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WASHINGTON (STATE OF)

Analysts: Michael Forrester 212-208-1763,
Christopher Irwin, San Francisco 415-765-5010, Susan Schaffer, San Francisco 415-765-5020

RATING ASSIGNED

OUTLOOK REVISED TO POSITIVE

LONG TERM

GENERAL OBLIGATIONS

NEW ISSUES

$200 million G.O. bonds series 1997A
$101.225 million motor vehicle fuel tax G.O. bonds series 1997B
Rating: AA
Sale date: June 25, 1996
Investment banker: Competitive sale

OUTSTANDING RATINGS AFFIRMED

$5.8 billion G.O. bonds	AA
$110.5 million certificates of participation	A

RATIONALE The rating on Washington's debt reflects a strong and diversifying economic base, which is exhibiting less vulnerability to cyclical downturns in the aerospace industry; sound financial performance; and a moderate debt burden.

The state's economic performance for the 1993-1995 biennium outperformed forecast estimates, with employment up slightly in fiscals 1994 and 1995. Strength in trade and financial services offset losses in manufacturing—particularly aerospace. Employment growth is expected to pick up slightly in 1996 and 1997 as manufacturing remains stable, helped by increased activity at Boeing Co. Income growth is expected to lag earlier years' trends.

Operating results for the biennium ended June 30, 1995 indicate general fund reserves of $559 million available for the 1995-1997 biennium. General fund expenditures for the 1995-1997 biennium are budgeted at $17.6 billion, an increase of 7.8% over 1993-1995 and well within Initiative 601's spending limit of $17.9 billion. Key spending areas include public schools (36.9% of expenditures), social and health services (39.8%), higher education and community colleges (8.0%), and corrections (3.0%).

OUTLOOK Continued growth and diversification in the economic base and strong financial performance within the spending constraints of Initiative 601 would lead to a rating upgrade.

ECONOMY Washington's economic base exhibits a good measure of diversity among manufacturing, services, and trade, while retaining significant agricultural and timber industries. The state's economy diversified considerably during the 1980s, with gains in high-technology manufacturing, trade, and services. Manufacturing currently represents 14% of total nonagricultural employment, services 27%, trade 24%, and government 19%. The aerospace industry now employs about 4% of state workers versus 10% in 1968.

Washington weathered the recent recession better than the nation as a whole, and the outlook for the 1995-1997 biennium is for improving growth trends. Boeing has announced employment and production increases, and related businesses should also see gains. The state is better positioned to absorb cyclical downturns at Boeing, evidenced by continued strength in the high technology, services, and trade sectors.

Unemployment is slightly higher than the nation, at 6.1% in March 1996, and is expected to hold steady through the rest of 1996, despite continued labor force growth. Population continues to expand, and growth is forecast to exceed the national average through the 1990s. The Puget Sound area accounts for much of the state's growth, although growth has increased in several eastern cities, including Spokane.

FINANCES Washington's revenue mix comprises primarily excise and ad valorem taxes. The state, as interpreted by the Washington Supreme Court, is constitutionally prohibited from imposing a state income tax. General and selective sales

and gross receipts taxes accounted for 78.5% of total tax revenues for the year ended June 30, 1995. Retail and use taxes represent the largest portion, at 46% of total collections. Business and occupation taxes represent 16.6% of collections and motor vehicle fuel taxes about 7.0%. The state levies an ad valorem property tax, representing 10.8% of fiscal 1995 collections, all of which is redistributed to local school districts.

General fund reserves at June 30, 1995 totaled $559 million, including $100 million transferred from the budget stabilization fund, which was abolished under Initiative 601, up from $342 million at June 30, 1993. The operating surplus in the 1993-1995 biennium resulted from revenues exceeding initial forecast estimates and total spending in line with projections.

For the current biennium, the state's February 1996 forecast projects general fund revenues of $17.4 billion. General fund expenditures are budgeted at $17.6 billion, an increase of 7.8% over 1993-1995 and well within Initiative 601's spending limit of $17.9 billion. The spring 1996 legislative session resulted in a net increase in biennium expenditures of $14 million. A legislative override of the governor's veto of business and occupation tax reduction legislation resulted in a $208 million decrease in general fund revenues. The state now projects an ending fund balance of $341 million at June 30, 1997.

DEBT The state's 1995-1997 biennium capital budget totals $1.6 billion, of which $785 million will be funded from G.O. bonds. Included in the spending plan is $405 million for higher education facilities and $369 million for common school construction. The state's overall debt burden is moderate, with per capita debt at $1,301 and the Standard & Poor's index—a measure of per capita debt against per capita income—at 5.3%. The state's long range capital planning procedures include strong technical review of proposed projects to control debt service expenditure growth in light of spending restrictions imposed by Initiative 601.

The state is subject to statutory and constitutional limits on G.O. debt issuance, the most restrictive of which limits G.O. bonds to an amount whereby maximum annual debt service does not exceed 7% of the average of general state revenues for the preceding three fiscal years. Based on current debt levels and state revenue trends, about $1.4 billion of additional debt could be issued.

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