

# RatingsDirect®

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## Summary:

# Washington; Appropriations; General Obligation

### Primary Credit Analyst:

Savannah Gilmore, Englewood + 1 (303) 721 4132; savannah.gilmore2@spglobal.com

### Secondary Contact:

Oscar Padilla, Dallas + 1 (214) 871 1405; oscar.padilla@spglobal.com

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## Summary:

# Washington; Appropriations; General Obligation

### Credit Profile

US\$829.935 mil var purp GO bnds ser 2025A due 08/01/2049		
<i>Long Term Rating</i>	AA+/Positive	New
US\$286.580 mil var purp GO rfdg bnds ser R-2025A due 07/01/2039		
<i>Long Term Rating</i>	AA+/Positive	New
US\$208.390 mil motor vehicle fuel tax and vehicle related GO bnds ser 2025B due 06/01/2049		
<i>Long Term Rating</i>	AA+/Positive	New
US\$45.180 mil GO bnds ser 2025T due 08/01/2027		
<i>Long Term Rating</i>	AA+/Positive	New
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Washington's series 2025A various-purpose general obligation (GO) bonds, series 2025B motor vehicle fuel tax and vehicle-related fees GO bonds, series 2025T GO bonds, and series R-2025A various-purpose 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 2025ABT bonds are being issued for various capital purposes throughout the state. The series R-2025A bonds are being issued to refund all or a portion of the state's series 2015A-1 various-purpose GO bonds and its series R-2015A various-purpose GO refunding bonds.

### 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.

This spring, the state enacted its 2024 supplemental budget, which serves as a tool to make adjustments to the enacted 2023-25 biennial budget. The state's biennial budget increased by a net \$2.1 billion from the originally enacted budget, which now totals \$71.5 billion. The increases were largely driven by kindergarten-through-grade 12 (K-12) education, behavioral health programs, and caseload increases. After a buildup of reserves over the 2021-23 biennium, the state has planned to use a portion to fund key priorities, including behavioral health, educational staffing, supplies, and special education, as well as for caseload increases. In addition, a portion of the state's reserves being used was from the Washington Rescue Plan Transition Account (WRPTA), intended to help the state navigate effects from the pandemic and wind down activities related to it.

Based on the enacted 2024 supplemental budget, 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 than the originally enacted budget, given the increase in expenditures. In addition, the state's near-general fund (GF) ending balance is expected to be \$2.4 billion, or a combined total of 10.0% of fiscal 2025 appropriations when added to the BSA. 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 preserving combined reserves at robust levels through the current biennium as a positive credit factor, and we expect the state to continue balancing its revenues with ongoing operational needs, which is an imperative factor in Washington's credit profile.

The state also has upcoming November 2024 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. The state's 2024 supplemental budget delayed expenditure authority in certain funds to help navigate the potential budgetary impacts if these ballot measures 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 projects national GDP growth to be 2.5% in 2024, driven by a sturdy labor market, and we continue to expect the economy to transition to slightly below-potential growth in the next couple of years. Given inflation's persistence in the economy, we now believe the Fed's first rate cut will likely come in December rather than July. Consumer spending continues to be a major driver of real GDP growth, which we believe will continue to support Washington's sales tax-based revenue structure. For more information, see "Persistent Above-Target Inflation Will Delay The Start Of Rate Cuts In The U.S.," published May 1, 2024, and "Economic Outlook U.S. Q2 2024: Heading For An Encore," published on March 26, 2024, both on RatingsDirect.

Based on the state's monthly economic and revenue update produced by the Economic and Revenue Forecast Council, the state's total general fund-state collections through early June were 0.1%, or \$13.8 million, above its February forecast expectations. At the same time, the state's unemployment rate has been trending up over the last year, although with strong job growth still being recognized, and exports declined in the first quarter of 2024 by 6.9%

compared with the same quarter in 2023, primarily led by a decrease in aerospace products and parts manufacturing. The state's forecast projects higher employment levels after 2024 and higher personal income after 2025. S&P Global Market Intelligence forecasts that Washington's real gross state product (GSP) growth will be in line with the nation in 2024 at 2.5%, and surpass the nation between 2025 to 2027, at 2.0%, 1.9%, and 2.0%, respectively, compared with the nation's projected 1.7% growth for each year between 2025-2027.

The GO rating reflects our view of Washington's:

- Resilient and diverse economic base, with GSP per capita at 126% of the U.S. average and statewide per capita income at 116% 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. We will continue to monitor the state's commitment to maintaining combined reserves at very strong levels over the next year.

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 factors 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. The positive outlook further 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 its combined reserves at levels above what we consider very strong.

### 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 fails 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 June 17, 2024)		
Washington motor vehicle fuel tax and vehicle related fees GO rfdg bnds <i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington var purp GO rfdg bnds <i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO <i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed
Washington GO <i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed
Washington GO <i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO <i>Long Term Rating</i>	AA+/Positive	Affirmed

Ratings Detail (As Of June 17, 2024) (cont.)		
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed

Ratings Detail (As Of June 17, 2024) (cont.)		
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
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Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Washington GO (AMBAC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed
Washington GO (MBIA)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed
Washington GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed
Washington GO (SYNCORA GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed

**Ratings Detail (As Of June 17, 2024) (cont.)**

**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

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](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://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](http://www.spglobal.com/ratings).



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