S&P Global
Ratings

RatingsDirect®

Summary:

Washington; Appropriations; General Obligation

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Credit Profile		
US$1080.785 mil motor veh fuel tax & veh related fees GO rfdg bnds ser R-2024C due 08/01/2040		
Long Term Rating	AA+/Positive	New
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
FYI Properties, Washington		
Washington		
FYI Properties (Washington) APPROP		
Long Term Rating	AA/Positive	Affirmed
Washington		
Washington		
Washington State Toll Facility, Washington		
Washington (Washington St Toll Facs) GO		
Long Term Rating	AA+/Positive	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Washington's series R-2024C $1.081 billion motor vehicle fuel tax and vehicle-related fees general obligation (GO) refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term and underlying ratings on the state of Washington's GO bonds outstanding, motor vehicle fuel tax GO bonds, and motor vehicle fuel tax and vehicle-related fees GO bonds, as well as its 'AA' rating on the state's appropriation-backed debt outstanding.
- The outlook on all ratings is positive.

Security

Our rating on the state's GO bonds reflects Washington's full faith, credit, and taxing powers. The motor vehicle fuel tax and vehicle-related fees GO bonds are further secured and expected to be paid by motor vehicle fuel tax and vehicle-related fees.

We rate the state's appropriation-backed debt obligations one notch lower than our rating on Washington to reflect the service contract and lease payments appropriated by the state legislature for these bonds.

The series R-2024C bonds will be used to refund the state's series 2010D and 2010F motor vehicle fuel tax GO bonds (taxable Build America Bonds direct payment).

Credit overview

Washington's credit profile continues to be strengthened by its resilient economy and proactive financial management, which have allowed it to navigate through economic cycles and consistently rebound to its strong position. We expect that the state's debt profile will remain moderate-to-moderately high, but given its strong pension funding discipline, we expect its collective liabilities will remain manageable over the medium term.

The positive outlook reflects our view that the state's positive economic momentum will help support revenue collections over the current biennium, and that the state will demonstrate its commitment to maintaining and replenishing its reserves.

In March, the state legislature passed its 2024 supplemental budget, which serves as a tool to make adjustments to the enacted 2023-25 biennial budget. The legislation still awaits the governor's signature, but it increased the near-general fund (GF) outlook (the state's operating budget) from $69.8 billion to $71.1 billion. According to the state, some of the largest increases were driven by Medicaid, the Food Assistance Program, kindergarten-through-grade 12 (K-12) enrollment, and the mandatory Trueblood case judgment, which are court-required costs related to behavioral health. The legislature also passed a supplemental transportation budget that provides an 8% increase to the currently enacted 2023-25 biennium appropriations. This notable increase is primarily funded by reappropriated federal funding, higher-than-expected Climate Commitment Act auction (cap-and-trade program) revenues, and increased Move Ahead Washington (MAW) account spending from available balances.

Under the recently passed legislation, Washington is projected to have $1.3 billion in its budget stabilization account (BSA), or 3.6% of fiscal 2025 appropriations, at biennium-end, which is slightly lower on a percentage basis compared with the enacted budget, given the increase in proposed expenditures. In addition, the state's near-GF ending balance is expected to be $2.8 billion, or when added to the BSA, equal to a combined total of 11.1% of fiscal 2025 appropriations. Historically, the state's lack of a formal policy for its budget reserve level has allowed low balances to persist through 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 preserving its reserves in the current biennium as a positive credit factor. We expect the state to continue to balance its revenues with ongoing operational needs, which is an imperative factor in Washington's credit profile.

The state also has upcoming ballot initiatives that could alter the state's finances. Specifically, there are voter initiatives to repeal Washington's cap-and-trade program, authorized by its Climate Commitment Act, and another to repeal its newly instituted capital gains tax. Both have generated significant revenues in recent years and could pose budgetary pressures absent any corresponding expenditure adjustments by the state, but we understand that the state is already considering actions such as stopping or delaying spending authority for some appropriations if it were to pass. Overall, we believe Washington's proactive financial management and balanced budget requirements would position it well to navigate a potential repeal of these revenue streams.

S&P Global Ratings' latest economic forecast revised its national 2024 GDP growth forecast from 1.5% to 2.4% in 2024, driven by economic expansion that exceeded our expectations through the second half of 2023, as well as the sturdy labor market. Given that the labor market continues to create jobs and recognize gains above inflation, consumer spending has remained strong, which we believe will continue to support Washington's sales tax-based revenue structure. For more information, see "U.S. Economic Forecast Update: A Sturdy Job Market Keeps Growth Going," published Feb. 21, 2024, on RatingsDirect.

In line with the strength S&P Global Ratings' economic outlook revision recognized in the national job market, Washington's employment surpassed the state's expectations for the end of 2023. The state's February 2024 economic and revenue forecast highlights the resilient expansion of the state's economy, including more employment growth and faster personal income growth than the previous forecast, although with slightly lowered nominal levels for 2024 and 2025. The state's actual revenues have been coming in stronger than expected since the November forecast, and forecast funds were slightly revised up, by $122 million, for the 2023-25 biennium in the February 2024 projections, including both GF state and non-GF state revenues, which represents 0.2% of total biennial revenue. The increase was led by the GF state ($53 million), followed by the education legacy trust account ($31 million), the WA Opportunity Pathways account ($24 million), and the workforce education investment account ($13 million). S&P Global Market Intelligence forecasts that Washington's real gross state product (GSP) growth will be 2.4% in 2024, 1.9% in 2025, and 2.1% in 2026.

The GO rating reflects our view of Washington's:

- Resilient and diverse economic base, with GSP per capita at 123% of the U.S. average and statewide per capita income at 115% of the U.S. overall;
- Sales tax-based revenue structure, which has demonstrated less sensitivity to economic cycles than income tax-reliant states;
- Strong financial policies and practices, including statutory provisions requiring that the state's biennial budget and projected subsequent two fiscal years' spending plans be balanced; and
- Strong pension funding discipline, leading to low unfunded retirement liabilities.

Offsetting these factors, in our opinion, include the state's:

- Lack of a formal minimum reserve policy, which has allowed for low balances to persist through periods of economic softness; and
- Moderate to moderately high debt profile, with average amortization.

Under our state ratings methodology, S&P Global Ratings assigned Washington a score of '1.5' on a four-point scale, with '1.0' being the strongest and '4.0' being the weakest, resulting in an indicative 'AAA' rating. However, we have notched down to 'AA+' given the state's limited formal reserve levels, which are notably lower than those of higher-rated peers.

Washington's GO bonds are eligible to be rated above the sovereign because we believe the state can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above the Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013), U.S. states are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable, providing for significant state autonomy and local-revenue flexibility, as well as independent treasury management.

For more information on the State of Washington, please see our full report published Jan. 11, 2024, on RatingsDirect.

Environmental, social, and governance

While the state faces a combination of exposures from rising sea levels along its vast coastline and risk of wildfires in its expansive forests, we believe physical risks are credit neutral and mitigated by Washington's long-term planning and practices. The state has integrated considerations of a changing climate into its planning and decision-making processes, including multiple state agencies studying the effects of climate change on their areas of focus, and the Washington State Economic and Revenue Forecast Council preparing an annual climate study. In recent years, the state has adopted legislation addressing climate change, including programs to reduce energy emissions. Washington's social and governance factors have an overall neutral influence in our credit analysis.

Outlook

The positive outlook reflects our expectation that there is a one-in-three chance we could raise our rating over the next two years. We expect the state's strong budgetary management will continue its commitment to balanced operations. In addition, we believe that the state's robust forecasting practices will benefit the state in identifying potential pressures, and that the state will continue to balance expenditure growth with available resources in future budgets.

Downside scenario

We could revise our outlook back to stable if, in the face of budgetary pressure, lawmakers delay taking corrective action or rely extensively on one-time solutions to remediate potential gaps. We also could lower the rating if the state opts to further use available reserves, namely its BSA, and fail to replenish balances in a timely manner.

Upside scenario

All else equal, we could raise the rating if Washington demonstrates a commitment over time to maintaining and replenishing reserves through positive economic periods. In addition, a moderation in debt levels, coupled with faster amortization, could support upward rating potential.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 13, 2024)		
Washington motor vehicle fuel tax and vehicle related fees GO rfdg bnds		
Long Term Rating	AA+/Positive	Affirmed
Washington var purp GO rfdg bnds		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Positive	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed

Ratings Detail (As Of March 13, 2024) (cont.)		
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
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Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
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Unenhanced Rating	AA+(SPUR)/Positive	Affirmed
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Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed

Ratings Detail (As Of March 13, 2024) (cont.)		
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
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Long Term Rating	AA+/Positive	Affirmed
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Long Term Rating	AA+/Positive	Affirmed
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Washington GO		
Long Term Rating	AA+/Positive	Affirmed

Ratings Detail (As Of March 13, 2024) (cont.)		
Washington GO		
Long Term Rating	AA+/Positive	Affirmed
Washington GO (AMBAC)		
Unenhanced Rating	AA+(SPUR)/Positive	Affirmed
Washington GO (MBIA)		
Unenhanced Rating	AA+(SPUR)/Positive	Affirmed
Washington GO (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Positive	Affirmed
Washington GO (SYNCORA GTY)		
Unenhanced Rating	AA+(SPUR)/Positive	Affirmed
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.