STANDARD & POOR'S

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September 13, 2010

Summary:
Washington; General Obligation

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Credit Profile		
US$323.265 mil motor veh fuel tax GO rfdg bnds ser R-2011C due 07/01/2027		
Long Term Rating	AA+/Stable	New
US$311.245 mil Various purp GO rfdg bnds ser R-2011B due 07/01/2027		
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 R-2011B various-purpose general obligation (GO) refunding bonds and R-2011C motor vehicle fuel tax GO refunding bonds. 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 and good income indicators;
- Sales-tax-focused revenue structure that exhibits sensitivity to economic cycles but to a lesser degree than states relying primarily on personal and corporate income taxes;
- Historically good year-end reserve balances, including a constitutional budget stabilization account, that have helped moderate the scale of corrective actions needed to balance the state's operations;
- Strong financial policies and practices; and
- Moderate per capita debt burden and well-funded pension plans in aggregate, although challenges remain in two underfunded plans.

The state's full faith, credit, and taxing powers secure both series, and the series R-2011C is first payable from state excise taxes on motor vehicle and special fuels.

We understand that, subject to market conditions that enable interest savings, the state intends to use the proceeds of the series R-2011B to refund all or portions of GO series 2002A, 2002B, 2003A, 2003D, 2004A, and 2004D and use the proceeds of series R-2011C to refund all or portions of motor vehicle fuel tax GO series 2002C, 2003, R-2003B, 2003E, and 2004B.

We believe that the state is continuing to experience tepid economic growth, with employment growth in five of the seven months through July 2011. Although we believe that hiring for the decennial U.S. census may have helped, we also note that the unemployment rate that has edged downward to a preliminary seasonally adjusted 8.9% from a peak of 9.5% in March 2010 and that the state's two leading employers, Boeing and Microsoft, continue to experience strong demand for their products. We consider the state's median household effective buying income to be good at 109% of the U.S. level and believe that, in the long term, an above-average proportion of residents with a bachelor's degree positions the state well to generate continuing personal income growth. The state economist, Arun

Raha, has stated that construction activity continues to show weakness, but maintains that the state's exposure to Asian markets could help the state to recover at a faster rate than the nation as a whole.

The state's budgets have come under continuing pressure during the current economic trough, reflecting what we understand has been largely economy-driven weakness in the state's two largest general fund revenue streams: retail sales taxes (about 47% of general fund revenues) and business gross receipts taxes (19%). Despite the moderating effects of grants under the American Recovery and Reinvestment Act and its ability to use a budget stabilization account, the state needed to tackle a forecast 21%-of-biennial-expenditures budgetary gap at the outset of the biennium that runs through fiscal 2011 and a 9% gap as part of the spring 2010 legislative session. Budget actions in the current biennium have focused on expenditure reductions but also on tax increases and other revenue changes.

We believe that recent revenue performance that has fallen short of the state's June 2010 revenue forecast could trigger across-the-board expenditure reductions before the next regular legislative session, scheduled for January 2011. However, what we considered to be the most significant uncertainty regarding fiscal 2011 revenues, a proposed-but-not-passed federal extension of Medicaid assistance, has been resolved. Although the grant, at $338 million, fell short of the $480 million that the state had incorporated into its budget assumptions, the lower grant level approved by Congress and signed by President Obama flowing to the state would not, by itself, exhaust the state's projected $253 million (about 1.7% of annual expenditures) combined available balances at the end of fiscal 2011. Based on statements by Governor Chris Gregoire, we expect the executive branch to impose across-the-board expenditure cuts by October 2010, with the size subject to the state's Economic and Revenue Forecast Council revenue forecast scheduled for release on Sept. 16, 2010. The governor has stated that she has asked agencies to prepare for 4%-7% annualized cuts for fiscal 2011 in anticipation of a lower revenue forecast and another 10% for the biennium covering fiscals 2012-2013. Management has stated that the governor has not publicly signaled a targeted minimum reserve level, but expects spending changes that will allow the state to maintain adequate liquidity levels. (We understand the state has not engaged in cash flow borrowing since 1983.) Other potential influences on financial performance in fiscal 2011 and the next biennium include citizen initiatives for the November 2010 ballot that we understand would, separately, rescind a portion of the tax changes adopted in April 2010 (estimated by the state at $55 million for fiscal 2011), impose a two-thirds majority threshold for the legislature to raise taxes and fees, and create a net increase in tax revenues that would be designated for education and health care spending (estimated at $2.3 billion in calendar 2013).

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. These include, among other elements, quarterly revenue forecast updates and monthly economic and revenue performance monitoring.

As of June 30, 2008, the actuarial accrued liability (AAL) of the defined-benefit portion of the state's 13 pension plans totaled $57.9 billion, and actuarial assets in aggregate totaled 94% of this liability. However, we note that funds from one plan cannot make up for shortfalls in another and that the state's Public Employees Retirement System (PERS) Plan 1 and Teachers Retirement System (TRS) Plan 1 together represented 43% of the state's AAL and were funded at what we consider to be low 71% and 77% ratios, respectively. The state's other postretirement employee benefit liability consists primarily of an explicit subsidy of Medicare Parts A and B payments and totaled $4 billion as of the latest valuation, on Jan. 1, 2008. The non-actuarial cost for retiree benefits was $86 million in fiscal 2009, as compared with the $332 million actuarially required payment (about 2% of expenditures) needed to

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amortize the liability as of the latest valuation.

The state's direct tax-supported debt burden (GO and appropriation-backed) is moderate, in our opinion, at $2,422 per capita. However, as a percentage of personal income it is above average relative to other states, at 6%. Pre-refunding carrying charges translate into what we view as a low 4.1% of fiscal 2009 governmentwide, non-capital expenditures. We expect that continuing transportation needs, including two major urban highway projects, will likely translate into continuing GO issuance in the medium term.

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 the governor's proposed budget actions will likely allow the state to maintain what we consider to be an adequate budgetary balance and liquidity position through the end of the biennium. An improved credit profile could result if, over the next two years, we believe that the state has substantially and sustainably improved its financial position. 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 over the upcoming two-year period if the state is unable to adjust its budget in response to what could be a weaker revenues through the next biennium.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of September 13, 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

Ratings Detail (As Of September 13, 2010) **(cont.)**		
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
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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