



Rating Action: **Moody's assigns Aa1 to Washington State's COPs, Series 2023B; outlook stable**

24 May 2023

New York, May 24, 2023 – Moody's Investors Service has assigned a Aa1 rating to the State of Washington's \$21.4 million Certificates of Participation, Series 2023B (State and Local Agency Real and Personal Property). Following the issuance of the Series 2023B COPs, the state will have approximately \$879.7 million similarly-secured COPs outstanding, all rated Aa1. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on the Certificates of Participation (COPs), one notch below the state's Aaa Issuer Rating, reflects the essential nature of the property being financed and/or refinanced, the moderate legal structure and 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.

The State of Washington's Aaa Issuer Rating reflects its strong economic fundamentals driven largely by the technology sector in the Seattle (Aaa stable) metro area, above-average wealth and income levels and strong fiscal governance practices. The state's reserve position has strengthened in recent years as a result of strong revenue performance and the availability of federal pandemic relief funds. Its financial reserves will retreat from record positions to still solid levels in coming years, given sizable spending increases approved under the 2023-2025 biennium budget and as revenue growth is slowing under softening economic conditions. While the state's debt burden is relatively high, it has been declining relative to the 50-state median, and the state's total leverage (debt, pension, OPEB and other long-term liabilities) and fixed costs are manageable given steady revenue growth in recent years. Frequent voter initiative activity adds budget challenges, but the legislature has broad authority to suspend voter-enacted statutes and a history of responding effectively to maintain budget balance.

RATING OUTLOOK

Washington's outlook is stable, reflecting the strong underlying fundamentals of its economy and the state's strong governance practices which will continue to support sound reserves. Long-term liabilities are expected to remain manageable.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- A sustained or structural weakening of the state's economy
- Protracted structural budget imbalance and/or a shift to reliance on one-time budget solutions
- A significant deterioration of the state's cash position

LEGAL SECURITY

The Series 2023B COPs are secured by and expected to be paid from payments made by participating state and

local agencies including: (1) rent payments for real property projects, and (2) installment payments 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 for state agencies 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 2023B COPs will finance and/or refinance the costs of acquisition, construction, and/or remodeling of certain real and personal property for participating state and local agencies.

PROFILE

Washington is the thirteenth largest state by population, at 7.9 million. Its nominal gross domestic product (GDP) is the eleventh largest, at \$725.5 billion as of 2022. The five-year compound average growth rate of its real GDP was 3.8% through 2022, the third strongest of all 50-states and 180 basis points stronger than the US CAGR. The population is relatively wealthy, with per capita personal income equal to 105.6% of the US after adjusting for regional cost of living.

METHODOLOGY

The principal methodology used in this rating was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/rmc-documents/356901>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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