STANDARD & POOR'S

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October 7, 2009

Summary:

Washington; Appropriations; General Obligation; Liquidity Facility

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Credit Profile		
US$504.185 mil Motor Vehicle Fuel Tax GO bnds (Build America Bnds) ser 2010D due 08/01/2040		
Long Term Rating	AA+/Stable	New
US$416.225 mil var purp GO rfdg bnds ser R-2010B due 01/01/2026		
Long Term Rating	AA+/Stable	New
US$229.97 mil var purp GO bnds ser 2010C due 08/01/2034		
Long Term Rating	AA+/Stable	New
US$226.895 mil Motor Vehicle Fuel Tax GO rfdg bnds ser R-2010C due 01/01/2026		
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 2010C various-purpose general obligation (GO) bonds, R-2010B various-purpose GO refunding bonds, R-2010C motor vehicle fuel tax (MVFT) GO refunding bonds, and 2010D MVFT GO bonds. In addition, Standard & Poor's affirmed its 'AA+' rating and underlying rating (SPUR) on the state's outstanding GO debt and its 'AA' rating and SPUR on the state's outstanding certificates of participation (COP).

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

- Relatively well-educated workforce, with what we consider good income indicators;
- 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 downward revisions in forecast revenues for the current biennium related to the low end of the economic cycle, with the current forecast suggesting the need for supplemental budget revisions to maintain what we consider adequate available balances.

The state's full faith and credit secure both the various-purpose and MVFT GO bonds, but motor vehicle and special fuels excise taxes first secure the MVFT GO bonds. State appropriations secure the COPs. The state intends to qualify the 2010D MVFT GO bonds as Build America Bonds; as such, it intends to use the 35% interest credit from the federal government to pay debt service, but debt service payments are not directly dependent on the timely receipt of such payments.

We understand that proceeds of the series 2010C various-purpose GO bonds will fund various capital projects, that the various-purpose R-2010B and MVFT R-2010D GO bonds will allow the state to achieve interest rate savings, and that the 2010D MVFT GO bonds will fund transportation capital projects.

Washington has experienced weakened employment conditions along with the rest of the country, but by virtue of being one of the most export-driven states (due in part to the prominence of agricultural and aerospace production), it may be poised to recover faster than the nation as a whole if global growth continues to outpace U.S. growth. During the 12 months ended Aug. 30, the state's seasonally adjusted monthly unemployment rate rose to a preliminary 9.2% from 5.4%, although we note that the rate -- and employment losses -- appear to have leveled out since March 2009. The state's economist, who has noted a moderating of negative trends in many indicators, forecasts a return to employment growth in the first quarter of 2010, but estimates that such growth will not be sufficient to reduce the unemployment rate to less than 9% until the first quarter of 2012 at the earliest. 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 biennium covering fiscals 2010 and 2011. 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 5.3%, or $1.8 billion. However, the current revenue forecast, released in September, suggests that the state must make further budgetary adjustments to maintain positive reserves on a budgetary basis, even after $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. Since the state adopted the budget, it has forecast that lower revenues, which primarily come from taxes on sales and business gross receipts, would cause its general fund balance, inclusive of automatic set-asides in its RDA, to fall to negative $184.9 million (negative 1.2% of annual expenditures) at the end of fiscal 2011 on a budgetary basis from an estimated $210.9 million (what we consider an adequate 1.4% of annual expenditures) at the end of fiscal 2009. Gov. Chris Gregoire's office responded to continuing revenue pressure in June 2009 with a directive to cut employee spending by 2%, curtail equipment purchases, and eliminate most out-of-state travel. And in response to the September forecast, the governor announced that she would propose cuts sufficient to reduce or eliminate draws on the RDA or the general fund as a whole prior to the January 2010 opening of the next legislative session. However, management indicates that Gregoire has not yet signaled a specific target.

In our opinion, Initiative 1033, a citizen-proposed revision to state law, could also have a material effect on the state's budgetary framework should it be approved by voters in November 2009. We understand that the proposed law, if passed, would require the state starting in calendar 2010 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 consider Washington'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 $2,415 per capita. However, as a percentage of personal income it remains above average compared with that of other states, at 5.8%. The pro forma 2010 debt service carrying charge represents what we view as a low 4.3% of fiscal 2008 governmental expenditures. The rate of total debt amortization is what we consider average, with 46% of total principal retiring within 10 years and 86% within 20 years. Management expects the state to issue an aggregate of $1.6 billion in GO debt in the January-July 2010 period and a total of $55 million in appropriation obligations by February 2010. Including these issuances, we expect total per capita debt to increase to what we consider a still-moderate approximately $2,700 per capita. As opposed to states that depend on income tax revenues for operations, Washington historically has not needed to borrow for cash flow needs, and it projects that it will maintain about $3 billion of available cash on a monthly basis, or what we consider a very strong roughly 20% of annual general fund expenditures, through the end of fiscal 2010.

Outlook

The outlook reflects what we view as strong financial management and our expectation that the state will continue to make timely and proactive budget amendments as needed to maintain budgetary balance. The RDA, and the mechanisms that fund it, helped to mitigate the budgetary effects of the state's slumping economic and revenue performance. But with projections showing exhausted reserves, we believe credit quality could come under pressure if the state is unable to adjust its budget in response to a slower-than-expected economic recovery or curbs on revenues under Initiative 1033 (if it is approved by voters).

Related Research

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

USPF Criteria: "Appropriation-Backed Obligations," June 13, 2007

Ratings Detail (As Of October 7, 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
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

Ratings Detail (As Of October 7, 2009) **(cont.)**		
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
Aberdeen, Washington		
Washington		
Aberdeen (Washington) spl rfdg rev bnds (Stafford Creek Corrections Ctr) ser 2009		
Long Term Rating	AA/Stable	Affirmed
Aberdeen spec rev bnds (Stafford Creek Corrections Ctr Proj) ser 1998 dtd 11/01/1998 due 11/01/1999-2015 2018		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
FYI Properties, Washington		
Washington		
FYI Properties (Washington) Lease rev bnds (State Of Washington Dis Proj) ser 2009		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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