

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aaa to State of Washington's GOs, Series 2025A, 2025B, 2025T, and R-2025A; outlook stable

18 Jun 2024

New York, June 18, 2024 -- Moody's Ratings (Moody's) has assigned Aaa ratings to the State of Washington's \$829.9 million Various Purpose General Obligation Bonds, Series 2025A, \$208.4 million Motor Vehicle Fuel Tax and Vehicle Related Fees General Obligation Bonds, Series 2025B, \$45.2 million General Obligation Bonds, Series 2025T (Taxable) and \$286.6 million Various Purpose General Obligation Refunding Bonds, Series R-2025A. The state's Issuer Rating is also Aaa. The outlook is stable.

RATINGS RATIONALE

The State of Washington's Aaa Issuer Rating reflects its strong economic fundamentals with real GDP growth consistently outperforming the US, per capita income representing 104.8% of US even after adjusting for high costs of living, and positive demographic trends. The issuer rating incorporates the state's strong governance practices (governance issuer profile score G - 1) and sound reserve and liquidity positions. Washington's reserve position has strengthened in recent years following robust revenue growth, but will retreat from record positions to levels more in-line with pre-pandemic days, given sizable spending increases under the 2023-2025 biennium budget and as revenue growth is slowing under softening economic conditions. The state targets to maintain budget basis General Fund plus Budget Stabilization Fund at no less than 10% of Near General Fund - State revenue, and typically maintains total governmental available fund balance at a higher position. 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.

The Aaa general obligation rating is the same as the Issuer Rating because the state

has pledged its full faith, credit and taxing power to pay the bonds.

RATING OUTLOOK

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

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- A significant deterioration of the state's reserve and liquidity position, including a weakening of budgetary reserves
- Protracted structural budget imbalance and/or a shift to reliance on one-time budget solutions
- A sustained or structural weakening of the state's economy and demographic trends
- A material increase in leverage and fixed costs to levels well above sector medians

LEGAL SECURITY

The state currently has four classes of the general obligation bonds outstanding - General Obligation Bonds or Various Purpose General Obligation Bonds, Motor Vehicle Fuel Tax ("MVFT") General Obligation Bonds, Motor Vehicle Fuel Tax and Vehicle Related Fees ("MVFT/VRF") General Obligation Bonds, and Triple Pledge Bonds - all of which are general obligations of the state, to which the state has pledged its full faith, credit and taxing power.

USE OF PROCEEDS

Proceeds of the Various Purpose General Obligation Bonds, Series 2025A will pay and reimburse state expenditures for various capital purposes, including K-12 school renewal and replacement projects, facilities for state universities and community and technical colleges, community-based and state facilities projects, affordable housing units, water supply, flood protection, habitat conservation and rehabilitation projects, outdoor recreation facilities, riparian protection projects and farmland preservation.

Proceeds of the Motor Vehicle Fuel Tax and Vehicle Related Fees General Obligation Bonds, Series 2025B will pay and reimburse state expenditures for various transportation capital projects, including improvements to the Interstate 90 and State

Route 18 interchange, and the location, design, right-of-way, and construction of transportation projects or improvements that are identified as Connecting Washington transportation projects or improvements.

Proceeds of the General Obligation Bonds, Series 2025T (Taxable) will pay and reimburse state expenditures for various capital purposes such as affordable housing units, water supply, broadband, clean energy and basic infrastructure projects.

Proceeds of the General Obligation Bonds, Series R-2025A will refund all or a portion of the state's outstanding Various Purpose General Obligation Bonds, Series 2015A-1 and Series R-2015A.

PROFILE

Washington is the thirteenth largest state by population, at 7.8 million. Its nominal gross domestic product (GDP) is the ninth largest, at \$801.5 billion as of 2023. Resident income measures are above average, although Washington's cost of living has surged in recent years. Washington's per capita personal income is equal to 104.8% of the US after adjusting for regional cost of living.

METHODOLOGY

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

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

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