STANDARD & POOR'S

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May 20, 2010

Summary:

Washington; General Obligation

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Credit Profile		
US$1,103.93 mil Motor Vehicle Fuel Tax GO bnds (Taxable BABs) ser 2010F due 02/01/2041		
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 2010F motor vehicle fuel tax general obligation (GO) bonds, issued as Build America Bonds (BABs). In addition, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the state's outstanding GO debt.

The ratings reflect our view of the state's:

- Relatively well-educated workforce, with what we consider good income indicators;
- Sales-tax-focused revenue structure that is subject to economic cycles but not, we believe, 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, have been successive downward revisions in projected revenues for the current biennium, which, despite budget actions, has thinned the forecast available balances at the end of fiscal 2011.

The state's motor vehicle and special fuels excise taxes first secure the series 2010F GO bonds, but the state's full faith, credit, and taxing powers also secure the bonds. We understand that the state intends to designate the series 2010F bonds as BABs under the American Recovery and Reinvestment Act (ARRA), which will qualify the state to receive a subsidy of 35% of interest from the U.S. government. The state has covenanted to make full principal and interest payments regardless of the timing of the receipt of the subsidy.

We understand that proceeds of the series 2010F will fund transportation improvements including initial costs related to major multiyear projects in the Seattle area: the replacement of the State Route 520 bridge and the Alaskan Way Viaduct.

A participant in job losses during the most recent downturn, the state's economy is showing signs of stabilization in our view. Seasonally adjusted monthly employment totals have turned positive in two of the first three months of 2010, and two of the state's most prominent employers, Boeing and Microsoft, are experiencing strong demand for their products. The state's independent economist, Arun Raha, notes that the agriculture and aerospace industries contribute to above-average exposure to export markets and believes that the state's economy is likely to recover faster than the nation as a whole if global growth continues to outpace U.S. growth. Nevertheless, he forecasts weak growth into 2011, with a recent increase in manufacturing activity contrasting with continued weakness in homebuilding. We also note that the state economist believes that consumer spending decisions will be a key influence on the speed of economic recovery -- and state revenues -- in the current biennium because the statewide personal income trend has started to pull ahead of state revenue collections, which primarily consist of sales taxes and gross receipt taxes on businesses. 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.

In our view, recent economic trends have created budgeting challenges, because of the size of the associated revenue effects and because of the need to respond to progressive downward revisions to forecast revenues, but the state has shown a willingness to adjust its budgets in response. At the outset of the biennial budget cycle in spring 2009, the state tackled a forecast budget gap of about 33% of biennial expenditures for the fiscal year ending June 30, 2011, with a combination of budget cuts and tax increases. Subsequent revisions to economic assumptions reopened the forecast gap to $2.8 billion, or what we consider to be a still-significant approximately 9% of biennial expenditures, and on May 4, 2011, Governor Chris Gregoire signed a supplemental budget with some modifications through a line-item veto. Components of the changes included $757 million in additional revenues due to tax changes; $747 million in cuts, primarily in education and human services; $618 million in federal funding assumptions (most of which consists of a proposed, but not passed, federal extension of special Medicaid assistance to states); and the balance in transfers from other funds.

Following the budget revisions, the governor's office forecasts a fiscal 2011 ending general fund balance of $453 million, or what we consider to be adequate at about 2% of annual expenditures. We understand that state also will have fully used federal grants under the ARRA and will have depleted its RDA, which is automatically funded under the state constitution with 1% of general fund revenues but which can be tapped under certain circumstances. We note that the February 2010 biennial revenue forecast revision was the first that was favorable relative to its quarterly predecessor, and that the forecast covering the biennium ending in fiscal 2013 incorporate an expectation of a 12% increase as the state benefits from a national economic recovery and its exposure to international trade. Also potentially affecting state revenues in the coming years is a political campaign to institute through public vote a personal income tax on high-income earners and a lowering of the state share of property taxes that we understand, put together, would net $1 billion per year for education and health care spending.

We consider the state's management practices "strong" under our Financial Management Assessment (FMA) methodology. An FMA of "strong" indicates our view 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 $2,614 per capita. However, as a percentage of personal income it remains above average compared with that of other states, at 6.4%. Pro forma carrying charges, net of the BABs interest subsidy, translate into what we view as a low 4.3% of fiscal 2009 governmental expenditures. Including another $1.5 billion in GO and appropriation debt that the state plans to issue by June 2011, we expect total per capita debt to increase to what we consider a still-moderate approximately $2,800 per capita, and we believe that the State Route 520 bridge and Alaskan Way Viaduct projects could require additional borrowing in the coming years. 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 on

March 31, 2010, held $2.05 billion of available cash, or roughly 9% 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 it deems necessary to maintain budgetary balance. We believe that automatic reserve set-asides and federal grants have absorbed much of the revenue effects of the recession and that recent budget actions will allow the state to maintain what we consider to be an adequate financial position through 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 Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of May 20, 2010)		
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 GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington GO bnds		
Unenhanced Rating	AA+(SPUR)/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 Mtr Veh Fuel Tx		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (wrap of insured) (AMBAC) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of May 20, 2010) **(cont.)**		
Washington GO (wrap of insured) (FGIC & AGM) (SEC MKT)		
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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