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Debt and Credit Analysis

A Review of Washington's Debt and Other Financial Obligations, Ratings, and Credit Considerations.

2024

Mike Pellicciotti
Washington State Treasurer

Fellow Washingtonians:

This 2024 Debt and Credit Analysis is an annual report produced by my office to provide an overview of the state's debt and other financial obligations, credit ratings, and financing practices. Our goal with the included information and policy recommendations is to highlight Washington's financial health, ensure transparency, and inform policymakers as they make budgetary and capital spending decisions.

Washington balances its Operating Budget every year and does not use debt to finance operating expenses. However, like other states, the Legislature (or the state's voters in certain situations) authorizes the issuance of debt, primarily in the form of bonds, to fund its long-term capital and transportation projects. Bond proceeds are used to fund a variety of projects, such as schools and hospitals, affordable housing, habitat conservation, park facilities, highways, bridges, tunnels, and other improvements. On average, over the last five biennia, bond proceeds have been used to fund 62% of Capital Budget appropriations.

The state's total debt and other financial obligations at the close of fiscal year 2023 totaled $22.4 billion. While debt levels have stabilized in recent years, Washington remains one of the most highly leveraged states in the country on a per capita basis. At the same time, Washington's public pensions are among the best funded in the nation, which reduces future pension costs. Washington is rated highly (Aaa/AA+/AA+) by credit rating agencies, largely driven by the state's exceptional economy, well-funded pensions, and sufficient reserves. The state's financial position and strong ratings should be a source of pride for Washingtonians as they help drive down interest costs and place the state in a position of strength to weather future financial difficulty.

Due to our state's strong credit ratings and the exceptional work of our office's talented debt team, over the last fiscal year we refinanced existing debt obligations to save Washingtonians over $160.8 million, on a present value basis, while also issuing $1.6 billion of new money bonds at favorable interest rates amid changing financial conditions.

Preserving the state's strong credit ratings will continue to keep our interest costs as low as possible, so tax dollars go to the needs of the people of Washington instead of repaying loans.

Accordingly, the analysis includes the following policy recommendations:

1) Maintain a minimum level of total reserves equal to no less than 10% of annual Near General Fund-State Revenues;
2) Manage future bond issuance plans to ensure that projected debt service costs do not exceed target debt service coverage ratios; and
3) Continue to improve the excellent funding status of the state's pension plans by fully funding the state's actuarially determined pension contributions.

Our office will continue to be a partner in serving the interests of Washingtonians to achieve outstanding financial health and good stewardship of public funds.

Sincerely,

Mike Pellicciotti
State Treasurer

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This study is prepared primarily to provide information to state officials and lawmakers. It has not been prepared with a view to, nor is it suitable for any investment decision regarding any bonds or financial obligations of the state or any of its agencies. The financial data and other information provided herein is not warranted as to completeness or accuracy for purposes of federal securities laws and regulations and is subject to change without notice. Any investor or potential investor in bonds or financial obligations of the state or any of its agencies should obtain and carefully review the official statements and filings of the state at EMMA.msrb.org before making any investment decision.

In 2023, Washington's general obligation bonds carried ratings of Aaa/AA+/AA+ from Moody's, S&P, and Fitch, respectively. These very strong ratings reflect the state's prudent financial management, sound financial position, adequate reserves, and conservative debt portfolio, which includes no derivatives, variable rate debt, or other complex financial instruments.

More importantly, these strong ratings allow the state, our school districts (through the School Bond Guarantee Program), and participants in the state's Local Option Capital Assets Lending ("LOCAL") Program to borrow at very low interest rates. Given the significant role that financings play in funding Washington's Capital and Transportation Budgets, protecting the state's financial strength and its strong credit ratings must always be a top priority.

With debt expected to finance approximately 55% of the state's 2023-25 Capital Budget appropriations, maintaining or improving Washington's credit ratings is the most certain way to keep debt costs as low as possible.

This report is intended to provide readers with a comprehensive understanding of the state's debt and other financial obligations, constitutional and statutory limitations, credit ratings, and how the state's financial metrics compare to peer states. To better prepare members of the Legislature for the 2024 legislative session, the report contains three key financial recommendations, based on rating agency methodology, peer analysis, and best practices, that are intended to help Washington maintain or improve its strong credit ratings. Following the recommendations, the report details the various types of debt and financial obligations issued by the state in connection with the Capital Budget, and the associated impact that these bonds and obligations have on the Operating Budget. The report also describes the types of bonds issued through the Transportation Budget and their different repayment structures.

1. Recommendations

To protect the state's strong credit ratings, obtain the lowest practical borrowing costs, and place Washington in a position of strength in an uncertain economic environment, OST offers the following three policy recommendations, based on rating agency criteria, best practices, peer comparisons, and projected future borrowing plans:

1) Maintain a minimum level of total reserves equal to no less than 10% of annual Near General Fund-State ("NGF-State" or "NGF-S") Revenues;
2) Manage future bond issuance plans to ensure that projected debt service costs do not exceed target debt service coverage ratios; and
3) Continue to improve the excellent funding status of the state's pension plans by fully funding the state's actuarially determined pension contributions.

These recommendations are supported by the published rating criteria of credit rating agencies, as well as comparisons to peer "AAA-rated" states. Striving for "AAA-rated" state metrics provides meaningful goals, and, more importantly, moving toward these goals places the state in the best possible position to weather the next economic downturn, while also ensuring that the state can continue borrowing at the lowest practical borrowing costs.

RESERVES

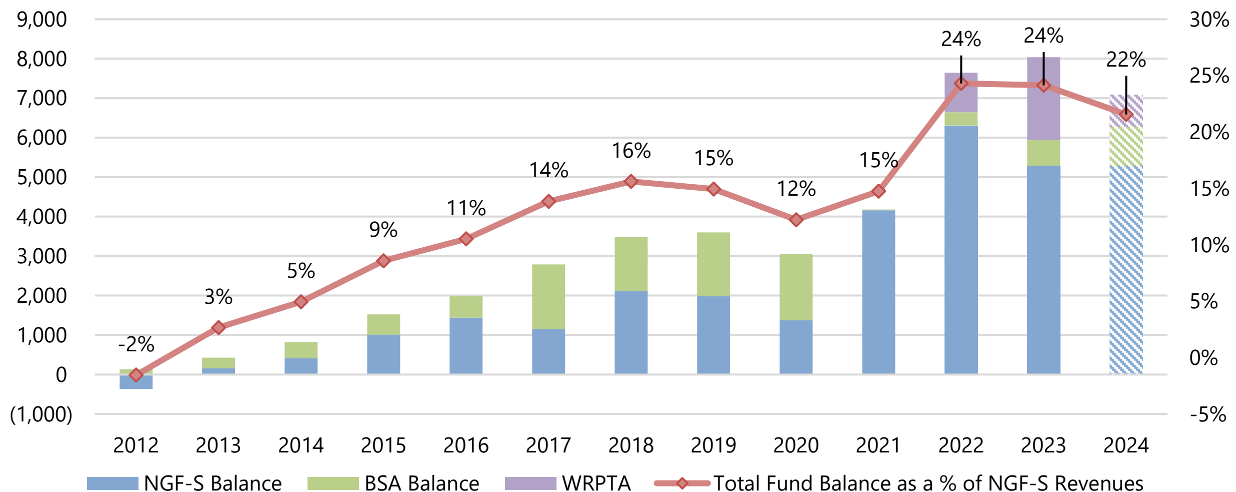
Recommendation 1: Maintain a minimum level of total reserves equal to no less than 10% of annual NGF-State Revenues and develop a post-pandemic plan to restore the state's Budget Stabilization Account ("BSA" or "Rainy Day Fund").

A commitment to maintaining adequate reserves is one of the key components in preserving (or even improving, where applicable) the state's strong ratings, particularly given the state's elevated debt levels. Together, the Operating Budget ending balance ("NGF-State"), Washington Rescue Plan Transition Account ("WRPTA"), and BSA provide the state with the financial resiliency and flexibility needed to respond to economic disruptions. Maintaining an adequate NGF-State balance and restoring the BSA are important considerations for rating agencies and critical steps in preparing for the next emergency or economic cycle.

It should be noted that when Moody's upgraded the state to Aaa (the highest possible rating) in 2019, it cited "a significant increase in financial reserves even as the state increased funding for K-12 education in response to a state supreme court mandate" as one of the factors contributing to the upgrade.[1]

The state's Total Fund Balance as a percentage of NGF-S Revenues reached a high of 24% of NGF-S Revenues in FY 2022 and FY 2023 (Figure 1.1). This metric is forecasted to drop to 22% in FY 2024 according to data from the Office of Financial Management ("OFM") and the Economic and Revenue Forecast Council ("ERFC").

Figure 1.1. Fund Balance as a Percentage of NGF-S Revenues ($ in millions)



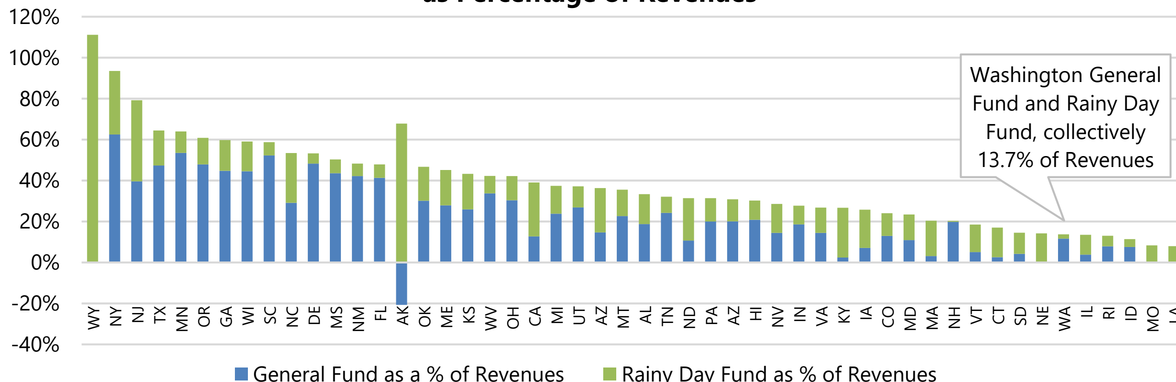
Note: Fund balances at close of fiscal year.
Source: Office of Financial Management and Economic and Revenue Forecast Council.

Based on a 50-state survey of state reserves completed by the National Association of State Budget Officers ("NASBO"), Washington falls well below national medians.[2] For FY 2023, NASBO's survey determined the national median of combined general fund and rainy-day fund balances as a percentage of revenue to be 33%. NASBO's survey calculated Washington's combined fund balance to be 13.7% of general fund revenues, which placed it 45th in the nation, as shown in Figure 1.2. (The NASBO data was provided before FY 2023 audited actual numbers were available and excludes WRPTA from the ending balance.) At this level,

[1] Moody's, "Moody's Upgrades Washington State GOs to Aaa from Aa1; outlook stable," August 23, 2019.
[2] NASBO, "Fall 2023 Fiscal Survey of States," December 2023.

Washington has the second smallest combined fund balance as a percentage of general fund revenues among all Moody's Aaa-rated states, which range from a high of 64.5% to 13.6%.

Figure 1.2. General Fund and Rainy Day Fund Balances as Percentage of Revenues



Source: The Fiscal Survey of States, Fall 2023. National Association of Budget Officers.
Ending balances are estimated as of the end of FY 2023 and shown as a percentage of FY 2023 general fund revenues.

As a second benchmark, the Government Finance Officers Association ("GFOA") recommends maintaining adequate fund balances to prepare for financial fluctuations and to stabilize tax rates. At a minimum, GFOA recommends maintaining two months' worth (16.7%) of operating revenues in fund balance.[3] Washington's projected FY 2024 total fund balance of 22% marginally exceeds the GFOA recommendation.

The proposed minimum target of 10% of total reserves as a percentage of revenues is supported by both Moody's and S&P's credit rating methodologies, especially when viewed in conjunction with Recommendation 2 regarding debt service as a percentage of General State Revenues ("GSRs"). As an example, S&P evaluates whether there is a formal process or a demonstrated track record of restoring reserves following depletion as a component of their rating. S&P considers a clearly articulated reserve policy and steady funding of reserves are important to allow states to manage budgets through economic cycles, and noted in their October 2023 rating report for Washington that:

> *"We could also lower the rating should the state opt to further use available reserves, namely its BSA, and fail to replenish balances in a timely manner,"*

and

> *"A moderation in debt levels, coupled with a faster amortization, could support upward rating potential. However, it would, need to be supported by a demonstrated commitment to further increase and maintain reserve levels above current estimates."*[4]

In general, rating agency criteria suggest that states with higher debt service costs as a percentage of revenues should also have higher total reserves as a percentage of revenues to maintain strong ratings. Conversely, the criteria suggest that if debt service costs as a percentage of revenue are lower, less robust reserves are required to maintain strong ratings. The proposed recommendations herein aim to strike a balance between the exact levels in the specific rating criteria and realistic, achievable goals for the state.

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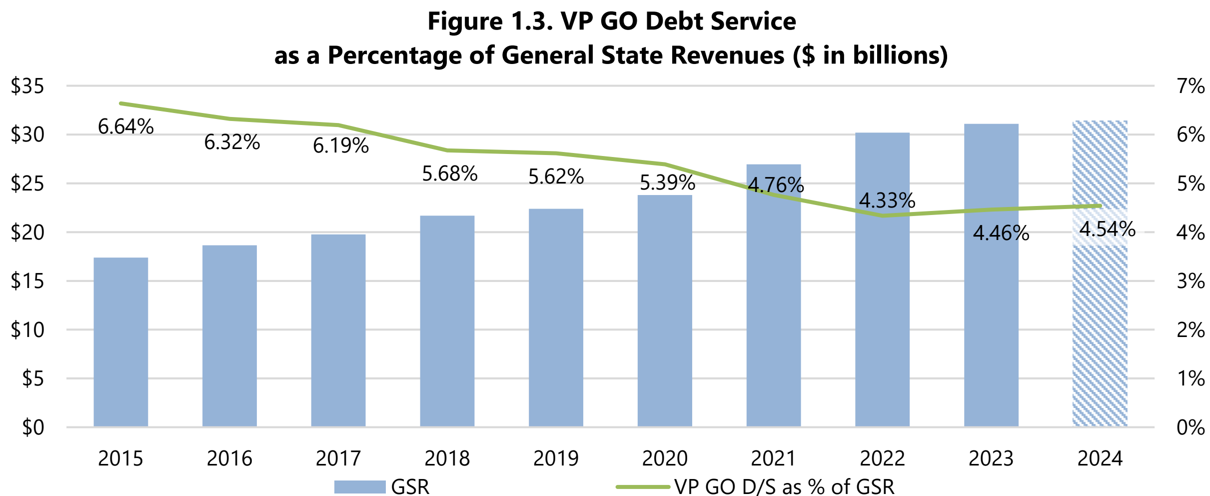
[3] Government Finance Officers Association, "Fund Balance Guidelines for the General Fund," September 30, 2015. (https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund)
[4] S&P Global Ratings RatingsDirect, "Washington State; Appropriations; General Obligation," October 24, 2023.

Debt Service as a Percentage of Revenues

Recommendation 2: Manage future bond issuance plans to ensure that projected debt service costs do not exceed target debt service coverage ratios.

Capital Budget: The Capital Budget's heavy reliance on debt resulted in an increase in the amount of bonds issued by the state, with Various Purpose General Obligation ("VP GO") debt service as a percentage of GSR reaching a high mark of 7.88% in 2002. Fortunately, increasing revenues and historically low interest rates in recent years helped to limit the cost and budgetary impact of the new debt, resulting in a declining debt burden through 2023. However, borrowing costs have increased significantly from their historic pandemic-era lows, increasing the cost of new debt and reducing the savings produced by refinancings.

Figure 1.3. VP GO Debt Service as a Percentage of General State Revenues ($ in billions)



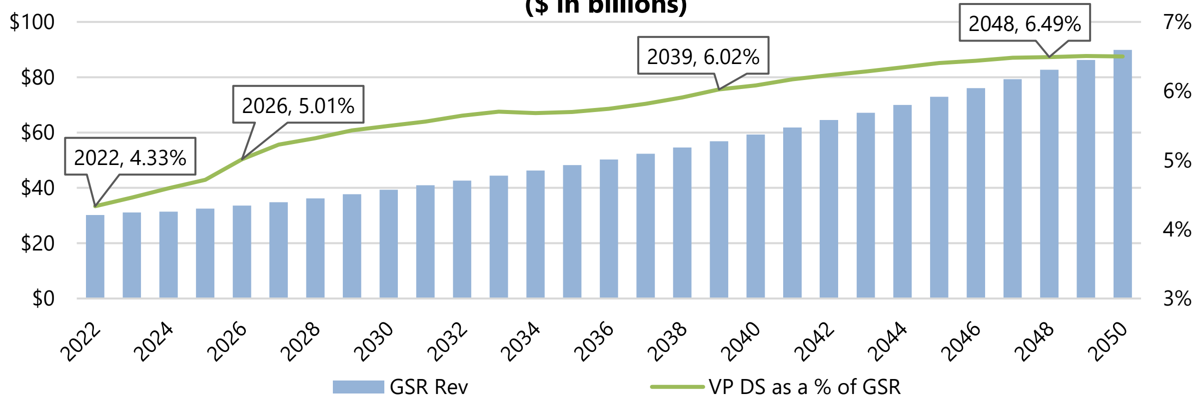
Source: Office of Financial Management, November 2023; Office of the State Treasurer. Outstanding as of June 30, 2023.

In FY 2023, VP GO debt service was equal to 4.46% of the Operating Budget's GSRs, placing the state in a strong financial position (see Figure 1.3). However, looking into the future, Capital Budget debt issuance forecasts show the state's debt service to GSR ratio exceeding 5% in 2026 and then exceeding 6% in 2039. This upward trajectory continues until the state's statutory debt limit is projected to be reached in 2048, placing restrictions on the state's ability to borrow in the years to follow (see Figure 1.4).

To protect the state's ratings and preserve flexibility to respond to emergencies, we recommend moderating the state's long-term Capital Budget debt issuance plans over the next 15 years (inclusive of VP GO debt issued outside of the constitutional debt limit) to limit projected debt service costs to no more than 5% to 6% of GSRs.

When developing future Capital Budgets, it is important to consider the state's long-term debt load and the impact that increasing debt service could have on the Operating Budget. An increasing debt load reduces resources for essential services and the state's ability to address other budgetary needs. A high interest rate environment and/or an economic downturn can exacerbate this problem, with increasing interest costs consuming stagnating or declining revenues, while demands for state services increase.

Figure 1.4. Projected VP GO Debt Service as a Percentage of GSR ($ in billions)



Source: Office of the State Treasurer, November 2023 Debt Model.
Note: VP GO debt service includes projected future bond issuance based on the Debt Model assumptions. Projected revenue is based on the November 2023 ERFC Revenue Forecast, followed by Debt Model growth assumptions.

Actively managing future debt issuance expectations to maintain a ratio of VP GO debt service to GSRs of not more than 5% to 6% will result in more Operating Budget fiscal flexibility during times of fiscal stress. Further, debt burden management is one of the key factors evaluated by the rating agencies in their assessment of the state's credit quality and a maximum target level of less than 6% is consistent with S&P's criteria for this metric, which specifies a debt service to GSR revenue ratio of between 2% and 6% for a "moderate" debt load.

In comparison to its "AAA-rated" peers, Washington has a high debt load, which is regularly cited as a risk by the rating agencies in their reports. Based on a 2023 report, Moody's calculates that, amongst all states, Washington has the 5th highest level of debt service as a percentage of general fund revenues at 4.80%. In this metric, Washington exceeded all Moody's Aaa-rated states, which averaged 1.72%.[5] The national median was 1.80%.

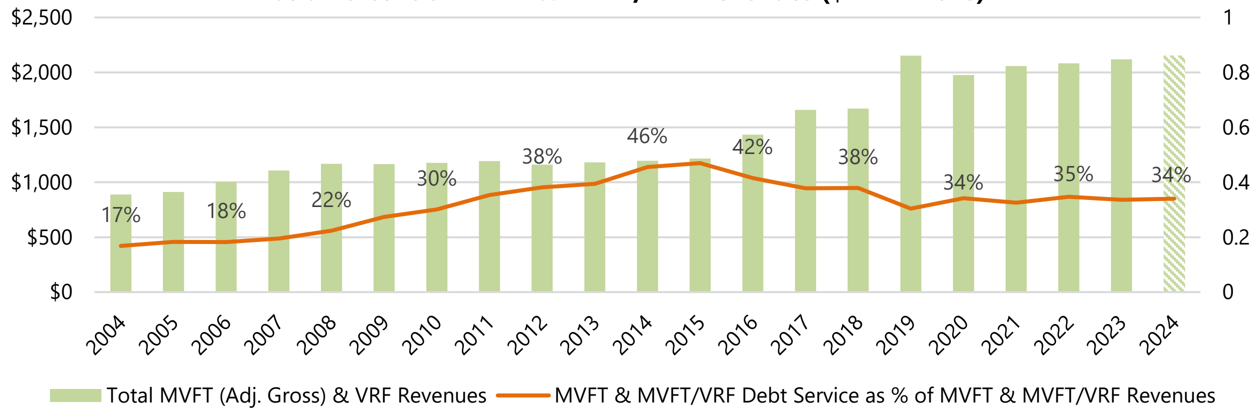
Because of the state's above average debt load, our recommendations to maintain a minimum level of total reserves equal to no less than 10% of NGF-S Revenues (Recommendation 1) and to fully fund the state's annual actuarially determined pension contributions (Recommendation 3) are particularly important factors in maintaining Washington's strong ratings.

Transportation Budget: For the Transportation Budget, the state has traditionally sought to maintain at least a 2.0x debt service coverage ratio (pledged Motor Vehicle Fuel Tax ("MVFT") and Vehicle Related Fee ("VRF") revenues compared to the debt service paid from those revenues). Stated otherwise, the state's practice has been to limit the debt service on bonds paid by MVFT and VRF revenues to not more than 50% of those revenues (see Figure 1.5 for historical percentages).

To preserve funds for operational expenses, ensure compliance with the state's constitutional debt limit, and to protect the state's credit ratings, we recommend that the state continue to maintain the minimum 2.0x debt service coverage for MVFT and MVFT/VRF bonds.

[5] Moody's Investors Service, "Ability to service long-term liabilities and fixed costs improves," September 26, 2023.

Figure 1.5. MVFT & MVFT/VRF Debt Service as a Percent of MVFT & MVFT/VRF Revenues ($ in millions)



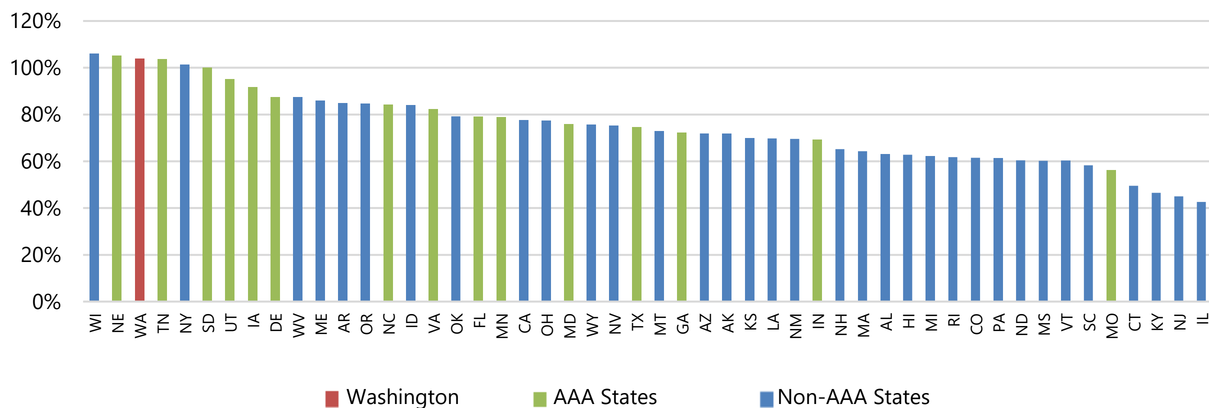
Sources: MVFT: Nov-2023 TRFC, Volume II, Table A.3. VRF: Nov-2023 TRFC, Volume IV, Table H.1. Governor's proposed budget, 12/13/2023; $1,308.3 million remaining unissued. Interest rates: November 2023 Forecast.

State Pension Funding

Recommendation 3: Continue to improve the excellent funding status of the state's pension plans by fully funding the state's actuarially determined pension contributions.

Relative to other states, Washington enjoys well-funded pension plans and has been a leader amongst its peers in taking a disciplined approach to managing its pension systems. According to the most recent actuarial valuation report for the year ended June 30, 2022, the total funded status across all plans measured 96%.[6] S&P Global Ratings ("S&P") published a report in September 2023 comparing all 50 states' pension performance. In this report, Washington ranked third for its pension funded ratio (Figure 1.6). In this regard, the state is ranked second among all S&P AAA-rated states, which have an average funded ratio of 83.7%.[7] In its January 2023 rating report, S&P opines that "compared with other state pension systems, Washington has funded its pension system well".

Figure 1.6. Aggregate Pension Funded Ratio of State Pension Plans (%)



Source: S&P, "U.S. State Pension And OPEBs: Funding Progress Is Likely To Pick Up In 2023 After Slipping In 2022," September 7, 2023.

[6] Office of the State Actuary, 2022 Actuarial Valuation Report, August 2023. (https://leg.wa.gov/osa/pensionfunding/Pages/Valuations.aspx).

[7] S&P, "*U.S. State Pension And OPEBs: Funding Progress Is Likely To Pick Up In 2023 After Slipping In 2022,*" September 7, 2023.

It should be noted that S&P derives their own calculations of pension liabilities based on the Net Pension Liability approach, using publicly reported financial statements, which results in the funded ratio shown in Figure 1.6 differing from the ratio reported by the state in its actuarial report.

From a different perspective, the Government Finance Officers Association ("GFOA") provided recommendations on pension funding levels in a March 2023 report, recommending:

> "*[T]hat government officials ensure that the costs of [defined benefit] DB pensions and OPEB are properly measured and reported. Sustainability requires governments that sponsor or participate in [defined benefit] DB pension plans, or that offer OPEB, to contribute the full amount of their actuarially determined contribution (ADC) each year. Failing to fund the ADC during recessionary periods impairs investment returns by providing inadequate funds to invest when stock prices are low. As a result, long-term investment performance will suffer and ultimately require higher contributions.*"[8]

Similar to the GFOA recommendation, rating agencies generally support fully funding the actuarially determined pension contributions annually as a way to manage future pension costs. As an example, S&P assigns a positive score to states that regularly make actuarially determined payments that exceed the net periodic pension cost (service cost, interest cost, and an amortization component).

Allowing the unfunded liability (the gap between the present value of the state's pension liabilities and the market value of pension assets) to grow by contributing less than the actuarially determined contribution each year would put additional pressure on the state's budget in the intermediate- to long-term. Currently, this unfunded liability amounts to $5.60 billion (based on the June 30, 2022 funding valuation) and is another form of long-term debt of the state.

In terms of assumptions, it is important to recognize that the unfunded liability amount assumes a long-term rate of return on pension investments of 7.0%, which some observers already believe is aggressive. For example, a Pew Charitable Trust Report dated May 3, 2022 states that "most economists, wealth managers and other specialists expect average future returns closer to 6%,"[9] and the Equable Institute's State of Pensions 2023 annual report suggests a standard pension fund has only a 50% chance to earn 5.6% over the next ten years, or 6.3% over the next 20 years.[10] According to the National Association of State Retirement Plan administrators, the average assumed rate of return for public plans had dropped below 7.0% (6.93%) as of year-end 2022 and twelve states had assumed rates of return below 6.5%.[11]

If the state's actual rate of return is lower than 7.0%, and/or the state has made less than the annual actuarially determined contribution, the unfunded liability will be greater than projected and require higher annual funding contributions in the future. Pension liabilities could also increase more than expected if human longevity increases substantially. Due to these factors, funding the actuarially determined pension contribution should be viewed as the minimum prudent annual contribution, and long-term state planning should take into account the potential for larger required contributions in the future.

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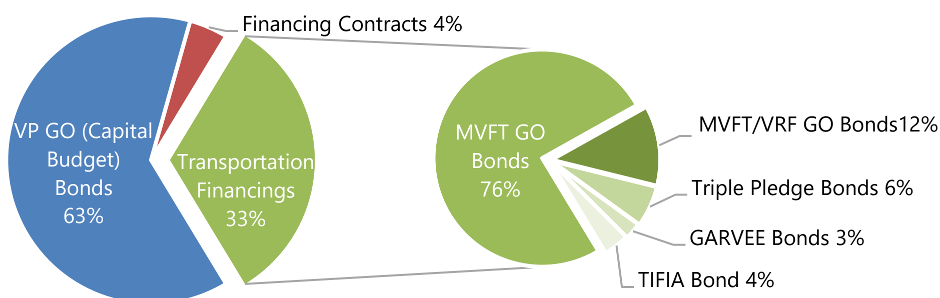
[8] Government Finance Officers Association, "Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB)," March 3, 2023. (https://www.gfoa.org/materials/sustainable-funding-practices-for-defined-benefit-pensions)
[9] Pew, "State Public Pension Fund Returns Expected to Decline," May 3, 2022. (https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/05/state-public-pension-fund-returns-expected-to-decline)
[10] Equable Institute, "State of Pensions 2023: Equable Institute's Annual Report," July 17, 2023. (https://equable.org/wp-content/uploads/2023/07/Equable-Institute_State-of-Pensions-2023_Final.pdf)
[11] Pensions & Investments, "Looking to Future, Public Plans Cut Assumed Rates of Return," May 8, 2023. (https://www.pionline.com/pension-funds/looking-future-public-plans-cut-assumed-rates-return)

2. Overview of State Debt and Other Financial Obligations

The state's debt and other financial obligations consist of three primary categories: Various Purpose General Obligation ("VP GO") bonds, transportation-related financings, and financing contracts. The largest share of this portfolio at about 63% is VP GO bonds, issued to finance projects appropriated in the Capital Budget (Figure 2.1). VP GO bonds are backed by the full faith and credit of the state, also referred to as the state's General Obligation pledge or its "GO pledge", and are repaid primarily from General Fund-State ("GF-S") revenues (e.g. sales tax, B&O tax, property tax, etc.).

Figure 2.1. Debt and Other Obligations (as of 6/30/2023)



The second-largest category, at approximately 33% of the state's portfolio of debt and other financial obligations, is transportation-related financings for projects such as highways, roads, bridges, and the state ferry system. Of the outstanding transportation-related financings, 76% are supported by the state's historic pledge of Motor Vehicle Fuel Tax ("MVFT") revenues, further guaranteed by the state's GO pledge ("MVFT GO" bonds). Twelve percent of transportation financings are supported by the more modern pledge of MVFT and Vehicle Related Fees ("VRF"), further backed by the guarantee of the state's GO pledge ("MVFT/VRF GO" bonds). The remaining transportation financings (GARVEE, TIFIA, and Triple Pledge[12]) are project-specific and are backed by federal aid, toll revenues (or, in the case of the outstanding Triple Pledge bonds, toll revenues, further backed by MVFT revenues), and the state's GO pledge.

Financing contracts account for approximately 4% of the state's portfolio of debt and other financial obligations, and are primarily issued as Certificates of Participation ("COPs"). COPs consolidate a group of state agency lease agreements (financing contracts) for the acquisition of property or equipment to be purchased. These leases are structured to expire on or before the end of the useful life of the property or equipment being financed, with ownership of the property transferring to the agency upon the conclusion of the lease.

The LOCAL Program is a special financing program available to local governments that are able to provide a general obligation pledge and meet the state's established credit criteria. The LOCAL Program offers local agencies a way to finance essential real estate and equipment, such as fire stations, school buses, and ambulances, over a multi-year period. Debt service for COPs issued through the LOCAL Program is paid by the applicable contracted entity.

Another form of financing contracts are 63-20 lease revenue bonds. These bonds are a special type of financing, authorized by IRS Revenue Ruling 63-20, that are issued by a non-profit corporation on behalf of the state. In this public-private-partnership arrangement, the non-profit constructs a facility and the state

[12] TIFIA and GARVEE are acronyms for federally sponsored programs. The full names are Transportation Infrastructure Finance and Innovation Act ("TIFIA") and Grant Anticipation Revenue Vehicle ("GARVEE").

agrees to lease the property once completed. Ownership is transferred to the state upon the repayment of the bonds.

At the end of FY 2023, Washington's portfolio of debt and other financial obligations stood at $22.37 billion, as shown in Figure 2.2. The amount of outstanding state debt and other financial obligations has been stable in recent years, increasing annually by 1.2% on average since FY 2019. Most notably, debt financings for transportation projects have slowed, while bond issuances to fund projects approriated in the Capital Budget have increased at a modest pace.

Figure 2.2. Outstanding Debt and Other Financial Obligations ($ in millions)*

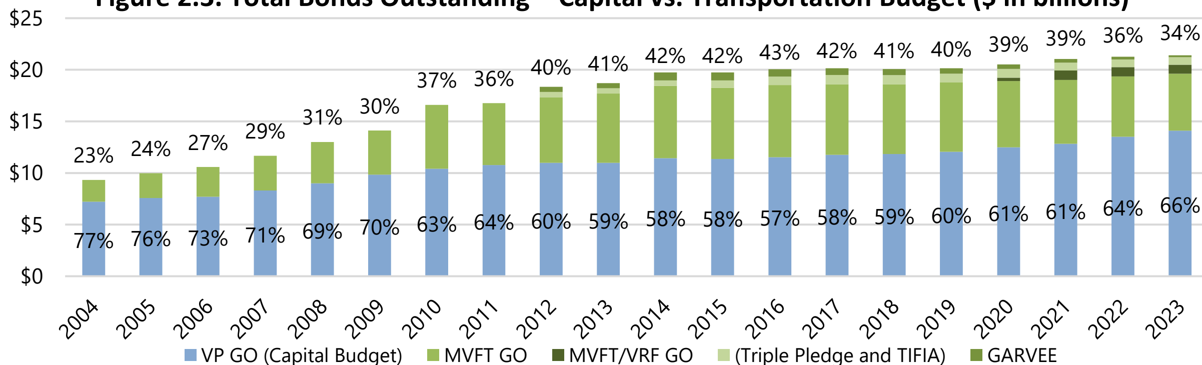
As of:	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
VP GO Bonds (Capital Budget)	$12,057	$12,483	$12,827	$13,511	$14,097
Transportation Budget-Related Bonds					
GO-Backed Bonds:					
MVFT GO Bonds	$6,707	$6,418	$6,184	$5,841	$4,915
MVFT/VRF GO Bonds	N/A	338	915	896	1,479
Triple Pledge Bonds	569	554	476	462	447
Non-GO-Backed Bonds:					
GARVEE Bonds	517	441	361	275	185
TIFIA Bond	294	290	287	284	280
Total Transportation Bonds	$8,086	$8,042	$8,224	$7,758	$7,306
Total Bonds Outstanding	$20,143	$20,525	$21,050	$21,269	$21,403
Financing Contracts					
COPs – State	$893	$844	$848	$798	$741
"63-20" Bonds	261	252	242	232	221
Total Financing Contracts	$1,155	$1,096	$1,090	$1,030	$962
Total Outstanding	$21,298	$21,621	$22,140	$22,299	$22,365

** Totals may not add due to rounding.*

Source: Office of the State Treasurer.

Between 2004 and 2016, Transportation Budget-related obligations increased as a share of the state's overall bond portfolio. Of the state's total bonds outstanding, Transportation Budget-related debt increased from 23% in 2004 to a peak of 43% in 2016, before dropping to 34%, equal to 2.94% coverage, in 2023.

Figure 2.3. Total Bonds Outstanding – Capital vs. Transportation Budget ($ in billions)



Source: Office of the State Treasurer.

General Obligation Debt Service

In FY 2023, total annual payments of principal and interest for Washington's entire portfolio of debt and other financial obligations totaled $2.40 billion. In the Operating Budget, principal and interest payments for VP GO bonds are expected to account for 4.54% of FY 2024 GSR (see Figure 5.5), while in the Transportation Budget principal and interest payments on MVFT GO and MVFT/VRF GO bonds are expected to account for approximately 34% of MVFT & VRF revenues (see Figure 6.4).

Figure 2.4 shows the annual debt service payable on the state's GO-backed debt, less certain reimbursements. The total amount of debt service paid on the state's GO-backed debt in FY 2023 was $2.14 billion. Of that amount, $193.7 million of the debt service was reimbursable, meaning that the payments were paid or reimbursed from sources outside of GF-S, MVFT, and VRF revenues. As a result, the net debt service requirement in FY 2023 for the state's GO-backed debt was $1.94 billion.

Figure 2.4. GO Bond Debt Service, Net of Reimbursable Debt ($ in millions)*

Fiscal Year:	2019	2020	2021	2022	2023
Various Purpose GO Bonds					
VP GO Bonds	$1,256.9	$1,283.1	$1,283.8	$1,308.9	$1,387.1
Various Reimbursements	(106.1)	(104.1)	(78.3)	(43.6)	(42.8)
Net Debt Service Requirements	$1,150.7	$1,179.1	$1,205.6	$1,265.2	$1,344.3
Transportation-Related GO-Backed Bonds					
MVFT GO Bonds	$654.6	$662.3	$634.6	$656.4	$645.2
TNB Toll Reimbursements	(72.6)	(73.1)	(72.2)	(77.2)	(79.1)
SR-99 Tunnel Toll Reimbursements	(1.5)	(7.4)	(8.1)	(11.4)	(11.4)
BABs Federal Tax Credit Reimbursements	(24.8)	(24.3)	(23.6)	(23.0)	(22.2)
Net Debt Service Requirements	$555.7	$557.5	$530.6	$544.8	$532.5
MVFT/VRF GO Bonds	--	$13.7	$34.9	$66.1	$67.6
Toll Reimbursements	--	--	--	--	--
Net Debt Service Requirements	--	$13.7	$34.9	$66.1	$67.6
SR-520 Triple Pledge Bonds	$43.2	$43.2	$26.9	$38.2	$38.2
Net SR-520 Toll Revenues applied to debt service	(43.2)	(43.2)	(26.9)	(38.2)	(38.2)
Net Debt Service Requirements	--	--	--	--	--
All GO-Backed Bonds					
Aggregate Debt Service Requirements	$1,954.7	$1,988.6	$1,980.2	$2,069.5	$2,138.1
Aggregate Reimbursements and Revenues	(248.2)	(252.1)	(209.1)	(193.4)	(193.7)
Aggregate Net Debt Service Requirements	$1,706.4	$1,736.5	$1,771.1	$1,876.1	$1,944.3

** Totals may not add due to rounding.*

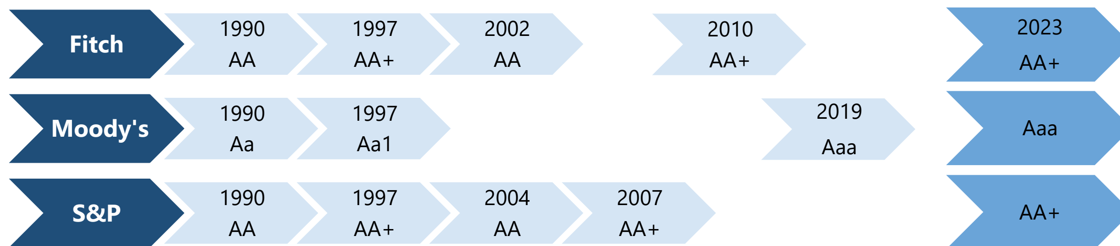
Source: Office of the State Treasurer.

3. Credit Ratings and Debt Metrics

Washington is fortunate to be home to a strong and diverse economy, with a growing population, high personal income levels, and solid job growth. The state operates with sound financial management practices and has access to significant liquidity and reserves. For these reasons, the state has received high marks from credit rating agencies. In August 2019, the state reached a coveted milestone when Moody's Investors Services ("Moody's") upgraded Washington's GO rating to Aaa from Aa1. This was the first time the state received a Aaa GO rating. Fitch and S&P each rate the state AA+, which is their second highest rating.

Figure 3.1 shows a history of changes to Washington's GO ratings by the three major rating agencies since 1990. Maintaining strong and stable ratings is critical to ensuring that the state continues to have access to low interest rates on future borrowings.

Figure 3.1. History of the State's GO Ratings (1990-2023)



Receiving top credit ratings distinguishes Washington's bonds and other financial obligations from other issuers and is part of the reason why the state is able to borrow at such low interest rates. However, it is important to note that Washington's debt burden places it among the nation's most heavily indebted states when assessed by several different metrics. For example, according to Moody's, Washington ranks in the top ten of all 50 states for debt per capita (7th), debt as a percentage of revenues (5th), and debt as a percentage of personal income (11th). Fortunately, while citing debt levels as a potential risk, each rating agency has recognized that several fundamental credit strengths of the state help to mitigate its above-average debt burden.[13]

Moody's Investors Service (October 25, 2023)

> *"The State of Washington's Aaa Issuer and GO bonds rating reflect its strong economic fundamentals driven largely by the technology sector in the Seattle (Aaa stable) metro area, above-average resident income levels, positive demographic trends and strong fiscal governance. The state's reserve position has strengthened in recent years as a result of better-than-expected revenue performance and the availability of federal pandemic relief funds. Its financial reserves will retreat from record positions to still sound 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 total leverage (debt, pension, OPEB, and other long- term liabilities) is moderately higher than the 50-state median, it has declined in recent years and the state's fixed costs are in-line with the sector median. Frequent voter initiative activity can add to budget challenges, but the legislature has broad authority to suspend voter-enacted statutes and a history of responding effectively to maintain budget balance."*

S&P Global Ratings (October 24, 2023)

> *"Supported in part by prudent financial management and a resilient economy, Washington transitioned into its new biennium (2023-2025) from a position of strength, in our view. While we anticipate its debt profile will remain relatively high, we believe the state's collective liabilities will remain manageable and not present meaningful budgetary pressure in the medium term."*

> *"Historically, the state's lack of a formal policy for its budget reserve level has allowed low balances to persist through protracted periods of economic and revenue softness. However, Washington has consistently rebuilt reserve positions during expansionary economic cycles. We view the state's commitment to rebuilding, and now preserving, reserves in the current biennium as a positive credit factor. Its ability to align forecasted revenue growth with ongoing operational needs will remain an important consideration in Washington's credit profile."*

[13] The state's rating agency reports can be found on the Washington State Treasurer's website: https://tre.wa.gov/home/debt-management/debt-information/.

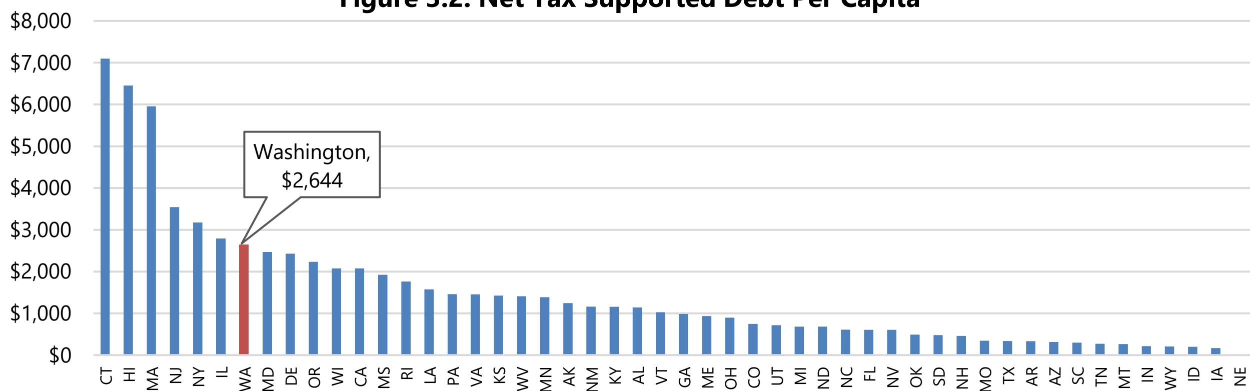
Fitch Ratings (October 26, 2023)

> *"Washington's 'AA+' Long-Term IDR and GO bond ratings reflect the state's broad and growing economy, with solid long-term revenue growth prospects, as well as the state's demonstrated commitment to fiscal balance and long-term liabilities that place a low burden on resources. The ratings also incorporate the state's very strong financial resilience, which is supported by a statutory requirement for a balanced four-year budget and formulaic funding of the budget stabilization account (BSA), which has led to the accumulation of solid reserves. Education poses continued spending pressure for the state given steady population growth and the state's role as the primary funding source for K-12 schools."*

PEER COMPARISON

According to research conducted by S&P, Washington is one of the most highly leveraged states in the nation. For example, Figure 3.2 shows S&P's computation of net tax-supported debt (outstanding debt minus reimbursements, refinancings, and certain reserve requirements) per capita for all 50 states in FY 2022, the most recent data available for all states. S&P calculated Washington's debt per capita to be $2,644, the seventh highest in the country, and over 2.6 times the national median of $1,006. Debt per capita is one metric commonly used by rating agencies to assess how leveraged a state is (along with debt as a percentage of personal income and debt as a percentage of gross state product).

Figure 3.2. Net Tax Supported Debt Per Capita



Source: U.S. State Debt: Lower for Now. S&P. July 10, 2023.

While Washington's debt burden per capita is more than twice that of the national median, credit analysts generally focus their attention on the overall liability profile of each state when reviewing debt affordability. When the broader liability profile is taken into account, which includes pension and other post-employment benefits ("OPEB") liabilities, Washington's liability metrics are near the national median and the state's relative ranking improves significantly, as shown in Figure 3.3. This demonstrates the importance of the state's well-funded pension system as a component of the rating agencies' assessments.

Figure 3.3. Debt Metrics: A Comparison to National Medians

	Moody's	S&P
Net Tax-Supported Debt ($ millions)[1,2]		
Washington	**$25,495**	**$20,602**
Median of States	$5,288	$4,271
WA Rank Compared to Other States	7th	7th
Net Tax-Supported Debt Per Capita[1,2]		
Washington	**$3,275**	**$2,644**
Median of States	$1,178	$1,006
WA Rank Compared to Other States	7th	7th
Net Tax-Supported Debt as % of Personal Income[1,2]		
Washington	**4.30%**	**3.50%**
Median of States	2.2%	1.7%
WA Rank Compared to Other States	11th	10th
Net Tax-Supported Debt as % of Gross State Product[1,2]		
Washington	**3.50%**	**2.84%**
Median of States	2.0%	1.5%
WA Rank Compared to Other States	11th	11th
Debt Burden as % of State Revenue[1] or Spending[2]		
Washington	**4.80%**	**6.38%**
Median of States	1.80%	3.01%
WA Rank Compared to Other States	5th	6th
Debt + Pension + OPEB as % of State Revenue[1]		
Washington	**7.90%**	**-**
Median of States	5.90%	-
WA Rank Compared to Other States	18th	-
Debt + Net Pension Liability + Net OPEB Per Capita[2,3]		
Washington	**-**	**$3,059**
Median of States	-	$2,882
WA Rank Compared to Other States	-	24th

[1] *Source:* Ability to service long-term liabilities and fixed costs improves. *Moody's Investors Service. September 26, 2023.*
[2] *Source:* U.S. State Pension And OPEBs: Funding Progress Is Likely To Pick Up In 2023 After Slipping In 2022. *S&P Global Ratings. September 7, 2023.*
[3] *Source:* U.S. State Debt: Lower For Now. *S&P Global Ratings. July 10, 2023.*

Comparing Washington's debt metrics with other states having comparable or higher credit ratings provides insight into areas of financial strengths and weaknesses, demonstrates how the state measures against its peers financially, and indicates opportunities for improving the state's ratings. Figure 3.4 compares the primary metrics used by rating agencies to calculate Washington's debt burden to states with similar or better credit ratings.

Despite many of these states having different economic, revenue, and debt characteristics, the comparison is meaningful as it shows that, amongst similarly rated states, Washington has the second highest total net tax supported debt, debt per capita, and debt as a percentage of spending. The state ranks third in debt as a percentage of personal income and fifth in debt as a percentage of gross state product amongst states with similar or better credit ratings.

Figure 3.4. Comparing the State of Washington to Peer States[1]

	Ratings (Moody's/S&P/Fitch)	Total Net Tax-Supported Debt[2] ($ millions)	Debt Per Capita[2]	Debt as % of Personal Income[2]	Debt Service as % of General Spending[2]	Debt as % Gross State Product[2]
Massachusetts	Aa1 / AA+ / AA+	$41,570	$5,955	7.0%	6.5%	6.0%
Washington	**Aaa / AA+ / AA+**	**$20,602**	**$2,644**	**3.5%**	**6.4%**	**2.8%**
Florida	Aaa / AAA / AAA	$13,492	$605	1.0%	4.7%	1.0%
Maryland	Aaa / AAA / AAA	$15,198	$2,466	3.5%	5.9%	3.2%
Virginia	Aaa / AAA / AAA	$12,646	$1,456	2.1%	4.1%	2.0%
Ohio	Aa1 / AA+ / AAA	$10,532	$896	1.6%	4.6%	1.3%
Texas	Aaa / AAA / AAA	$10,134	$337	0.5%	2.7%	0.4%
Georgia	Aaa / AAA / AAA	$10,778	$986	1.7%	5.6%	1.4%
Oregon	Aa1 / AA+ / AA+	$9,459	$2,232	3.6%	5.1%	3.2%
Minnesota	Aaa / AAA / AAA	$7,922	$1,385	2.0%	3.0%	1.8%
North Carolina	Aaa / AAA / AAA	$6,535	$610	1.1%	1.9%	0.9%
Colorado	Aa1 / AA / NR	$4,355	$745	1.0%	2.0%	0.9%
Utah	Aaa / AAA / AAA	$2,429	$718	1.2%	4.3%	1.0%
Delaware	Aaa / AAA / AAA	$2,477	$2,428	4.0%	6.1%	2.8%
Missouri	Aaa / AAA / AAA	$2,124	$344	0.6%	3.0%	0.5%
Nevada	Aa1 / AA+ / AA+	$1,927	$605	1.0%	2.2%	0.9%
National Median		$4,271	$1,006	1.7%	3.0%	1.5%

[1] *Cells colored yellow are the highest value for the column; cells colored blue are the second highest.*

[2] *Source:* U.S. State Debt: Lower for Now. *S&P. July 10, 2023.*

4. Constraints on Debt Issuance

Constitutional Debt Limit

Since ratification in 1889, the Washington constitution has limited the amount of certain types of state debt that can be issued. Originally, the state had a fixed debt limit of $400,000. In 1972, this was replaced with a limit on the state's maximum annual debt service ("MADS") relative to a historical average of GSR. Today, the constitution prohibits MADS for debt subject to this limit from exceeding 8.25% of the average of GSR over the preceding six fiscal years. Debt service on nearly all VP GO debt is subject to the constitutional debt limit.

Under Article VIII of the state constitution, GSR includes all state money received in the state treasury from each and every source, including monies received from ad valorem taxes levied by the state and deposited in the general fund, but not including:

> "(1) Fees and other revenues derived from the ownership or operation of any undertaking, facility, or project; (2) Moneys received as gifts, grants, donations, aid, or assistance or otherwise from the United States or any department, bureau, or corporation thereof, or any person, firm, or corporation, public or private, when the terms and conditions of such gift, grant, donation, aid, or assistance require the application and disbursement of such moneys otherwise than for the general purposes of the state of Washington; (3) Moneys to be paid into and received from retirement system funds, and performance bonds and deposits; (4) Moneys to be paid into and received from trust funds and the several permanent and irreducible funds of the state and the moneys derived therefrom but excluding bond redemption funds; (5) Moneys received from taxes levied for specific purposes and required to be deposited for those purposes into specified funds or accounts other than the general fund; and (6) Proceeds received from the sale of bonds or other evidences of indebtedness."

Each year, typically in December, the Treasurer certifies the debt limit when GSR calculations are finalized. The most recent debt limit report was published on December 15, 2023, and certified that the MADS for debt subject to the constitutional limit was $709,686,200 less than the constitutional debt service limitation. This number represents the difference between 8.25% of the 6-year average of GSR ($2.15 billion) and the MADS as of December 1, 2023 ($1.44 billion).

It is important to note that the constitutional debt limit only restricts the incurrence of new debt that would cause debt service to be in excess of the limit; it does not prohibit the timely payment of debt service in excess of the limit, nor does it affect the state's ability to issue refunding bonds for savings.

Working Debt Limit

State statute provides for a working debt limit, which is used for budgeting and planning purposes. The State Finance Committee may adjust the working debt limit due to extraordinary economic conditions without action by the Legislature but may not exceed the constitutional debt limitation. Starting with the 2021-23 Biennium and applying to all subsequent biennia, state statute sets the working debt limit at 7.75% of the average of GSRs for the six preceding fiscal years.

Modeling Future Debt Capacity

The Legislature, the Office of Financial Management, and OST developed a model to estimate debt capacity and to assess the affordability of bonds subject to the constitutional debt limit ("Debt Model"). The Debt Model is used for long-term financial planning and as an "early warning" mechanism during times of decreasing revenues. The model estimates debt service and debt capacity over a 30-year period based on the state's constitutional and working debt limits, projected GSR, projected future interest rates, and other assumptions.

To calculate future capacity, the model assumes a fixed growth rate for biennial bond authorizations. Bonds authorized for each biennium are expected to be issued over a four-year period and amortized over 25 years with level annual debt service payments. Projections are reviewed at least quarterly. Both revenue and interest rate assumptions are aligned with projections from the Washington State Economic and Revenue Forecast Council and S&P Global Market Intelligence over the forecast horizon. In the first year after the forecast horizon (FY 2034) and thereafter, the model assumes a long-term interest rate equal to the 30-year average of the Bond Buyer 20-Bond Index ("BBI") at the close of the fiscal year. The current assumed long-term rate is 4.44%.

The Debt Model calculates the maximum bond authorization for each biennium as the dollar amount that causes projected MADS to reach but not exceed the state's constitutional or working debt limits, given the assumed growth in GSR, future biennial bond authorizations, and projected future bond issuance. To the extent that the bond authorization for the current biennium is increased, future bond authorizations must be decreased to keep MADS below the limit, and vice versa. Thus, the model provides a regularly updated measure of current and projected future debt capacity governed primarily by projected growth in GSR.

Exemptions from the Constitutional Debt Limit

Article VIII of the constitution excludes certain types of debt from the debt limit, most notably debt payable from MVFT, VRF, and interest on the permanent common school fund (provided that the specified revenues are sufficient to repay the debt service secured by such revenues). All forms of non-recourse revenue debt, as well as debt approved by both the Legislature and the voters are also excluded from the limit. The most recent occurrences of bonds being authorized by state voters were in 1998 when voters approved $1.90 billion of bonds for state and local highway improvements (Referendum 49), and in 1997 when $300.0 million of bonds were approved for the Washington State Public Stadium Authority (Referendum 47). As a

result of these bonds being approved by state voters, they are excluded from the constitutional debt limit. Prior to these two authorizations, voters had not approved bonds since 1980.

Below is a summary of the state's existing debt that is excluded from the constitutional debt limit. The Transportation Budget-related debt is discussed in more detail in Section 6. Financing contracts are discussed in Section 8.

Motor Vehicle Fuel Tax GO Bonds are exempt from the constitutional debt limit provided that sufficient MVFT revenues are collected to pay the debt service on such bonds. Mindful of the constitutional provision, legislative bond authorizations for MVFT GO bonds include a statutory commitment to continue to impose excise taxes on motor vehicle fuels in amounts sufficient to pay the principal and interest of such bonds. Additionally, the State Finance Committee's MVFT GO authorizing resolutions incorporate this pledge into the contractual obligation made by the state to investors.

Motor Vehicle Fuel Tax and Vehicle Related Fees GO Bonds are exempt from the constitutional debt limit provided there are sufficient MVFT and VRF revenues to pay the debt service on such bonds. These bonds are structured very similarly to the state's MVFT GO bonds, with the addition of the VRF pledge, which provides flexibility to better accommodate future changes in transportation revenues.

Triple Pledge Bonds, which are expected to be paid by toll revenues, are exempt from the constitutional debt limit provided there are sufficient MVFT revenues (or, with respect to future Triple Pledge bonds, MVFT and VRF revenues) to pay the debt service on such bonds. The Triple Pledge Bonds' master bond resolution, under which the currently outstanding bonds were issued, provides specific toll rate covenants and additional bonds tests that set minimum debt service coverage levels. While backed by both MVFT revenues and the state's GO pledge, the state expects that such bonds will be repaid from toll revenues. In 2019, the Legislature authorized the issuance of additional Triple Pledge Bonds expected to be repaid from tolls on the I-405 & SR 167 Express Toll Lanes and the Puget Sound Gateway toll facilities, and to be backed by a pledge of both MVFT and VRF revenues in addition to the state's GO pledge. Bonds have not yet been issued under the 2019 authorization.

Grant Anticipation Revenue Vehicle Bonds, or "GARVEE Bonds," are exempt from the debt limit as they are payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the bonds and federal reimbursements to the state for projects or portions of projects not financed with bond proceeds. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power. Per the State Finance Committee's policy "Guidelines For Use Of Federal Highway Grant Anticipation Revenue Bonds" the State Treasurer must provide yearly estimates of GARVEE capacity in the Debt and Credit Analysis. The state's maximum capacity for additional GARVEE bonds is estimated to be approximately $2.15 billion. The final maturity of the state GARVEE bonds is September 1, 2024.

The state's **TIFIA Loan** (Transportation Infrastructure Finance and Innovation Act), which was executed in connection with the SR 520 Corridor project, is exempt from the debt limit as the loan, which is provided by the United States Department of Transportation, is payable solely from net toll revenues of the SR 520 Corridor.

Financing Contracts such as COPs and 63-20s are not subject to the debt limit as these obligations do not constitute debt as defined by the state constitution. Budgetary consideration is given to future annual appropriations necessary for each financing's lease payments. The State Finance Committee is responsible for establishing the maximum aggregate principal amount of financing contracts that may be issued.

5. Capital Budget Debt

Various Purpose General Obligation ("VP GO") Bonds

VP GO bonds are issued to pay for projects appropriated in the Capital Budget, including K-12 public school construction, higher education facilities, environmental preservation, state office buildings, correctional facilities, and public works infrastructure. The term of each financing is generally 25 years or less, but always with an average life within the expected weighted average useful life of the asset(s) being financed.

The state irrevocably pledges its full faith, credit, and taxing power to the payment of its VP GO bonds. The ability of the state to make this pledge is provided in the state constitution. The constitutional mandate regarding payment of state debt requires that the Legislature appropriate sufficient funds to pay state debt when due and provides expressly for judicial enforcement of the state's payment obligation on that debt. No other provision of the constitution contains comparable language providing courts with authority to compel payment of other state obligations.

In the last five biennia, VP GO bonds have been used to fund an average of 62% of Capital Budget appropriations. In contrast, in the 20 years prior to the Great Recession, bonds funded an average of 52% of Capital Budget appropriations. In the 2023-25 Capital Budget, bonds are projected to fund 55% of the appropriations, with the remainder funded primarily from dedicated state revenues and federal funding. Figure 5.1 shows historical Capital Budget appropriations for projects funded by bonds and the percentage of total appropriations funded by bonds.

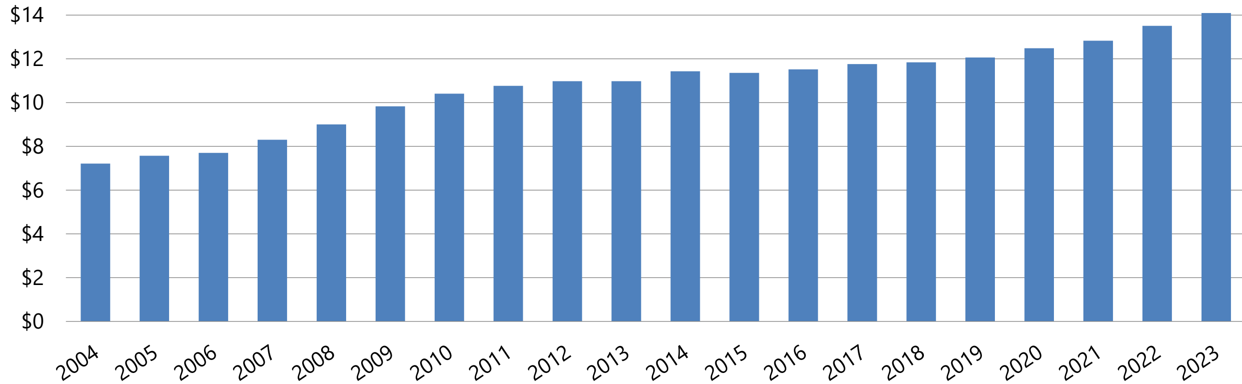
Figure 5.1. New Capital Budget Appropriations ($ in millions)

Biennium:	2015-17	2017-19	2019-21	2021-23	2023-25
Bond Appropriations					
Governmental Operations	$503	$679	$759	$1,039	$1,483
Human Services	131	146	240	307	868
Natural Resources	522	765	716	776	794
Higher Education	541	491	626	1,033	870
K-12 Education	625	822	935	767	609
Total Bond Appropriations	$2,322	$2,903	$3,275	$3,922	$4,624
Other Funds Appropriated	$1,383	$1,312	$1,416	$3,404	$3,742
Total Appropriations	$3,705	$4,215	$4,691	$7,327	$8,366
Percent Funded by Bonds	63%	69%	70%	54%	55%

Source: Legislative Evaluation & Accountability Program ("LEAP") Committee. Excludes reappropriations.

As Figure 5.2 shows, the total principal amount of the state's outstanding VP GO debt was $14.10 billion in FY 2023, a more than twofold increase over the last 20 years and a 28% increase since FY 2013.

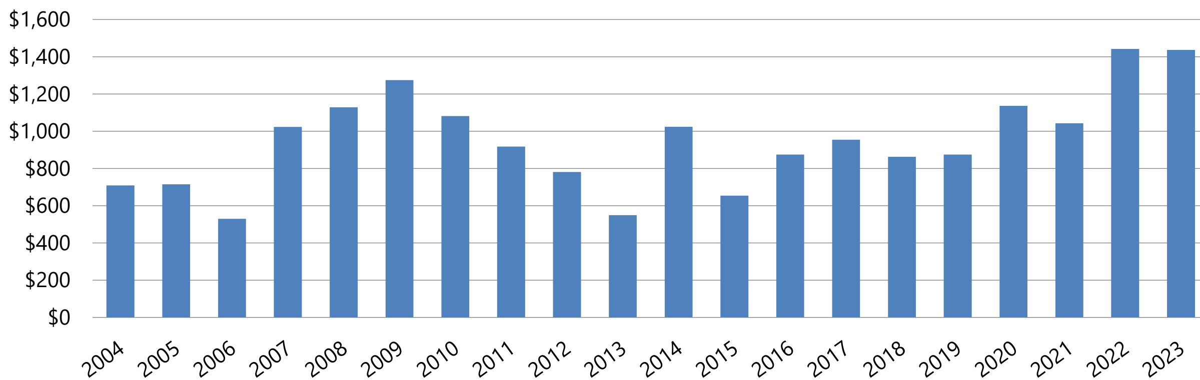
Figure 5.2. Outstanding VP GO Principal ($ in billions)



Source: Office of the State Treasurer.

The amount of VP GO bonds issued annually has varied over the last 20 years (Figure 5.3). Over the last four years, the average amount of new money VP GO bonds issued was $1.26 billion per year. Total new money VP GO issuance in FY 2023 was the second largest on record, totaling $1.437 billion (in FY 2022 VP GO issuance was slightly higher at 1.442 billion).

Figure 5.3. Annual New Money Issuance of VP GO Bonds* ($ in millions)



**Excludes refundings.*
Source: Office of the State Treasurer.

Certain VP GO bonds are issued from time to time with the intention that the general fund be wholly or partially reimbursed for debt service expenditures from sources outside of GF-S revenues. Funds from these sources are not pledged to bondholders and the reimbursement source or amount may be altered at any time by legislative or executive action. Examples of VP GO bond debt service reimbursements include sources such as higher education tuition and fees and medical patient fees, and a small amount of reimbursements for certain multimodal transportation projects reimbursed out of the Multimodal Transportation Fund.

Figure 5.4 shows historical debt service for VP GO bonds, net of reimbursements from non-GF-S sources. In FY 2023, VP GO debt service, net of reimbursements, totaled $1.34 billion.

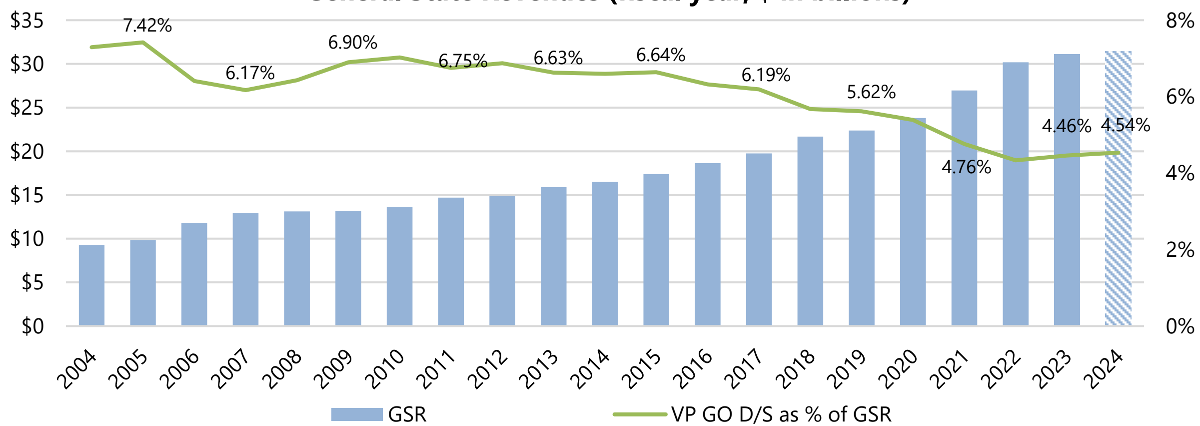
Figure 5.4. VP GO Bond Debt Service, Net of Reimbursable Debt ($ in millions)

Fiscal Year:	2019	2020	2021	2022	2023
VP GO Bonds	$1,256.9	$1,283.1	$1,283.8	$1,308.9	$1,387.1
Various Reimbursements	(106.1)	(104.1)	(78.3)	(43.6)	(42.8)
Net Debt Service Requirements	$1,150.7	$1,179.1	$1,205.6	$1,265.2	$1,344.3

Source: Office of the State Treasurer.

The portion of GSR used to pay debt service hit a highwater mark of 7.88% in 2002. Figure 5.5 shows VP GO debt service as a percentage of GSR since FY 2004. For FY 2024, debt service on VP GO bonds is projected to be approximately $1.43 billion or 4.54% of projected GSR, before FY 2024 bond issuances.

Figure 5.5. VP GO Debt Service as a Percentage of General State Revenues (fiscal year, $ in billions)



Source: Office of Finacial Management, November 2023; Office of the State Treasurer. Outstanding as of June 30, 2023.

The amount of future annual debt service requirements for the state's currently outstanding Capital Budget-related VP GO bonds is $21.25 billion (see Figure 5.6). This table does not reflect projected future bond issuance or reimbursements.

Figure 5.6. Annual VP GO Debt Service Requirements

(outstanding as of June 30, 2023)

Fiscal Year	Total Capital Budget-Related Bond Debt Service (VP GO Bonds)
2024	$ 1,426,148,118
2025	1,385,380,862
2026	1,350,405,315
2027	1,312,674,649
2028	1,278,184,626
2029	1,253,772,914
2030	1,211,942,791
2031	1,169,246,000
2032	1,135,972,081
2033	1,089,894,956
2034	1,002,601,281
2035	919,752,031
2036	850,135,416
2037	791,890,850
2038	746,692,050
2039	713,510,500
2040	647,872,281
2041	603,121,031
2042	542,388,625
2043	475,964,375
2044	415,487,500
2045	354,755,375
2046	274,836,750
2047	201,590,875
2048	100,736,125
Total	$ 21,254,957,378

Source: Office of the State Treasurer.

6. Transportation Budget Debt

MVFT GO, MVFT/VRF GO, Triple Pledge, TIFIA, and GARVEE Bonds

MVFT GO bonds are paid from state excise taxes on motor vehicle fuels and are backed by the full faith, credit, and taxing power of the state. Proceeds of MVFT GO bonds are constitutionally restricted to highway projects, which include public highways, county roads, bridges, city streets, and the ferry system. MVFT GO bonds carry the same ratings as VP GO bonds and borrowing rates are essentially the same. The term of each financing is generally 25 years or less, but always with an average life within the expected weighted average useful life of the assets being financed.

Over the past 20 years, Washington significantly increased its reliance on bonds to implement legislative spending plans for transportation projects. Leveraging revenues from the 2003 Nickel Act and the 2005 Transportation Partnership Act, which collectively raised the gas tax 14.5 cents, resulted in the state's annual MVFT GO issuance increasing from an average of $65 million per year in the 1990s, to a peak of over $2 billion in 2010 with the issuance of Build America Bonds ("BABs").

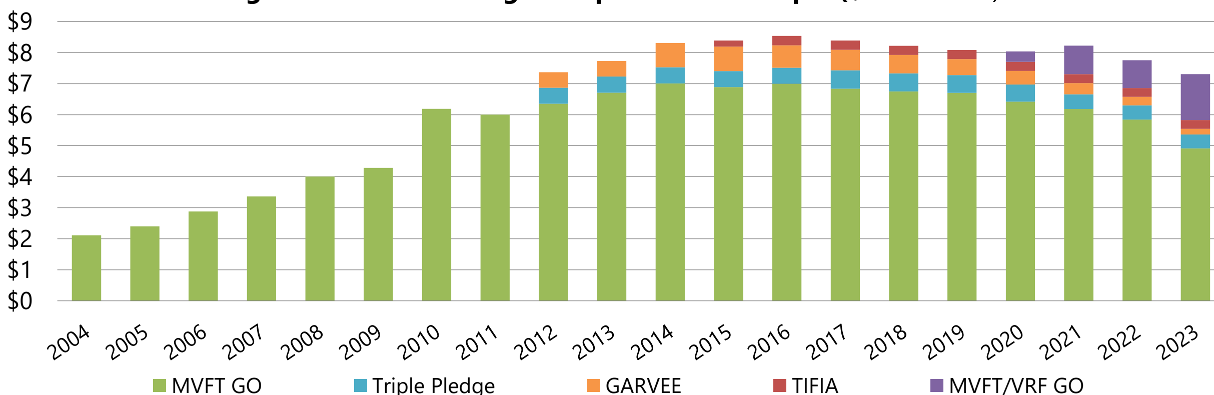
In 2015, the Legislature approved an additional 11.9 cent gas tax increase and also pledged certain Vehicle Related Fees ("VRF") in the Connecting Washington transportation package. VRF are defined as vehicle related fees imposed under Title 46 RCW that constitute license fees for motor vehicles required to be used for highway purposes.

Connecting Washington allowed for the issuance of $5.30 billion of bonds, secured by a new pledge of MVFT and VRF revenues, and further backed by the guarantee of the state's GO pledge. By the end of FY 2023, the state had issued more than $930.1 million of Connecting Washington bonds backed by MVFT/VRF revenues. The remaining unissued $4.37 billion of the Connecting Washington bond authorization is expected to be issued during the next ten or more years.

During the 2022 legislative session, the Legislature passed SB 5898 (enacted as Chapter 103, Laws of 2022), effective June 9, 2022. This bill amended existing transportation bond authorizations by adding the VRF pledge to older authorizations that had been structured with only the MVFT GO pledge. SB 5898 follows the precedent set by the more modern Connecting Washington Bond Act by supplementing older MVFT GO bond authorizations with the additional pledge of VRF to any new bonds, or refunding bonds issued under these authorizations. Adding the VRF pledge provides the Legislature with increased flexibility in how the debt service on bonds issued under these older authorizations can be paid and will proactively help the state adapt to future changes in transportation revenues.

As seen in Figure 6.1, at the end of FY 2023 the state had approximately $4.91 billion of outstanding MVFT GO bonds as well as approximately $1.48 billion of bonds backed by a pledge of MVFT/VRF revenues.

Figure 6.1. Outstanding Transportation Principal ($ in billions)

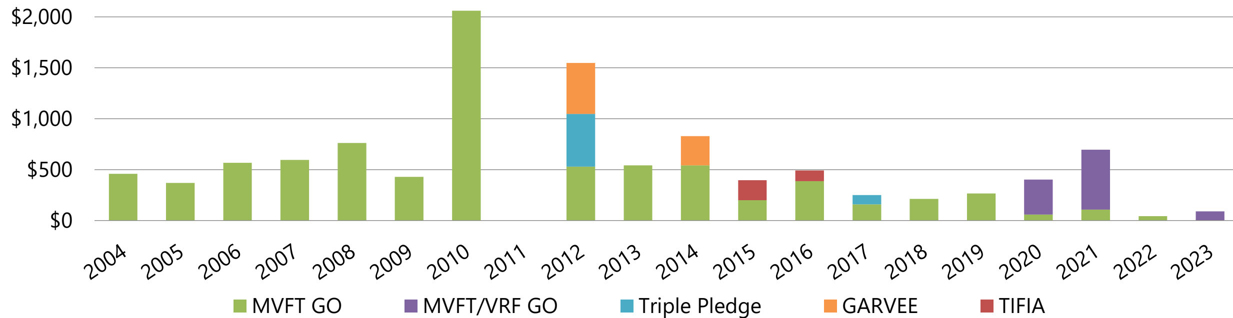


Source: Office of the State Treasurer.

In addition to MVFT GO and MVFT/VRF GO financings, the state issued three additional types of transportation bonds to finance the SR 520 Bridge Replacement and HOV Program: Triple Pledge bonds, GARVEE bonds, and a TIFIA loan.

Figure 6.2 shows the amount of the state's annual transportation bond issuances by fiscal year, excluding refundings. Between FY 2012 and FY 2017, the state issued a total of $609.2 million in Triple Pledge bonds, which are first paid from SR 520 toll revenue, and further backed by MVFT revenues and a guarantee of the state's GO pledge. Triple Pledge bonds carry the same ratings as other GO bonds and borrowing rates are essentially the same.

Figure 6.2. Issuance of New Money Transportation Bonds ($ in millions)



Source: Office of the State Treasurer.
Note: In FY 2010, $1.43 billion of MVFT GO bonds were issued as Build America Bonds ("BABs"). BABs were created through the American Recovery and Reinvestment Act of 2009. This program offered state and local governments federal subsidies on taxable municipal bonds.

In FYs 2012 and 2014, the state issued $786.3 million in Grant Anticipation Revenue Bonds, or GARVEE bonds, secured solely by funds received from the Federal Highway Administration ("FHWA"). In FY 2013, the state secured a $300.0 million TIFIA bond from the FHWA which was drawn down in 2015 and 2016, paid solely from SR 520 toll revenues. The final maturity of the state GARVEE bonds is September 1, 2024.

The state has not issued new Triple Pledge bonds, GARVEE bonds, or TIFIA loans since 2017. By the end of FY 2023, the combined outstanding amount of bonds issued for SR 520 was approximately $911.6 million.

The state's first issuance of the new MVFT/VRF-backed transportation bonds authorized by Connecting Washington occurred in FY 2020, with $342.6 million issued, followed by an additional $587.5 million in FY 2021. In FY 2022, the issuance of bonds for transportation projects was significantly reduced, as American Rescue Plan Act money received by the state as a result of the COVID-19 pandemic helped maintain higher cash balances in construction accounts. The Legislature also passed the Move Ahead Washington ("MAW") transportation package that included a short-term loan to the Connecting Washington Account for the 2021-23 Biennium to delay bond issuance. The Legislature assumed this loan would be repaid over the next two biennia.

From time to time, certain transportation financings are undertaken with the intent that they will be wholly or partially reimbursed from other sources, including toll revenues, federal tax credits, and pledged federal aid. Figure 6.3 shows historical debt service for transportation financings, net of reimbursable debt. In FY 2023, approximately $263.0 million of transportation budget-related debt service was reimbursed from other sources. The aggregate net debt service requirement for transportation financings after these reimbursements totaled $600.1 million.

Figure 6.3. Transportation Financing Debt Service, Net of Reimbursements ($ in millions)*

Fiscal Year:	2019	2020	2021	2022	2023
Transportation-Related GO-Backed Bonds					
MVFT GO Bonds	$654.6	$662.3	$634.6	$656.4	$645.2
TNB Toll Reimbursements	(72.6)	(73.1)	(72.2)	(77.2)	(79.1)
SR-99 Tunnel Toll Reimbursements	(1.5)	(7.4)	(8.1)	(11.4)	(11.4)
BABs Federal Tax Credit Reimbursements	(24.8)	(24.3)	(23.6)	(23.0)	(22.2)
Net Debt Service Requirements	$555.7	$557.5	$530.6	$544.8	$532.5
MVFT/VRF GO Bonds	--	$13.7	$34.9	$66.1	$67.6
Reimbursements	--	--	--	--	--
Net Debt Service Requirements	--	$13.7	$34.9	$66.1	$67.6
SR-520 Triple Pledge Bonds	$43.2	$43.2	$26.9	$38.2	$38.2
Net SR-520 Toll Revenues applied to debt service	(43.2)	(43.2)	(26.9)	(38.2)	(38.2)
Net Debt Service Requirements	--	--	--	--	--
GARVEE Bonds (SR 520)	$99.9	$99.8	$99.7	$99.6	$99.4
Federal Aid applied to debt service	(99.9)	(99.8)	(99.7)	(99.6)	(99.4)
Net Debt Service Requirements	--	--	--	--	--
TIFIA Loan (SR 520)	$12.7	$12.7	$12.7	$12.7	$12.7
Net SR-520 Toll Revenues applied to debt service	(12.7)	(12.7)	(12.7)	(12.7)	(12.7)
Net Debt Service Requirements	--	--	--	--	--
All Transporation Financings					
Aggregate Debt Service Requirements	$810.4	$831.7	$808.8	$873.0	$863.1
Aggregate Reimbursements and Revenues	(254.7)	(260.5)	(243.3)	(262.1)	(263.0)
Aggregate Net Debt Service Requirements	$555.7	$571.2	$565.5	$610.9	$600.1

**Totals may not add due to rounding.*

Source: Office of the State Treasurer.

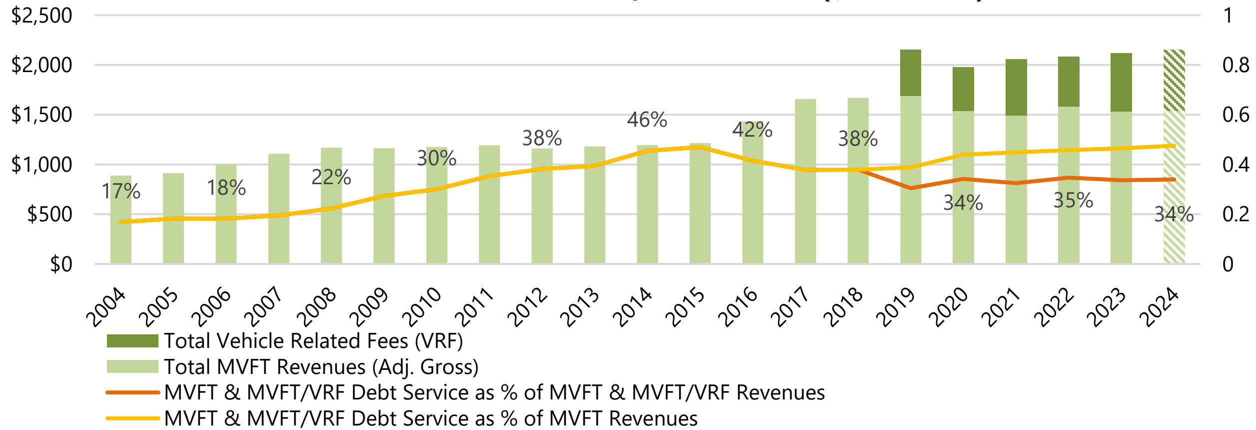
TRANSPORTATION DEBT SERVICE COVERAGE

In recent years, the ratio of debt service to revenues for the state's MVFT GO bonds has decreased slightly. MVFT and MVFT/VRF debt service as a percentage of MVFT revenues has slowly risen from 38%, or 2.63x coverage, in FY 2017 to a projected 48%, or 2.08x coverage, in FY 2024. This increase is the result of slower growth of fuel tax revenues paired with additional debt service from new bond issuances. However, when revenues from VRF are included, as first pledged by Connecting Washington and SB 5898, the ratio of debt service to revenues decreases to a projected 34%, or 2.94x coverage, in FY 2024.

In 2022, the Legislature approved the MAW transportation package. Among other provisions, MAW provided increases to certain VRFs which are projected to further improve debt service coverage ratios.

In collaboration with the Washington State Department of Transportation ("WSDOT"), OST is in the process of developing a technical model to estimate transportation debt capacity, similar to that used for the Capital Budget. The model estimates debt service and debt capacity over a 30-year period as a function of projected transportation revenues, future interest rates, and the expected phasing of major construction projects.

Figure 6.4. MVFT & MVFT/VRF Debt Service as a Percent of MVFT & MVFT/VRF Revenues ($ in millions)



Sources: MVFT: Nov-2023 TRFC, Volume II, Table A.3. VRF: Nov-2023 TRFC, Volume IV, Table H.1. Governor's proposed budget, 12/13/2023; $1,308.3 million remaining unissued. Interest rates: November 2023 Forecast.

The amount of future annual debt service requirements for the state's currently outstanding transportation bonds is shown in Figure 6.5. This table does not reflect projected future bond issuance, reimbursements, or TIFIA prepayments.

For the Transportation Budget, the state has traditionally sought to maintain at least a 2.0x debt service coverage ratio (pledged MVFT and VFR revenues compared to the debt service paid from those revenues). Stated otherwise, the state's practice has been to limit the debt service on bonds paid by MVFT and VRF revenues to not more than 50% of those revenues (please see Figure 6.4 for historical percentages). To preserve funds for operational expenses, ensure compliance with the state's constitutional debt limit, and to protect the states credit ratings, we recommend that the state continue to maintain the minimum 2.0x debt service coverage for MVFT and MVFT/VRF debt.

Figure 6.5. Annual Transportation Debt Service Requirements
(outstanding as of June 30, 2023)

Fiscal Year	MVFT GO Bonds	MVFT/VRF GO Bonds	SR 520 Triple Pledge Bonds	GARVEE Bonds	TIFIA Bond	Total Transportation Budget Debt Service
2024	$ 606,335,179	$ 101,813,813	$ 38,183,550	$ 99,387,500	$ 12,685,912	$ 858,405,954
2025	587,492,251	119,539,625	38,187,800	94,853,000	12,685,912	852,758,588
2026	583,934,936	119,525,875	38,190,450	--	12,685,912	754,337,173
2027	570,120,752	119,524,375	38,183,750	--	12,685,912	740,514,789
2028	547,659,163	119,528,875	38,185,500	--	12,685,912	718,059,450
2029	536,346,435	119,537,250	38,186,250	--	12,685,912	706,755,847
2030	505,073,515	134,284,625	38,188,750	--	12,685,912	690,232,802
2031	402,569,806	134,279,875	38,190,500	--	12,685,912	587,726,093
2032	388,599,810	117,971,500	38,184,000	--	12,685,912	557,441,222
2033	361,656,696	107,445,000	38,187,000	--	12,685,912	519,974,608
2034	312,292,493	107,458,750	38,191,250	--	12,685,912	470,628,405
2035	283,652,893	107,452,875	38,188,750	--	12,685,912	441,980,430
2036	256,977,493	107,455,625	38,186,750	--	12,685,912	415,305,780
2037	254,933,029	107,457,750	38,192,000	--	12,685,912	413,268,691
2038	253,902,347	107,451,625	38,190,750	--	12,685,912	412,230,634
2039	252,258,188	107,462,375	38,189,750	--	12,685,912	410,596,225
2040	231,710,962	90,681,500	38,190,250	--	12,685,912	373,268,624
2041	185,867,712	90,675,750	38,183,250	--	12,685,912	327,412,624
2042	92,301,481	90,667,875	--	--	23,790,745	206,760,101
2043	59,094,903	90,674,375	--	--	23,790,745	173,560,023
2044	26,364,500	72,443,000	--	--	23,790,745	122,598,245
2045	14,186,150	56,508,500	--	--	23,790,745	94,485,395
2046	9,991,800	39,985,250	--	--	23,790,745	73,767,795
2047		6,394,500	--	--	23,790,745	30,185,245
2048		6,394,500	--	--	23,790,745	30,185,245
2049	--	--	--	--	23,790,745	23,790,745
2050	--	--	--	--	23,790,745	23,790,745
2051	--	--	--	--	23,790,745	23,790,745
Total	$ 7,323,322,495	$ 2,382,615,063	$ 687,380,300	$ 194,240,500	$ 466,253,867	$ 11,053,812,225

Source: Office of the State Treasurer.

7. Authorized but Unissued Debt

Unissued Bond Authority

As of the end of FY 2023, the state has the authority to issue approximately $16.39 billion of bonds to finance Capital Budget and Transportation Budget-related projects. Approximately $8.59 billion, roughly 52% of the total, is authorized but unissued VP GO bonds. Of the VP GO total, $4.19 billion was authorized for the 2023-25 Capital Budget, and $4.40 billion remains authorized from prior biennia.

The other 48% of the authorized but unissued debt, or $7.80 billion, is for transportation projects. The largest portion of unissued transportation bonds is the Connecting Washington bond authorization, of

which approximately $4.37 billion remains. Issuance of the remaining Connecting Washington bonds is anticipated to occur over the next ten or more years.

Figure 7.1. Authorized but Unissued Debt
(as of June 30, 2023)

VP GO Bonds (Capital Budget)	**Unissued Bonds**
Subject to the Debt Limit	
2023-25 Biennium	$4,186,076,000
2021-23 Biennium	2,559,040,793
2019-21 Biennium	1,499,106,000
Prior Biennia	343,525,000
Excluded from Debt Authorization	755,000
Total VP GO Bonds (Capital Budget)	$8,588,502,793
Transportation Budget-Related Bonds	
Connecting Washington	$4,369,925,000
I-405 & SR-167 Express Toll Lanes	1,160,000,000
Transportation Partnership	1,130,291,664
Puget Sound Gateway Project	340,000,000
Triple Pledge Toll (SR 520)	254,540,000
2003 Nickel Account	212,491,123
Special Category C	171,762,291
Miscellaneous MVFT Authorizations	163,578,288
Total Transportation Budget-Related Bonds	$7,802,588,366
Total Authorized but Unissued Debt	$16,391,091,159

Source: Office of the State Treasurer.

8. Financing Contracts and Lease Obligations

State and Local Financing Contracts

Certificates of Participation - State

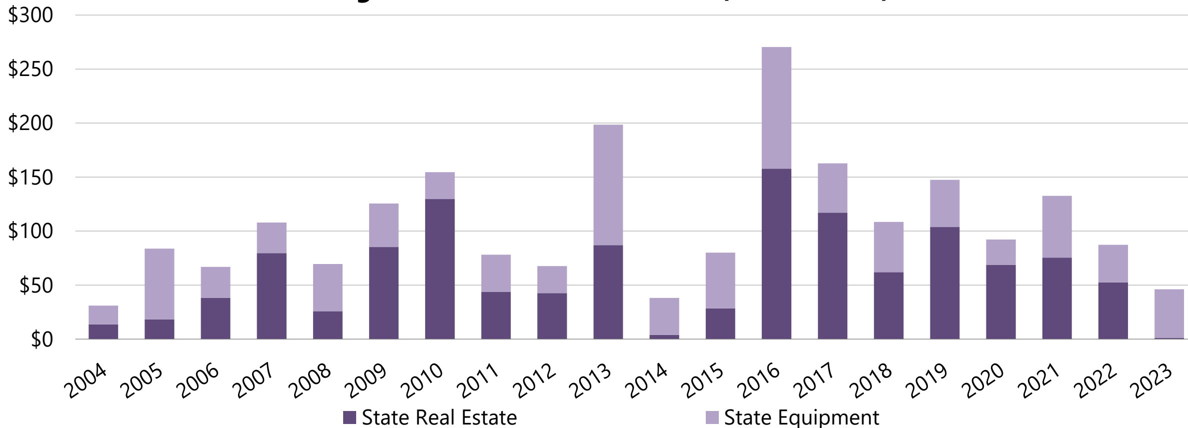
The state regularly finances real estate projects and equipment purchases by issuing Certificates of Participation (COPs). COPs consolidate multiple financing contracts used to finance real property (such as land and building acquisition, new construction, and facility improvements) or personal property (such as vehicles, computer hardware, and office equipment).

The maximum term of each lease is determined by the useful life of the asset(s) being financed. Real estate financings have a maximum term of 25 years, while equipment is typically financed for a period of three to ten years.

Consolidating multiple financing contracts into each COP issuance achieves economies of scale and minimizes issuance costs for participating agencies. Reflecting the shorter average life of the items generally being financed, approximately half of the state's outstanding COPs will be paid off within five years.

COPs are not backed by the full faith and credit of the state. COPs are payable only from current appropriations and/or from funds that do not constitute GSR. Payments made by state agencies are subject to appropriation risk and executive order reduction. COPs are typically rated one notch below GO debt, and borrowing rates are slightly higher as a result. Most recently, Moody's affirmed its Aa1 rating of the state's COPs on October 12, 2023. State real estate acquisition and construction projects financed with COPs must be authorized by the Legislature. Additionally, OST may require prior legislative approval for major equipment acquisitions.

Figure 8.1. State COP Issuance ($ in millions)



Source: Office of the State Treasurer.

As seen in Figure 8.1, COP issuance peaked at $270.4 million in FY 2016. In FY 2023, the state issued $46.1 million of COPs ($1.1 million for real estate and $45.1 million for equipment). At the end of FY 2023, the state had $740.8 million in outstanding COPs (Figure 8.2).

Figure 8.2. State COPs Outstanding ($ in millions)

As of:	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
State COPs Outstanding*	$893.4	$843.7	$847.6	$797.9	$740.8

** Totals include any principal that has been voluntarily prepaid by certain state agencies.*
Source: Office of the State Treasurer.

Figure 8.3 shows historical debt service on state COPs, with FY 2023 debt service amounting to approximately $132.3 million, an increase of approximately 7.4% from four years prior.

Figure 8.3. State COP Annual Debt Service ($ millions)

As of:	2019	2020	2021	2022	2023
Principal	$86.7	$97.3	$97.0	$93.9	$96.5
Interest	36.5	38.1	38.0	37.5	35.8
Total Annual Debt Service	$123.2	$135.5	$135.0	$131.3	$132.3

Source: Office of the State Treasurer.

Figure 8.4 shows future annual debt service payments for outstanding COPs for state agencies as of June 30, 2023.

Figure 8.4. Future COP Debt Service for State Agencies

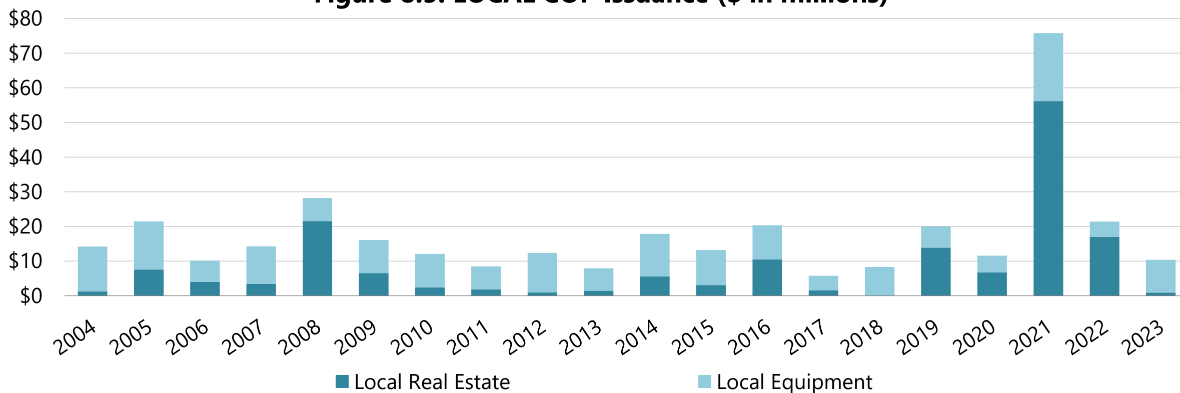
Fiscal Year	Principal	Interest	Total
2024	$94,108,154	$33,292,844	$127,400,998
2025	79,404,372	29,386,764	108,791,136
2026	68,581,473	25,669,658	94,251,132
2027	67,030,672	22,281,643	89,312,315
2028	54,091,989	19,243,914	73,335,903
2029	47,483,554	16,909,027	64,392,581
2030	41,989,661	14,830,004	56,819,664
2031	35,072,037	12,990,064	48,062,101
2032	31,377,126	11,437,367	42,814,493
2033	28,994,851	10,041,219	39,036,070
2034	24,982,747	8,797,869	33,780,616
2035	25,705,000	7,661,681	33,366,681
2036	25,810,000	6,493,513	32,303,513
2037	25,015,000	5,266,625	30,281,625
2038	25,335,000	4,069,475	29,404,475
2039	17,610,000	2,924,375	20,534,375
2040	10,005,000	2,193,125	12,198,125
2041	9,100,000	1,703,500	10,803,500
2042	9,415,000	1,241,750	10,656,750
2043	6,880,000	810,750	7,690,750
2044	7,140,000	460,250	7,600,250
2045	3,670,000	190,000	3,860,000
2046	1,965,000	49,125	2,014,125
Total	$740,766,636	$237,944,542	$978,711,178

Source: Office of the State Treasurer.

Certificates of Participation – Local Governments

OST issues COPs on behalf of local governments through the Local Option Capital Asset Lending ("LOCAL") Program. The LOCAL Program is a special financing program available to local governments that are able to provide a general obligation pledge and meet the state's established credit criteria. The LOCAL Program offers local agencies a way to finance essential real estate and equipment, such as fire stations, school buses, and ambulances, over a multi-year period. The program provides smaller municipal governments with economies of scale and the same low interest rates available through the state COP program by efficiently pooling local government financing contracts with the state's larger financing contracts. Debt service for COPs issued through the LOCAL Program is paid by the applicable contracted entity.

Figure 8.5. LOCAL COP Issuance ($ in millions)



Source: Office of the State Treasurer.

Figure 8.5 shows LOCAL Program COP issuance from FY 2004 through FY 2023, and Figure 8.6 shows the total outstanding obligations of the program. LOCAL Program COP issuance in FY 2021 was significantly higher than in previous years with $75.8 million in new financing contracts. The increase was largely due to several large real estate projects that were included in FY 2021 transactions. This larger annual issuance also increased the total amount of outstanding LOCAL Program COPs. At the end of FY 2023, outstanding LOCAL Program COPs totaled $137.0 million.

Figure 8.6. LOCAL COP Outstanding ($ in millions)

As of:	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
LOCAL COP Outstanding	$74.8	$74.4	$137.1	$142.2	$137.0

Source: Office of the State Treasurer.

Figure 8.7 shows historical debt service for the LOCAL Program, with FY 2023 debt service amounting to approximately $21.5 million.

Figure 8.7. LOCAL COP Debt Service ($ millions)

Fiscal Year:	2019	2020	2021	2022	2023
Principal	$11.8	$11.7	$11.9	$13.7	$15.4
Interest	3.1	3.1	4.1	5.5	6.1
Total Annual Debt Service	$14.9	$14.8	$16.00	$19.2	$21.5

Source: Office of the State Treasurer.

Figure 8.8 shows future annual debt service payments for local agencies as of June 30, 2023.

Figure 8.8. Future COP Debt Service for Local Agencies

Fiscal Years	Principal	Interest	Total
2024	$16,086,846	$5,941,487	$22,028,333
2025	15,525,628	5,301,224	20,826,852
2026	13,103,527	4,595,807	17,699,333
2027	12,499,328	3,984,319	16,483,647
2028	10,808,011	3,443,610	14,251,621
2029	8,646,446	2,994,332	11,640,778
2030	8,025,339	2,606,109	10,631,448
2031	6,567,963	2,263,866	8,831,829
2032	5,857,874	1,968,961	7,826,835
2033	4,415,149	1,728,197	6,143,346
2034	4,102,253	1,530,311	5,632,564
2035	3,955,000	1,351,488	5,306,488
2036	4,145,000	1,172,681	5,317,681
2037	4,090,000	986,718	5,076,718
2038	4,265,000	797,075	5,062,075
2039	4,450,000	598,550	5,048,550
2040	4,365,000	398,230	4,763,230
2041	4,495,000	197,115	4,692,115
2042	1,535,000	57,125	1,592,125
2043	70,000	3,500	73,500
Total	$137,008,364	$41,920,704	$178,929,067

Source: Office of the State Treasurer.

63-20 Lease Revenue Bonds

The state has entered into two long-term leases known as "63-20" lease revenue bond financings, a special type of financing authorized by IRS Revenue Ruling 63-20. With this type of public-private partnership, a non-profit corporation issues bonds on behalf of the state and uses the proceeds for the design and construction of a facility. Once the project has been completed, the state leases the facility from the non-profit and the lease payments are pledged to the repayment of the bonds. Upon repayment of the bonds, the state takes title to the property. Similar to the COPs, the state's lease payments are subject to appropriation risk and across-the-board cuts by the Governor.

The state's two 63-20 projects are highlighted in Figure 8.9. The Edna Lucille Goodrich Building is a state office building in Tumwater, Washington. The 1500 Jefferson Building, located in Olympia, WA, is a six-story state office building and a three-story data center. The final maturities for the related lease revenue bonds are July 1, 2028, and June 1, 2039, respectively. Collectively, outstanding principal for 63-20s at the end of FY 2023 totaled approximately $220.7 million.

Figure 8.9. Payments Under 63-20 Lease Revenue Bonds ($ in thousands)

Fiscal	Edna Lucille Goodrich Building		1500 Jefferson Building		
Year	Principal	Interest	Principal	Interest	Total
2024	$ 3,460	$ 1,064	$ 8,280	$ 9,798	$ 22,601
2025	3,790	883	8,700	9,384	22,756
2026	4,140	684	9,135	8,949	22,908
2027	4,510	468	9,590	8,492	23,060
2028	4,930	257	10,070	8,012	23,269
2029	3,955	79	10,570	7,509	22,113
2030	-	-	11,100	6,980	18,080
2031	-	-	11,650	6,425	18,075
2032	-	-	12,235	5,843	18,078
2033	-	-	12,845	5,231	18,076
2034	-	-	13,490	4,589	18,079
2035	-	-	14,170	3,914	18,084
2036	-	-	14,875	3,206	18,081
2037	-	-	15,620	2,462	18,082
2038	-	-	16,400	1,681	18,081
2039	-	-	17,220	861	18,081
Total	$ 24,785	$ 3,435	$ 195,950	$ 93,334	$ 339,971

Totals may not add due to rounding.

Source: Office of the State Treasurer.

9. Other State Obligations

Pensions

Washington's pension plans are consistently recognized as some of the best-funded plans in the nation. The state administers twelve defined benefit retirement plans and three hybrid defined benefit/defined contribution plans. The Annual Comprehensive Financial Report by the Department of Retirement Systems for fiscal year 2023 shows that the plans covered 650,033 state and local government members (including active employees, terminated employees entitled to future benefits, retirees, and beneficiaries).[14]

For FY 2022, the combined funded status for all the state-administered retirement plans was very strong at 96%—up from 93% in FY 2021, despite the investment rate of return being reduced from 7.5% to 7.0% in 2021—with $130.62 billion in accrued liability and $125.03 billion as the actuarial value of assets, leaving a total of $5.60 billion in unfunded liability.

Another measure, Net Pension Liability ("NPL"), represents unfunded actuarial accrued liability, and equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) less the value of the assets in the pension trust that can be used to make benefit payments. Under the Governmental Accounting Standards Board ("GASB") reporting standards, the state's share of NPL reported for FY 2023 is a collective negative $4.38 billion (indicating the pension system had a surplus at this specific point in time)—a $5.96 billion change from the prior year. It should be noted that the NPL calculation is impacted by changing interest rates. Large changes in interest rates can cause

[14] DRS, 2023 Annual Comprehensive Financial Report. https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report.

significant volatility in results. For example, from FY 2020 to FY 2021, the surplus in the state pension system increased by $10.11 billion. For comparison, the average year-over-year change for the three fiscal years prior was a surplus of $730,000.

According to a 2023 report by S&P, Washington's pension systems score well when compared to peer states. S&P calculated Washington's aggregate funded ratio, based on the NPL approach, to be 104% in FY 2022, which is the third highest of any state. Similarly, the state's NPL per capita of negative $416 (reflecting a surplus) is the nation's lowest. The median NPL per capita for all 50 states is $1,241.

Figure 9.1. Comparing Washington to Other State Pension Systems

	Ratings (Moody's/ S&P/ Fitch)	**Aggregate Pension Funded Ratio[1]**	**Net Pension Liability per Capita[1]**	**Debt, Pension and Net OPEB per Capita[1,2]**
Washington	**Aaa / AA+ / AA**	**104.0%**	**-$416**	**$3,059**
Delaware	Aaa / AAA / AAA	87.4%	$1,584	$11,537
Utah	Aaa / AAA / AAA	95.2%	$165	$875
North Carolina	Aaa / AAA / AAA	84.2%	$343	$1,412
Georgia	Aaa / AAA / AAA	72.2%	$1,123	$2,611
Florida	Aaa / AAA / AAA	79.1%	$336	$1,415
Ohio	Aa1 / AA+ / AAA	77.4%	$560	$1,499
Minnesota	Aaa / AAA / AAA	78.9%	$585	$2,096
Oregon	Aa1 / AA+ / AA	84.6%	$874	$3,100
Nevada	Aa1 / AA+ / AA	75.2%	$3	$894
Texas	Aaa / AAA / AAA	74.5%	$1,834	$4,034
Virginia	Aaa / AAA / AAA	82.3%	$645	$2,101
Maryland	Aaa / AAA / AAA	75.8%	$3,147	$7,792
Colorado	Aa1 / AA / NR	61.5%	$2,114	$2,904
Massachusetts	Aa1 / AA+ / AA	64.3%	$5,909	$13,776
Missouri	Aaa / AAA / AAA	56.3%	$1,264	$2,076
National Median		73.7%	$1,241	$2,882

[1] *U.S. State Pension And OPEBs: Funding Progress Is Likely To Pick Up In 2023 After Slipping In 2022, S&P, September 7, 2023.*
[2] *U.S. State Debt: Lower For Now, S&P, July 10, 2023.*

Other Post-Employment Benefits ("OPEB")

The state provides health care benefits to its retirees through implicit and explicit subsidies. Unlike the state's pension obligations, neither the implicit nor explicit subsidies are contractual obligations to retirees.

The state allows retirees not yet eligible for Medicare to use their own money to pay for health insurance at group rates negotiated for public employees. This results in an implicit subsidy of the rates paid by those individuals choosing to participate. There is no direct contractual obligation for the state to provide this benefit, and the state does not pay any portion of retirees' premiums. Nonetheless, by including retirees in this purchasing pool, it does marginally increase overall insurance rates (including the rates that are paid to cover current employees).

In addition to the implicit subsidy, the state provides an explicit subsidy to reduce Medicare-eligible retiree Part A and B premiums by an amount determined each year by the Public Employee Benefits Board ("PEBB").

In 2023, the state's estimated monthly contribution per retiree plan member was $1,156.[15] Like the implicit subsidy, the state is under no contractual obligation to retirees to continue to provide this benefit. Instead, the Legislature determines each biennium whether or not to include it in the state's budget. The state funds both the implicit and explicit subsidies on a pay-as-you-go basis; that is, the state pays the costs as they occur. For FY 2023, the state's annual OPEB expenses were $443 million.[16]

GASB Statement No. 75 requires that the total OPEB liability be determined through an actuarial valuation of the future costs of the implicit and explicit subsidies. Under GASB 75, the state's total OPEB liability was reported as $4.25 billion for the fiscal year ending June 30, 2022, a decrease of $2.22 billion from the prior year.

School Bond Guarantee Program

The School Bond Guarantee Program is a direct credit enhancement program administered by OST that provides savings to state taxpayers by pledging the full faith, credit, and taxing power of the state to the payment of voter-approved school district GO bonds. The state's obligation is a contingent obligation, in that the state would only be required to make a payment in the event that a participating school district was unable to make a timely payment of principal and/or interest on guaranteed bonds. Additionally, the School Bond Guarantee Program is excluded from the constitutional debt limitation.

As of June 30, 2023, there was a total of 414 bond issues guaranteed, an average outstanding principal amount for each guaranteed issue of $36.9 million, and a total principal outstanding of $15.28 billion (Figure 9.2). The School Bond Guarantee Program saves taxpayers roughly $53 million annually (as of December 31, 2023) in reduced interest costs.

Figure 9.2. Outstanding Guaranteed School District Bonds ($ in billions)

	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
Guaranteed principal amount outstanding	$14.409	$15.547	$16.323	$16.025	$15.283
Number of participating school districts	178	175	172	170	159
Number of guaranteed bond issues outstanding	482	489	474	463	414

Source: Office of the State Treasurer.

The state has only made one advance under the School Bond Guarantee Program in the program's history. On June 1, 2021, the state made a payment of approximately $3.2 million to ensure the timely payment of debt service due on bonds issued by the school districts located in Mason County. The county treasurer is responsible for making debt service payments on behalf of all districts located within the county. The timing of the payment was delayed due to an internet connectivity issue experienced by the county's depository banking institution, which prevented the timely delivery of the payment to the state fiscal agent for the guaranteed bonds. The delay did not reflect any financial difficulties of the school districts or of the county. Payment from the county, on behalf of the school districts, was delivered to the state fiscal agent later in the day and the state's advance was fully reimbursed at that time.

[15] Office of Financial Management, 2023 Annual Comprehensive Financial Report. (https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report)

[16] Office of the State Actuary, 2022 PEBB OPEB Actuarial Valuation Report. (https://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx)

Guaranteed Education Tuition ("GET") Program

The Washington Guaranteed Education Tuition Program ("GET Program") is a 529 college savings plan that allows Washington residents to prepay college tuition. Individual accounts are guaranteed by the state to keep pace with rising college tuition, based on the highest tuition at Washington's public universities. The after-tax contributions to a GET account grow tax-free and can be withdrawn tax-free when used for eligible higher education expenses. As of June 30, 2023, the present value of GET Program assets totaled $1.69 billion, or 148.2% of estimated program obligations, producing a reserve of $551 million.[17]

In 2018, the state also began offering the DreamAhead College Investment Plan, a 529 college savings plan that is managed and invested separately from assets in the GET Program. The state does not guarantee DreamAhead account investments, and participant account values are based on the performance of financial markets, rather than changes in tuition.

10. Refinancings and Borrowing Costs

OST actively monitors the state's portfolio of debt and other financial obligations for opportunities to lower its borrowing costs through refinancings, also known as refundings. All refinancings are executed in accordance with the debt policies of the State Finance Committee, which specify minimum savings thresholds.

2023 Refinancings

During FY 2023, interest rates increased above the historically low rates of the pandemic but remained lower than the 30-, 50-, and 100-year averages. With rates still lower than historic averages, OST was able to refinance millions of dollars of VP GO bonds and transportation-related bonds.

Various Purpose General Obligation Refunding Bonds

In FY 2023, the state issued one series of VP GO Refunding Bonds, totaling $828.7 million. The refunding benefitted the general fund (Operating Budget) by producing net present value ("NPV") savings of $105.6 million, or 12.75% of the refunding bonds.

Transportation Refunding Bonds

Also in FY 2023, the state issued one series of MVFT/VRF GO Refunding Bonds totaling $514.4 million, which provided WSDOT with NPV savings of $55.1 million, or 10.71% of the refunding bonds.

Refinancing Financing Contracts

OST regularly monitors outstanding lease-purchase obligations on behalf of state agencies and local governments for refinancing opportunities. Refinancings are conducted on a lease-by-lease basis and are regularly included in COP issuances. In FY 2023, state COP refinancings produced $82,874 or 7.67% in lease level NPV savings. There were no LOCAL Program refinancings.

[17] 2023 GET Actuarial Valuation Report, Office of the State Actuary. (https://leg.wa.gov/osa/additionalservices/Pages/GET.aspx)

Figure 10.1. Fiscal Year 2023 Refundings Summary ($ in millions)*

	Par Amount of Refunding Bonds	Net Present Value (NPV) of Savings	NPV Savings as % of Refunding Bonds
VP GO			
Series R-2023A	$828.7	$105.6	12.75%
MVFT/VRF GO			
Series R-2023B	514.4	55.1	10.71%
COPs—State	1.1	0.1	7.67%
Total FY 2023 Refundings	$1,344.1	$160.8	11.96%

** Totals may not add due to rounding.*

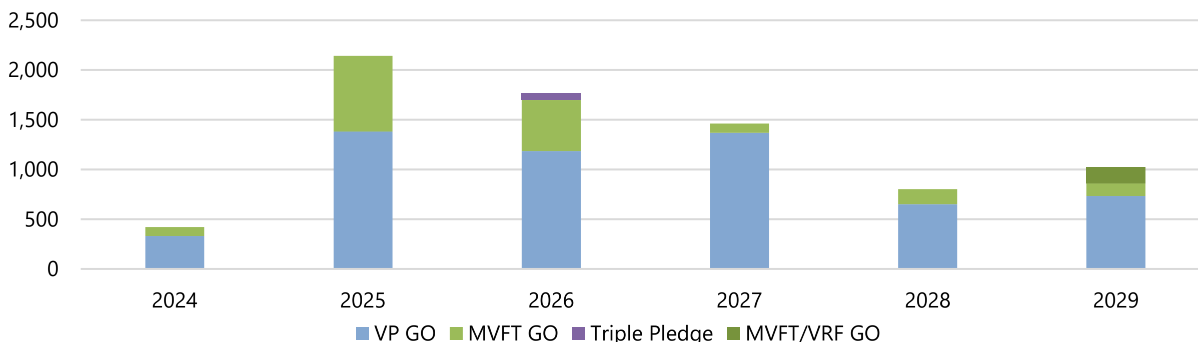
Source: Office of the State Treasurer.

Future Refunding Opportunities

Unfortunately, the Federal Tax Cuts and Jobs Act of 2017 eliminated state and local governments' abilities to issue tax-exempt advance refunding bonds. "Advance refunding bonds" are refunding bonds issued more than 90 days in advance of the call date of the bonds to be refunded. The loss of advance refundings has reduced the state's financial flexibility and limited its ability to lock in debt service savings during periods of historically low interest rates. While flexibility is now constrained, OST continues to monitor the state's outstanding obligations for opportunities to reduce debt service costs through current refundings (refunding bonds issued within 90 days of the call date of the bonds to be refunded).

Figure 10.2 summarizes the outstanding bonds that can be currently refunded in FY 2024 through FY 2029. OST actively monitors these callable bonds for refunding opportunities in order to produce debt service savings for the state. As we pass the sixth anniversary of the Federal Tax Cuts and Jobs Act of 2017 and the loss of tax-exempt advance refundings, the amount of callable bonds eligible to be currently refunded now averages $1.31 billion per year.

Figure 10.2. Callable Principal Amounts by Call Date (fiscal year, $ in millions)

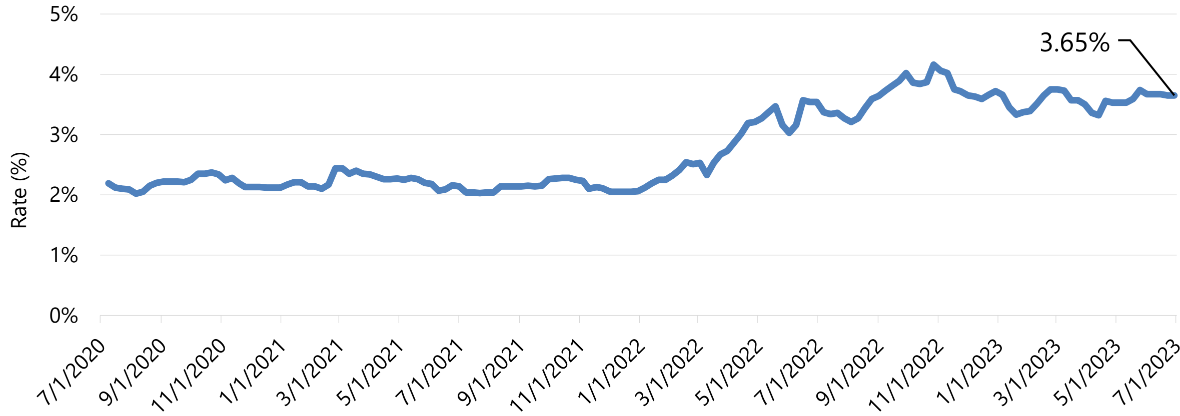


Source: Office of the State Treasurer.
Note: OST refunded $311.5 million of VP GO bonds and $196.0 million of MVFT GO bonds on November 7, 2023.

Borrowing Costs

Figure 10.3 shows a three-year history of the Bond Buyer 20-Bond Index ("BBI") through the close of FY 2023. The BBI is an index based on a group of general obligation bonds maturing in 20 years, from 20 different issuers. The BBI is published by the Bond Buyer, a daily financial publication, and serves as an approximate benchmark for the state's borrowing costs. The BBI stood at 3.65% on June 29, 2023, which is 163 basis points higher than the 2.02% rate on August 6, 2020, the pandemic-era low.

Figure 10.3 General Obligation Interest Rate Trends
Weekly Bond Buyer 20-Bond Index (BBI) (as of June 29, 2023)

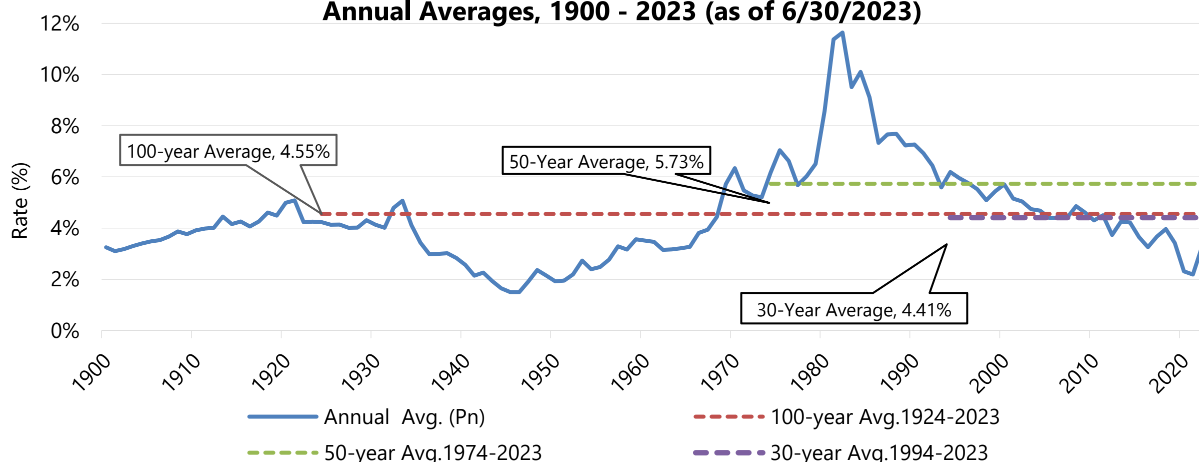


Source: Office of the State Treasurer.

Borrowing costs in calendar year 2023 were higher than the historically low rates from 2020 through 2022. As a result of the Federal Reserve's efforts to combat inflation, interest rates increased significantly starting in mid-2022. The July 2023 sale of VP GO bonds (Series 2024A) with a 25-year final maturity and level debt service achieved a combined True Interest Cost ("TIC") of 3.83%, compared to a TIC of 2.49% for structurally similar Series 2022A bonds that sold during July 2021. The weighted average cost of funds for the entire VP GO bond portfolio is currently 2.96%.

Despite the recent increase in interest rates, rates are still below historic averages relative to long-term borrowing costs. As shown in Figure 10.4, the BBI started trending upward in the near term, but remains below the 30- 50- and 100-year annual averages.

Figure 10.4. Weekly Bond Buyer 20-Bond Index (BBI)
Annual Averages, 1900 - 2023 (as of 6/30/2023)



Source: Office of the State Treasurer.

11. Obligations of Other Washington State Entities

Revenue bonds and COPs issued by the state's colleges and universities, conduit issuers and financing authorities, and the Tobacco Settlement Authority are not legal or moral obligations of the state and the debt service on those revenue bonds and obligations is payable solely from the revenues pledged to the repayment of the obligations.

Higher Education Revenue Bonds

Revenue bonds and COPs can be issued by the state's colleges and universities to finance major campus construction projects. In addition, certain state colleges and universities are authorized to independently issue revenue bonds for the construction of certain types of revenue-generating facilities for student housing, dining, and parking. These revenue bonds are payable solely from revenues derived from the operation of the constructed facilities. Figure 11.1 lists the total revenue bonds outstanding for each state university over the past five fiscal years.

Figure 11.1. Higher Education Revenue Bonds Outstanding ($ in thousands)

	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
University of Washington	$2,207,488	$2,246,475	$2,248,916	$2,287,211	$2,214,593
Washington State University	577,555	542,800	577,790	550,295	525,325
Western Washington University	82,590	145,950	155,325	152,290	146,335
Central Washington University	152,941	147,532	141,885	134,057	128,508
Eastern Washington University	78,105	76,010	73,835	71,575	69,210
The Evergreen State College	2,655	2,300	1,935	1,565	1,190
Total	$3,101,334	$3,161,067	$3,199,686	$3,196,993	$3,085,161

Source: Office of Financial Management.

Conduit Issuers and Financing Authorities

Washington has four conduit financing authorities that can issue non-recourse revenue bonds to make loans to qualified borrowers for capital projects. The four financing authorities are: the Washington Health Care Facilities Authority ("WHCFA"), the Washington State Housing Finance Commission ("WSHFC"), the Washington Economic Development Finance Authority ("WEDFA"), and the Washington Higher Education Facilities Authority ("WHEFA"). Bonds issued by these conduit issuers do not constitute obligations, either general, special, or moral, of the state of Washington or pledges of the faith and credit of the state. All four financing authorities are financially self-supported and do not receive funding from the state.

Figure 11.2. Conduit Issuer Debt Outstanding ($ in thousands)

	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
WA State Housing Finance Commission	$5,303,034	$6,721,888	$6,907,398	$6,812,873	$7,132,884
WA Health Care Facilities Authority	5,583,925	5,464,508	5,295,552	5,059,797	5,118,964
WA Economic Development Finance Auth.	694,275	653,906	740,250	772,841	1,018,460
WA Higher Education Facilities Authority	612,681	703,014	735,422	734,192	708,385
Total	$12,193,915	$13,543,316	$13,678,622	$13,379,703	$13,978,693

Source: Office of Financial Management.

Tobacco Settlement Securitization

The Tobacco Settlement Authority ("TSA") was created to securitize a portion of the state's revenue from the 1998 Tobacco Master Settlement Agreement. In 2002, the TSA issued $517.9 million in bonds and transferred $450.0 million to the state to be used for increased health care, long-term care, and other programs. The TSA bonds are not obligations of the state and are payable solely from the special fund or funds created by the TSA for their payment. As of June 30, 2023, the TSA had approximately $33.3 million of outstanding bonds.[18]

[18] Tobacco Settlement Authority, 2023 Annual Comprehensive Financial Report. (https://emma.msrb.org/P21785552.pdf)

The following quotations provide examples of how the State's credit is viewed and analyzed by the agencies that provide the State's ratings:

"Washington's 'AA+' Long-Term IDR and GO bond ratings reflect the state's broad and growing economy, with solid long-term revenue growth prospects, as well as the state's demonstrated commitment to fiscal balance and long-term liabilities that place a low burden on resources. The ratings also incorporate the state's very strong financial resilience, which is supported by a statutory requirement for a balanced four-year budget and formulaic funding of the budget stabilization account (BSA), which has led to the accumulation of solid reserves. Education poses continued spending pressure for the state given steady population growth and the state's role as the primary funding source for K-12 schools."

– Fitch Ratings (October 2023)

"The State of Washington's Aaa Issuer Rating and GO bonds reflect its strong economic fundamentals driven largely by the technology sector in the Seattle (Aaa stable) metro area, above-average resident income levels, positive demographic trends and strong fiscal governance. The state's reserve position has strengthened in recent years as a result of better-thank-expected revenue performance and the availability of federal pandemic relief funds."

– Moody's Investor Services (October 2023)

"Supported in part by prudent financial management and a resilient economy, Washington transitioned into its new biennium (2023-2025) from a position of strength, in our view. While we anticipate its debt profile will remain relatively high, we believe the state's collective liabilities will remain manageable and not present meaningful budgetary pressure in the medium term."

– S&P Global Ratings (October 2023)

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