

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aa1 to State of Washington's COPs, Series 2024C; outlook stable

17 Oct 2024

New York, October 17, 2024 -- Moody's Ratings (Moody's) has assigned a Aa1 rating to State of Washington's \$22.6 million Certificates of Participation, Series 2024C (State and Local Agency Personal Property). We maintain a Aaa issuer rating for the state and Aa1 ratings for the state's \$811 million similarly-secured Certificates of Participation (COPs) outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on the Certificates of Participation, one notch below the state's Aaa Issuer Rating, reflects the essential nature of the projects being financed and/or refinanced, the moderate legal structure and subject-to-appropriation nature of the state's payment obligations, active administration of the financing program by the state treasurer's office, and the state's established track record of making appropriation-backed payments under a variety of financing programs.

The State of Washington's Aaa Issuer Rating reflects its strong economic fundamentals with real GDP growth consistently outperforming the US, per capita income representing 104.8% of US even after adjusting for 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 moderates 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.

Two citizen initiated measures on the November 2024 ballot could threaten the state's revenue flexibility. The state has prudently taken action to mitigate the potential budgetary risks, by delaying some appropriations until January 2025 in case these

measures pass. Washington's legislature also has broad authority to amend or suspend voter-enacted statutes and a history of responding effectively to maintain budget balance. While the state's total leverage (debt, pension, OPEB, and other long-term liabilities) and associated fixed cost ratio are slightly higher than 50-state medians, both metrics have favorably declined in recent years.

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 moderate.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Not applicable.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- 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 Series 2024C COPs are secured by and expected to be paid from payments made by participating state and local agencies in the form of installment payments for personal property.

Payments made by the state agencies are subject to appropriation by the legislature and executive order reduction by the governor. The state has never failed to make needed appropriations to meet the payment obligations for state agencies related to its COPs.

Payments made by the local agencies are secured by the full faith and credit of the local agencies, effectively general obligation, limited tax obligations. In the event any local agency fails to make its scheduled payment, the state treasurer is obligated to make the payment on behalf of the local agency using state funds; such state payments, if necessary, are subject to appropriation by the legislature and executive order reduction by the governor. The treasurer is further obligated to withhold an

amount equal to the payment advance from the local agency's share of state aid, to the extent legally permissible. No local agency has ever failed to make a payment obligation related to state-issued COPs.

USE OF PROCEEDS

Proceeds of the Series 2024C COPs will finance the costs of acquiring, constructing, and/or remodeling certain personal property for the benefit of certain state agencies and local agencies.

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 this rating was US States and Territories published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425428>. 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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Xing Chen Zhu
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
405 Howard Street
Suite 300
San Francisco 94105
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Timothy Blake
Additional Contact
State Ratings
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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