

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Washington State COPs, Ser. 2019A; outlook stable

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New York, January 11, 2019 -- Moody's Investors Service has assigned a Aa2 rating to the State of Washington's \$53.8 million Certificates of Participation Series 2019A (State and Local Agency Real and Personal Property). Following the issuance of the Series 2019A COPs, the state will have approximately \$913.4 million similarly-secured COPs outstanding, all rated Aa2. The outlook on these ratings is stable.

RATINGS RATIONALE

The Aa2 rating on the COPs, one notch below the Aa1 rating on the state's general obligation bonds, reflects the essential nature of the property being financed, the moderate legal structure and limited subject-to appropriation nature of the state's payment obligations, active administration of the financing program by the state treasurer's office, and the state's established track record of making appropriation-backed payments under a variety of financing programs.

Washington's Aa1 general obligation rating incorporates the state's sound management practices such as its quarterly consensus revenue forecasting process, multi-year revenue and expenditure projections, timely budget adoption, and demonstrated willingness to address budget shortfalls. The rating also reflects an economy that is growing and has out-performed the nation. Revenue trends are positive, supported by employment gains and improvement in the state's housing market, and available reserves have increased. These strengths are tempered by exposure to the cyclical aerospace industry and other export markets, and above-average debt ratios. Frequent voter initiative activity adds budget challenges although the state legislature has a history of responding effectively to maintain budget balance.

RATING OUTLOOK

Washington's rating outlook is stable, reflecting economic gains that are boosting revenues, a strong reserve position, and budget balancing solutions that are largely recurring. We expect that the state will continue to address any budget gaps that emerge, as it has in the past. Economic concentration in some industries that are historically volatile poses a longer-term credit challenge.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Improved industry diversification
- Reduction of debt ratios to levels closer to Moody's 50-state medians

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Economic or employment weakening
- Protracted structural budget imbalance and/or increased reliance on one-time budget solutions
- Deterioration of the state's cash position

LEGAL SECURITY

The Series 2019A COPs are secured by and expected to be paid from payments made by participating agencies including: (1) lease payments made by participating state agencies for real property projects, and (2) installment purchase payments made by participating state and local agencies for personal property.

Payments made by the state agencies are subject to appropriation by the legislature and executive order reduction by the governor. The state has never failed to make needed appropriations to meet the payment obligations related to its COPs.

Payments made by the local agencies are secured by the full faith and credit of the local agencies, effectively

general obligation, limited tax obligations. In the event any local agency fails to make its scheduled payment, the state treasurer is obligated to make the payment on behalf of the local agency using state funds; such state payments, if necessary, are subject to appropriation by the legislature and executive order reduction by the governor. The treasurer is further obligated to withhold an amount equal to the payment advance from the local agency's share of state aid, to the extent legally permissible. No local agency has ever failed to make a

payment obligation related to state-issued COPs.

USE OF PROCEEDS

Proceeds of the Series 2019A COPs will be used to finance and/or refinance the cost of acquisition and construction of real and personal property for various state and local agencies.

PROFILE

Washington is the thirteenth largest state by population, at 7.4 million. Its state gross domestic product is fourteenth largest. The population is relatively wealthy, with per capita personal income equal to 110.8% of the US level and a poverty rate in the bottom third among states.

METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Kenneth Kurtz
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
One Front Street
Suite 1900
San Francisco 94111
US

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Timothy Blake
MANAGING DIRECTOR
Municipal Supported Products

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



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