MOODY'S
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CREDIT OPINION
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New Issue

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Washington (State of)

New Issue - Moody's assigns Aa2 to $25M Washington State COPs Series 2017B; outlook stable

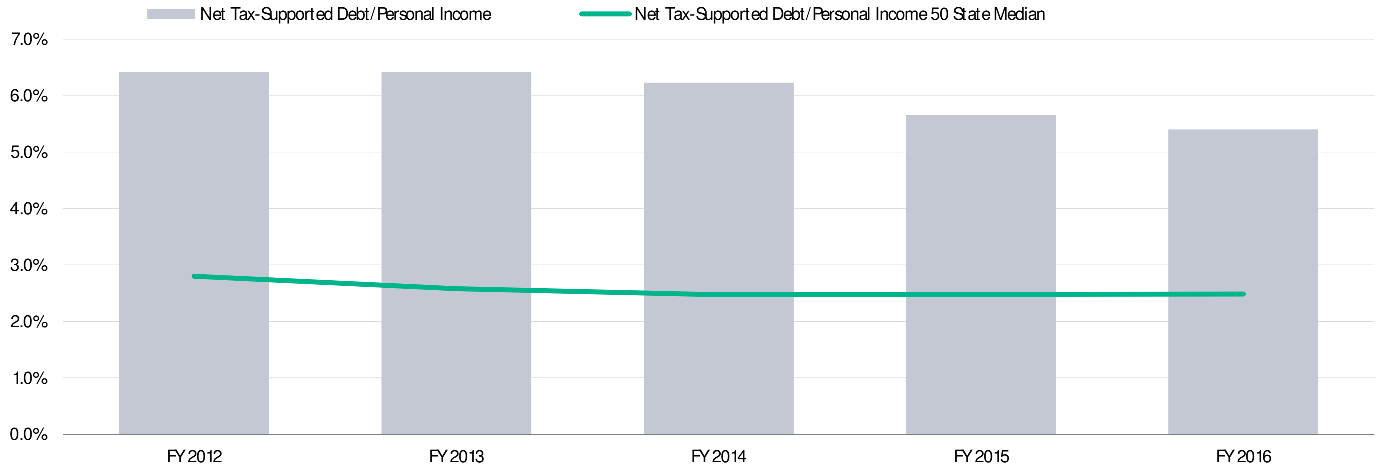
Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the State of Washington's Certificates of Participation, Series 2017B (State and Local Agency Personal Property), expected to be issued in the amount of $24.8 million. Following the issuance of the Series 2017B COPs, the state will have approximately $773 million similarly secured COPs outstanding, all rated Aa2.

The Aa2 rating on the COPs, one notch below the Aa1 rating on the state's general obligation bonds, reflects the 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 expected to out-perform the nation over the long term. 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.

Exhibit 1
Washington's Debt Levels Have Declined, but Exceed 50-State Medians



Source: Moody's Investors Service State Debt Medians Reports.

Credit Strengths

» Sound institutionalized governance practices

» Strong economic and demographic trends

» Strong financial reserves and overall liquidity levels

» Healthy pension funding levels and modest retiree health insurance liability

» Recent actions which are expected to address court-mandated increases in K-12 education funding

Credit Challenges

» Exposure to cyclical commercial aerospace industry and export market

» Above-average debt ratios

» Voter initiative activity adding element of fiscal uncertainty

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, and, over time, absorb the substantial increase in mandated basic education funding. Economic concentration in some industries that are historically volatile poses longer-term credit risk.

Factors that Could Lead to an Upgrade

» Economic expansion and improved industry diversification

» Reduction of debt ratios to levels closer to Moody's 50-state medians

Factors that Could Lead to a Downgrade

» Employment erosion

» Protracted structural budget imbalance and/or increased reliance on one-time budget solutions

» Deterioration of the state's cash position

Key Indicators

Exhibit 2

Washington	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Operating Fund Revenues (000s)	16,099,012	17,067,211	17,765,292	18,789,958	20,258,824
Balances as % of Operating Fund Revenues	0.8%	2.4%	4.2%	7.9%	9.4%
Net Tax-Supported Debt (000s)	19,425,533	20,386,128	20,422,165	19,800,626	19,804,130
Net Tax-Supported Debt/Personal Income	6.4%	6.4%	6.2%	5.7%	5.4%
Net Tax-Supported Debt/Personal Income 50 State Median	2.8%	2.6%	2.5%	2.5%	2.5%
Debt/Own-Source Governmental Funds Revenue	85.7%	83.3%	79.9%	73.9%	69.7%
Debt/Own-Source Governmental Funds Revenue Median	37.4%	36.1%	35.8%	34.4%	32.7%
ANPL/Own-Source Govt Funds Revenue	45.0%	77.1%	102.9%	98.0%	N/A
ANPL/Own-Source Govt Funds Revenue Median	92.6%	87.6%	81.5%	83.1%	N/A
Total Non-Farm Employment Change (CY)	1.6%	2.2%	2.5%	2.9%	3.1%
Per Capita Income as a % of US (CY)	106.9%	107.5%	108.5%	107.8%	107.9%

Sources: State audited financial statements with Moody's Investors Service adjustments; Moody's investors Service State Debt and Pension Medians Reports; US Bureau of Labor Statistics; US Bureau of Economic Analysis.

Recent Developments

Recent developments are incorporated into the Detailed Rating Considerations.

Detailed Rating Considerations

Economy

Washington State benefits from a high-value-added, but often cyclical, commercial aircraft industry; a fast-growing information technology industry; and above average per capita income and household wealth. Significant agriculture and timber sectors are vulnerable to volatile commodity prices and, along with the aircraft industry, export demand. In the first quarter of 2017 total exports declined by 5.2% compared to the same period in 2016, with transportation equipment exports, primarily aircraft manufactured by The Boeing Company (A2 stable), engines and parts, declining by 30.3% and all other exports increasing by 8.2%.

While the unemployment rate in the area around the City of Seattle (Aaa stable) is generally below the US rate, the unemployment rate for the state as a whole has been tracking slightly above the US rate since 2014. In May, the state's unemployment rate was 4.5%, compared to 5.6% for the state one year earlier and 4.3% for the US as a whole. The Seattle area unemployment rate in May was 3.3%. The state's economic forecasts expect continued although slightly slower economic growth, with increasing employment in most sectors.

Finances and Liquidity

Driven by economic growth, state revenues have grown steadily since the recession. On a GAAP basis, the state's non-federal operating fund revenues grew at a compound annual rate of 5.6% from fiscal 2010 through 2016. In fiscal 2016 the increase was 7.8%. In its most recent forecast, released in June, the state estimated that budget-basis General Fund revenues for the 2015-17 biennium were $38.3 billion, a slight increase over the March forecast and an increase of 13.8% from the 2013-15 biennium. The state projected in June that General Fund revenues would increase by 6.8% to $40.9 billion for the 2017-19 biennium, prior to accounting for the effect of revenue actions included in the recently-enacted budget for the 2017-19 biennium.

Due to rising revenues and expenditure controls, reserves, which fell to negative levels during the recession, have been gradually rebuilt and exceed pre-recession levels. On a GAAP basis, available reserves, which consist of Unassigned General Fund Balance plus the state's Budget Stabilization Account increased from a negative $107 million (-0.7% of revenues) at the end of fiscal 2011 to a positive

$1,902 million (9.4% of revenues) at the end of fiscal 2016. Reserves are expected to remain strong. Based on the June forecast and the enacted budget, the state currently projects that total budget-basis reserves will decrease slightly from $2,356 million at the end of the 2015-17 biennium to $2,083 million at the end of the 2017-2019 biennium, including $1,158 million in the Budget Stabilization Account.

The state increased funding for K-12 education significantly in the 2013-15 and 2015-17 budgets in response to the State Supreme Court's ruling in the "McCleary" case, but the Court ruled in August 2015 that the state had still not complied fully with its ruling. The adopted budget for 2017-19 includes $1.8 billion in additional K-12 funding, funded largely with a $1.6 billion increase in the state property tax. The Court has not yet ruled whether this recent action fully addresses the state's funding obligation.

LIQUIDITY

The state's overall liquidity is strong and has improved notably over the last five years with the improvement in GAAP-basis financial position. The state does not issue cash flow notes.

Debt and Pensions

DEBT STRUCTURE

Washington's debt consists primarily of general obligation bonds. Moody's calculation of net tax-supported debt includes general obligation bonds additionally secured by motor vehicle fuel taxes but excludes general obligation bonds which are paid from vehicle tolls. The state's debt ratios are more than twice Moody's 2017 50-State medians; net tax-supported debt as a percentage of personal income is 5.4%, compared with Moody's median of 2.5%, and net tax-supported debt per capita is $2,717, compared to a median of $1,006. Annual debt service costs relative to revenue available for debt service (Moody's calculation) was also relatively high at 7.0% in fiscal 2016 versus a median of 4.1%.

DEBT-RELATED DERIVATIVES

The state has no variable rate debt and no debt-related derivatives.

PENSIONS AND OPEB

While debt ratios are above average, the state's aggregate pension funding is relatively strong. Based on the Washington's fiscal 2015 pension data, Moody's has calculated that the overall retirement systems' adjusted net pension liability (ANPL) was 53.6% of governmental revenues, just slightly above the Moody's 50-state median of 50.4%. Other pension ratios such as ANPL to personal income, GDP, and population are similarly close to the medians.

In Washington, retiree health benefits are set as part of the biennial budget process and funded on a pay-as-you-go-basis. As of January 1, 2015, the most recent date for which a full valuation was prepared, the actuarial accrued liability attributable to the state (after retiree contributions) was $5.274 billion. The annual required contribution (ARC) for fiscal year 2016 was $517 million, about 2.6% of the state's total governmental revenues, excluding federal aid.

Governance

The state has strong governance practices including a quarterly consensus revenue forecasting process, multi-year revenue and expenditure projections, timely budget adoption, and a demonstrated willingness to address budget shortfalls. Although frequent voter initiative activity can create budget challenges, the state legislature has broad powers to amend or suspend voter-approved initiatives.

Legal Security

The Series 2017B COPs are secured by and expected to be paid from installment purchase payments made by participating state and local agencies for the personal property financed with the proceeds of the COPs.

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 2017B COPs will be used to pay the costs of acquisition of and improvement to personal property, primarily computer equipment and vehicles. for the benefit of various state and local agencies.

Obligor Profile

Washington is the thirteenth largest state by population, at 6.9 million. Its state gross domestic product is fourteenth largest. The population is relatively wealthy, with per capita personal income equal to 107.9% 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 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Washington (State of)

Issue	Rating
Certificates of Participation, Series 2017B (State and Local Agency Personal Property)	Aa2
Rating Type	Underlying LT
Sale Amount	$24,770,000
Expected Sale Date	09/12/2017
Rating Description	Lease: Appropriation

Source: Moody's Investors Service

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