make timely and proactive budget amendments as needed to maintain budgetary balance. We believe that automatic RDA set-asides and federal grants have absorbed much of the revenue effects of the recession and what appears to be subsequent weak growth. Moreover, the governor's latest proposal appears to allow the state to maintain what we consider to be adequate reserves at the end of the biennium. But we also believe that successive rounds of expenditure reductions and the current economic climate make further spending cuts or tax increases more difficult, and that credit quality could come under pressure if the state is unable to adjust its budget in response to revenue recovery that is weaker than currently forecast.

Related Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Ratings Detail (As Of January 7, 2010)		
Washington bnds dtd 08/01/1985 due 09/01/2010		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington motor veh fuel tax GO bnds ser 2008D		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax go bnds ser 2004C dtd 08/06/2003 due 06/01/2009-2030		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington mtr veh fuel tax GO bnds (Build America Bnds) ser 2010D		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp GO bnds ser 2008C		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp GO bnds ser 2009A		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds ser 2009E		
Long Term Rating	AA+/Stable	Affirmed
Washington GO bnds (Motor Vehicle Fuel Tax) ser 2009B		
Long Term Rating	AA+/Stable	Affirmed
Washington GO bnds (Taxable) ser 2009T		
Long Term Rating	AA+/Stable	Affirmed
Washington GO (wrap of insured) (AMBAC) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of January 7, 2010) **(cont.)**		
Washington WASHINGTON ST MTR VEH FUEL TAX OFFER #3 DTD 2-1-83		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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