STANDARD & POOR'S

RatingsDirect®

July 8, 2009

Summary:

Washington State; Appropriations; General Obligation; Liquidity Facility

Primary Credit Analyst:
Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

Secondary Credit Analyst:
Gabriel Petek, CFA, San Francisco (1) 415-371-5042; gabriel_petek@standardandpoors.com

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Credit Profile		
US$401.41 mil motor vehicle fuel tax GO bnds ser 2010B dtd 07/28/2009 due 08/01/2034		
Long Term Rating	AA+/Stable	New
US$298.8 mil var purp GO rfdg bnds ser 2010A dtd 07/28/2009 due 08/01/2034		
Long Term Rating	AA+/Stable	New
US$64.905 mil taxable GO bnds ser 2010T dtd 07/28/2009 due 08/01/2016		
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, and stable outlook, to the state of Washington's series 2010A various-purpose general obligation (GO) refunding bonds, its 2010B motor vehicle fuel tax (MVFT) GO bonds, and its 2010T taxable GO bonds.

At the same time, Standard & Poor's affirmed its 'AA+' long-term and underlying ratings (SPUR) on the state's various-purpose and motor vehicle fuel tax (MVFT) GO bonds outstanding and its 'AA' rating on the certificates of participation (COPs), which are secured by state appropriations.

The state's full faith and credit secure both the various-purpose and MVFT GO bonds, although motor vehicle and special fuels excise taxes first secure the MVFT GO bonds. State appropriations secure the state's COPs. Series 2010A bond proceeds will primarily be used to fund various state building, transportation, public school, and water supply development projects. Series 2010B proceeds will be used to reimburse the state for transportation projects and series 2010T proceeds will be used to fund certain taxable projects.

The ratings reflect our view of Washington's:

- Sustained period of historical employment and population growth in the past several years, although recent trends have weakened;
- Relatively well-educated workforce, with what we consider good income indicators; and
- Historically good ending reserve balances, including a constitutional rainy-day account (RDA), which have helped mitigate a biennial budget gap stemming from further reduced revenue forecasts.

Also factored into the ratings are the state's somewhat concentrated, although gradually diversifying, economic and job bases in industries that we view as cyclical, such as real estate, aerospace, and high technology.

In June 2009, the state economic and revenue forecast council revised its official revenue forecast, which incorporated an additional $485 million decline in total revenue for 2009 through 2011 since the March 2009 forecast. Additional declines continue due to job losses and weak consumer spending; the forecast assumes continued economic recession in Washington State through mid-2010. The weakness in the housing sector and auto sales have infiltrated the nonresidential construction, manufacturing, aerospace, software publishing, and retail sectors. According to the June 2009 forecast, revenue collections for the current biennium are $166 million below target, excluding large property tax pre-payments in May. However, the forecast also indicates that easing credit conditions and some signs of stabilizing in housing starts and car sales might signal a slowing of job losses in the state.

In fiscal 2009, the legislature passed a budget adjustment of $580 million that included state agency expenditure reductions and $300 million of federal money. On April 25, 2009, the legislature passed a second fiscal 2009 supplemental budget that allowed for the use of about $1 billion in federal stimulus funding, including $362 million for education and $495 million for Medicare. Incorporating the economic and revenue council June forecast, assuming no additional budget adjustments or revenue declines, Washington officials estimate a $218 million and $54 million in ending reserve balance in the RDA account and general fund at the end of fiscal 2009 and the end of the 2009-2011 biennium, respectively. In response to the lower revenue estimates, the governor has directed state agencies to control spending for the new 2009-2011 biennium that began July 1, 2009.

Washington's management practices are considered "strong" under Standard & Poor's 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 $2,370 per capita. However, debt as a percent of personal income remains above average in our view at 5.8% when compared with that of other states. The total annual debt service carrying charge represents what we see as a low 3.9% of total governmental expenditures in fiscal 2008. The rate of total debt amortization is what we consider average, with 46% of total principal retired within 10 years and 87% retired within 20 years. A minimal $147 million, or about 1% of principal outstanding, was issued in a weekly variable-rate mode; there have been no failed remarketings on these bonds. State officials expect to issue another $1.5 billion of various-purpose GO and MVFT GO bonds through June 2010 and $180 million of authorized COPs. Including debt issuance expected through the middle of 2010, we expect total per capita debt to increase to what we consider a still moderate $2,600 per capita.

Of the state's total GO bonds outstanding, we understand about $4.2 billion is first secured by excise taxes levied on MVFT. As of July 1, 2008, gas taxes are levied at 37.5 cents per gallon. State officials estimate $1.17 billion annual MVFT revenue in fiscal 2009 covers 3.2x maximum annual debt service of all Washington's GO debt also backed by MVFT revenue. Based on state estimates, MVFT revenue remained flat in fiscal 2009 after increasing 10% and 6% in fiscal 2007 and fiscal 2008, respectively, due to sustained high gas prices in fiscal 2008 and lower personal income and fewer vehicles purchased in fiscal 2009.

Outlook

The stable outlook reflects what we view as Washington's strong financial management and our expectation that it will continue to make timely and proactive budget amendments as needed to maintain budgetary balance. The RDA, and the mechanisms by which it is funded, helped to mitigate Washington's slumping economic and revenue performance this year, which will remain a challenge for the state in the upcoming biennium. Nevertheless, in Standard & Poor's view, if future economic recovery is slower than projected, a significant dependence on nonrecurring resources to balance the biennial budget will make it more difficult for the state to return to structural budgetary balance, which could pressure the rating.

2009-2011 Biennium Budget

On May 19, 2009, the governor signed the 2009-2011 biennium general fund budget totaling $31.4 billion in expenditures, or 3.7% less than the estimated expenditures for the current biennium. The budget reduced spending by $4.4 billion, used almost $600 million in transfers from other funds including $400 million from the RDA, used $777 million of funds historically used for capital (such as lottery revenue for school construction funds and the public works assistance account for local government infrastructure projects), and used $3 billion in federal stimulus funds toward operations to cover a $9 billion projected cumulative gap between now and the end of the next biennium. About $1 billion of federal stimulus funds was used to bridge the gap for the remainder of fiscal 2009. The budget also incorporates an ending balance of $572 million in the unrestricted general fund reserve and replenishes $250 million in the RDA at fiscal year-end 2011. Proposed spending cuts include: almost $1 billion in savings to education from suspending salary increases and reducing allocations for smaller class sizes, $557 million in savings in higher education appropriations, and $450 million of savings from reductions to health and human services. State spending reductions in these programs are partially offset by federal fiscal stabilization and economic stimulus funds. The legislature did not pass proposed initiatives that would have increased sales or income tax rates.

The state's revenue flexibility is somewhat limited since income taxes are constitutionally prohibited and the state requires a two-thirds legislative majority or an affirmative public vote to raise taxes or fees after the passage of Initiative 960 in November 2007. Furthermore, expenditure flexibility is somewhat limited as approximately 60% of the budget is spent on nondiscretionary services such as basic education, Medicaid, and corrections that have experienced increasing caseloads.

The legislature also approved a $7.7 billion transportation budget for the 2009-2011 biennium, including $4.4 billion of transportation capital projects. Upcoming large anticipated capital projects for Washington include a deep-bore tunnel, estimated to cost more than $4 billion, to replace the aging Alaskan Way Viaduct; the 2009 legislature approved up to $2.4 billion of state funding, as well as up to $400 million in toll revenue toward the project. The legislature also authorized variable tolling on the SR 520 bridge and $1.95 billion of GO bonds in the next seven years to contribute to funding for the estimated $4.65 billion project.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

Ratings Detail (As Of July 8, 2009)		
Washington adj rate GO bnds ser VR-96A&B due 06/01/2020		
Long Term Rating	AA+/Stable	Affirmed
Washington bnds dtd 08/01/1985 due 09/01/2010		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington certs of part (Washington St Dept of Gen Admin Tacoma Co-Location Proj) dtd 12/01/1996		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of July 8, 2009) (cont.)		
Washington cert of part ser 1999		
Long Term Rating	AA/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 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 & FSA) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington WASHINGTON ST MTR VEH FUEL TAX OFFER #3 DTD 2-1-83		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington (St Office Bldg Proj - Dept of Ecology) ser 91 A 99		
Long Term Rating	AA/Stable	Affirmed
Washington certs of part rfdg (Dept of Ecology St Office Bldg Proj) ser RE-2003-B		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Washington certs of part ser 1999		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Washington Dept of Ecology rfdg certs part (State Office Bldg Proj) ser 2001		
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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