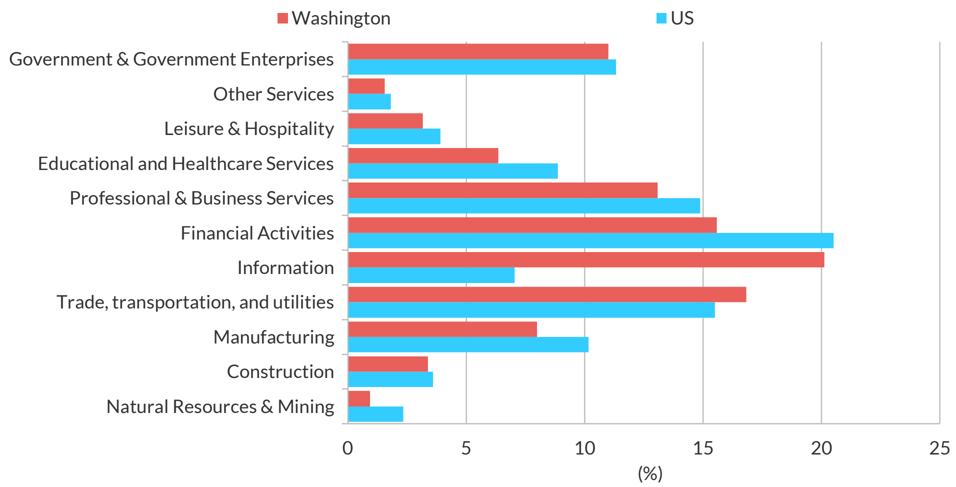
FitchRatings

State of Washington

The State of Washington's 'AA+' Long-Term Issuer Default Rating (IDR) and GO bond ratings reflect its broad and growing economy, with solid long-term revenue growth prospects, and the state's demonstrated commitment to maintaining fiscal balance. The ratings also reflect long-term liabilities that place a low burden on the economic resource base. The 'AA+' 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); the latter has led to the accumulation of solid fiscal reserves. Education poses continued long-term spending pressure for the state given steady population growth and the state's role as the primary funding source for K–12 public schools.

Components of Real GDP



Source: Fitch Ratings, Lumesis, U.S. Bureau of Economic Analysis

Population Data Overview

	State of Washington	U.S.
Total Population (2024)	**7,958,180**	**340,110,988**
1990–2000 (% Growth)	21.1	13.2
2000–2010 (% Growth)	14.1	9.7
2010–Present (% Growth)	18.3	10.2

Source: Fitch Ratings, Lumesis, U.S. Census Bureau

Public Finance
State General Obligation
United States

Ratings

Long-Term Issuer Default Rating	AA+

Rating Outlook

Long-Term Issuer Default Rating	Stable

New Issues

$752,770,000 Various Purpose General Obligation Bonds, Series 2025C	AA+
$422,650,000 Motor Vehicle Fuel Tax and Vehicle Related Fees General Obligation Bonds, Series 2025D	AA+

Sale Date

The week of Jan. 20, 2025,

Outstanding Debt

General Obligation Bonds	AA+
General Obligation Motor Vehicle Fuel Tax Bonds	AA+
General Obligation Motor Vehicle Fuel Tax and Vehicle Related Fees Bonds	AA+
School District Credit Enhancement Program	AA+

Applicable Criteria

U.S. Public Finance State Governments and Territories Rating Criteria (April 2024)

Related Research

Fitch Rates Washington's $1.2B GOs 'AA+'; Outlook Stable (January 2025)

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Key Rating Drivers

Revenue Framework — 'aaa'

Revenue performance over time has exceeded U.S. GDP growth. Fitch Ratings expects this to continue to support strong revenue growth prospects. The state has complete independent control over taxation, with an unlimited legal ability to raise operating revenues as needed.

Expenditure Framework — 'aa'

Washington possesses ample expenditure flexibility, with various statutory commitments including broad responsibility for education and infrastructure spending offset by low carrying costs. Washington also benefits from the broad expense-cutting authority common to most U.S. states. Washington's spending growth, absent policy actions, will likely be marginally above its pace of revenue growth, requiring regular budget management actions to ensure ongoing structural balance.

Long-Term Liability Burden — 'aaa'

The combined burden of debt and net pension liabilities is low as a percentage of personal income but above the median for U.S. states as calculated by Fitch. Debt ratios incorporate the funding of substantial capital needs, particularly for transportation, but are offset by a moderate net pension liability and an expanding economic resource base.

Operating Performance — 'aa'

Washington maintains very strong gap-closing capacity and budgetary flexibility with solid reserves. The state has prudently built up its fiscal reserves in times of economic recovery despite spending pressures linked to education and other pressing needs.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade

- An unanticipated shift in fiscal management that materially weakens the state's financial resilience, such as sizable and continuing draws on reserves to support operations.
- A sustained increase in the long-term liability burden to 10% or more of personal income.

Factors that could, individually or collectively, lead to positive rating action/upgrade

- Ability to sustain formal reserves, other than those in ending general fund balance, to at least pre-pandemic levels.
- Long-term management of expenditure growth pressures, particularly of education costs obligated to the general fund.

Economic Resource Base

Washington's fundamental economic profile remains strong, with long-term steady growth prospects, particularly in information technology, and a diverse employment base. Continued economic gains will be supported by Washington's high educational attainment and income levels, which are above the national average.

IDR Current Developments

Economic Recovery Outpaces National Levels

Washington's post-pandemic job rebound has exceeded national trends. Early in the pandemic, Washington's labor market suffered a less severe decline than the nation's with 11.8% of the state's jobs lost between February and April 2020, versus 15% nationally. Employment in Washington as of November 2024 was 4.4% higher than pre-pandemic levels, a little below the average national employment recovery of 4.6% but well above the median rate among U.S. states of 3.8%.

Washington's headline unemployment rate of 4.6% in November 2024 was above the 4.2% U.S. rate for the same month, which is a larger differential between the two rates than was present just prior to the pandemic. Washington's labor force growth has slightly exceeded national trends, reflecting the state's ongoing economic expansion. The state's employment-to-population ratio (EPOP, a measure of labor force utilization) was 60.1% as of November 2024, below the February 2020 level of 63.1%. The national EPOP of 59.8% in November 2024 still lags the national February 2020 level of 61.2%.

Washington Budget Update

Conservative revenue forecasting and sophisticated budgeting practices have enabled Washington to prudently navigate highly uncertain, yet ultimately favorable, economic conditions over the past four years. State reserves, particularly the general fund balance, grew to unprecedented levels as state revenues were propelled through the pandemic by, among other factors, unexpectedly high price growth. As economic growth has slowed, the outgoing governor's proposed 2025–2027 budget outlines new, broad-based appropriations across priority areas for health, education, transportation and the environment.

The proposed budget funds these increased ongoing appropriations by a possibly contentious combination of sources: increased taxes, including a new wealth tax, a sizable transfer from public safety pensions to the general fund, and significant drawdowns of reserves from both available general fund balances and the state's BSA. Fitch expects the new governor and legislature to maintain a solid reserve position while continuing to build the state's BSA by adhering to its longstanding reserve policies and maintaining strong gap-closing capacity.

Washington entered the pandemic with formal BSA reserves of $1.6 billion, or 7% of annual near-general fund (NGF) revenues. By fiscal 2021, the state drew down almost all of the BSA, to just $19 million, while building up a new Washington Rescue Plan Transition Account (WRPTA) to $1.0 billion. Washington also grew its general fund balance to an unprecedented $6.3 billion by fiscal 2022. Total available funds grew to a new high of $8.0 billion (24% of NGF revenues) in fiscal 2023, with $2.7 billion (8%) of that amount formally reserved in either the BSA ($652 million) or the WRPTA ($2.1 billion).

Washington is completing the second year of the 2023–2025 biennium. As of its November 2024 State Economic and Revenue Forecast, formal reserves in the BSA and WRPTA are slated to decrease to $1.3 billion (4% of NGF revenues) by fiscal YE25, before rebounding to $2.1 billion (6%) by fiscal 2027. The WRPTA is budgeted to be fully drawn down by fiscal YE25, two years earlier than previously envisioned. In addition, the November 2024 forecast projects a drawdown of general fund balance to only $23 million (less than 1% of near-general fund revenues) by the end of the 2025–2027 biennium. Notably, despite an overall decrease in available general fund reserves through fiscal 2027, the state's November 2024 forecast nonetheless foresees continued progress in rebuilding the BSA.

The outgoing governor's proposed 2025–2027 biennial budget projects more rapid deterioration of reserves as recurring appropriations would repeatedly outstrip revenues. Nonetheless, Fitch anticipates that, absent unknown revenue or expense shocks, the new governor and legislature will act to significantly mitigate projected out-year funding gaps by moderating draws on available general fund balances and maintaining or growing formally designated reserves.

Credit Profile

Revenue Framework

Fitch expects strong revenue growth that outpaces national GDP, reflecting favorable cyclical trends that are buttressed by the state's ongoing population growth and rapid economic expansion. Recent implementation of a capital gains tax and a cap and trade regime may improve long-term revenue growth prospects by broadening and diversifying the state's revenue pool.

Washington has complete independent legal ability to set and enact taxes and fees, a significant credit strength.

Washington lawmakers recently created two crucial new revenue streams outside the general fund. The 2021 passage of ESSB 5096, along with subsequent court victories, helped the state effectuate a new 7% tax on certain capital gains over $250,000 beginning in fiscal 2023. Capital gains receipts are not general fund revenues, and they are only available for state education needs. This new revenue source is projected to generate over $200 million annually to the Education Legacy Trust Account (ELTA).

In calendar year 2023, the state began implementation of its Climate Commitment Act (CCA), including a carbon emissions cap and trade (or cap and invest) system with some emissions allowances auctioned quarterly by the state to generate revenues. CCA proceeds are to be used for clean energy transition and assistance, clean transportation and climate resiliency projects. The state generated $1.8 billion in CCA revenues over four auctions in calendar year 2023, far surpassing original estimates for $360 million annually.

Both new revenue sources successfully avoided repeal via two November 2024 ballot measures in which voters approved the continued use of these revenues. Fitch notes that the Washington Legislature nonetheless retains the ability to amend or repeal voter initiatives (*as discussed in more detail below*).

Economic Data Overview

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-yr CAGR
Total Nonfarm Employment (% Change)												
Washington	2.2	2.5	2.9	3.1	2.4	2.4	2.0	-5.3	2.7	4.7	2.0	1.9
US	1.6	1.9	2.1	1.8	1.6	1.6	1.3	-5.8	2.9	4.3	2.3	1.4
Labor Force (% Change)												
Washington	-0.2	1.0	1.7	2.6	2.2	2.3	3.8	-1.8	-0.6	2.6	1.4	1.5
US	0.3	0.3	0.8	1.3	0.7	1.1	0.9	-1.7	0.3	1.9	1.7	0.7
Unemployment Rate (% Labor Force)												
Washington	6.6	5.9	5.4	5.2	4.6	4.4	4.2	8.5	5.2	4.1	4.1	5.2
US	7.4	6.2	5.3	4.9	4.4	3.9	3.7	8.1	5.3	3.6	3.6	5.1
Personal Income (% Change)												
Washington	1.9	7.3	5.9	5.6	6.5	6.8	7.3	7.8	9.1	3.3	7.3	6.7
US	1.1	5.1	4.7	2.7	4.9	5.1	4.8	6.8	9.2	3.1	5.9	5.2
Real GDP (% Change)												
Washington	3.1	3.8	4.5	4.0	6.3	6.6	4.8	0.1	6.9	2.2	5.1	4.4
US	2.1	2.5	2.9	1.8	2.5	3.0	2.6	-2.2	6.1	2.5	2.9	2.4

Source: Fitch Ratings; Lumesis; U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics

Expenditure Framework

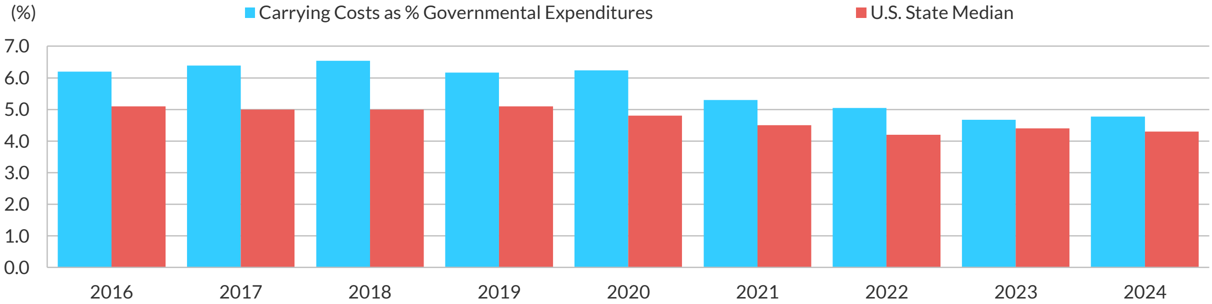
As in most states, education and health and human services are Washington's largest areas of operating expenditures. Education is the larger line item, with state funding for local school districts and the public university and college system accounting for more than half of state general fund spending. Human services programs represent another third of total spending.

Washington's future spending growth, absent policy actions, will likely be marginally above its solid revenue growth, requiring regular budget management actions to ensure ongoing structural balance. Education, specifically K–12, poses a particular pressure point. Washington provides essentially full basic operational funding for K–12 school districts. Since the 2011–2013 biennium, K–12 state funding has more than doubled. Local school districts can also levy their own taxes to supplement state aid. The maintenance of the capital gains tax for education may improve the prospects for education-related revenue growth relative to education spending.

The fiscal challenge of Medicaid is common to all U.S. states and the nature of the program, as well as federal government rules, limits the states' options in managing the pace of spending growth. As with all federal initiatives, Medicaid remains subject to regulatory changes that could affect various aspects of the program. However, federal action to revise Medicaid's fundamental programmatic and financial structure does not appear to be a near-term priority of the current federal administration or congressional leadership.

Washington retains ample expenditure flexibility. While Medicaid costs are beyond the state's ability to materially change given federal requirements for the program, the state's carrying costs for long-term liabilities have decreased relative to total expenditures, and the state retains the broad expense-cutting ability common to most U.S. states. Like most states, Washington's operating budget (outside of Medicaid) goes largely toward the funding of services rather than direct service delivery, allowing the state to shift costs to lower levels of government in times of fiscal stress. This is true even for education spending, as the state transfers money to local school districts rather than operating any schools itself.

State of Washington — Carrying Costs



Source: Fitch Ratings, Audited Comprehensive Financial Reports

Long-Term Liability Burden

On a combined basis, Washington's burden of direct debt and adjusted net pension liabilities, at 4.1% of personal income in fiscal 2023, was in line with the 4.2% median for U.S. states (see Fitch's "U.S. States Sector Monitor (2024 State Liability Report)," dated Nov. 20 2024) and still low overall. Washington's ratio stayed flat at 4.1% in fiscal 2024.

Debt levels are twice the state median, reflecting the capital and infrastructure demands related to strong population growth. However, pension liabilities are well below the U.S. median for states. Fitch expects the combined liability burden to remain at similar levels despite Washington's large capital spending pressures.

Capital needs are substantial, particularly for transportation, and future borrowing is anticipated. The state has also repeatedly demonstrated its ability and willingness to raise revenues in support of transportation capital investments, most recently through a new fee for electric vehicles and an increase to vehicle titling and registration fees. Tolls have also been utilized as part of the funding solution.

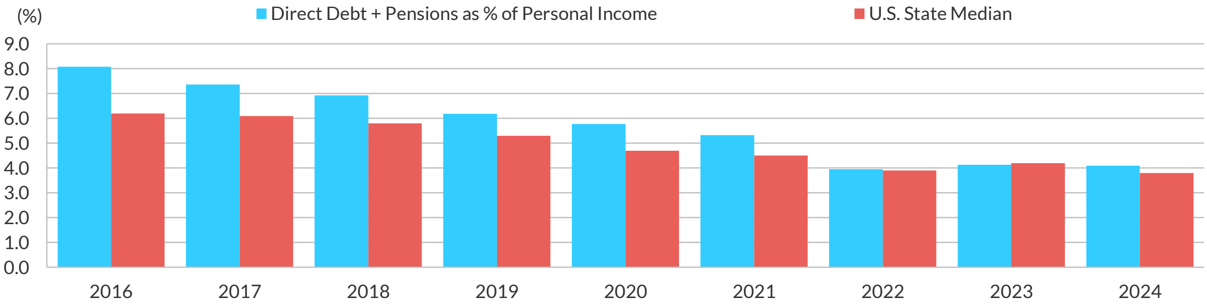
In its 2022 session, the legislature adopted the Move Ahead Washington revenue package that allocated $16.9 billion over 16 years toward various transportation needs. The largest revenue sources are $5.4 billion from Climate Commitment Act revenues (*noted earlier*) and $3.7 billion of federal moneys allocated to the state via the federal Infrastructure Investment and Jobs Act (IIJA). Approximately one third of the state's outstanding GO debt is supported by motor vehicle-related taxes, fees and tolls.

In fiscal 2022, Washington's aggregate fiduciary pension assets more than covered total pension liabilities on a reported basis at 124%, assuming a 7.5% investment return for most of the plans. This ratio falls to a still-robust estimate of 104% using Fitch's standard 6% investment return assumption. The state made changes to manage pension costs, including elimination of cost-of-living adjustments for closed legacy plans. Washington has also managed times of economic strain through such initiatives as short-term deferral of full contributions. Other post-employment benefits (OPEB) are limited and funded on a pay-as-you-go basis.

Contingent liabilities include the School Bond Guarantee Program, which provides a GO guarantee to outstanding school district debt. The state utilized the enhancement for the first time ever on June 1, 2021, to advance approximately $3.2 million for Mason County when an internet connectivity issue with the county's bank delayed debt service transfers for school districts in the county. The county made the transfer within the same day, fully covering the state's advance.

Fitch continues to exclude the covered school district debt from its long-term liability calculation, as it considers the recent advance to be a short-term issue affecting only a minimal portion of the contingent liability and does not believe it is indicative of any ongoing need for state advances.

State of Washington — Long-Term Liability Burden



Source: Fitch Ratings, Audited Comprehensive Financial Reports, U.S. Bureau of Economic Analysis

Operating Performance

Frequent reviews of economic and financial forecasts allow the state to respond effectively to changing conditions. Washington has significantly improved its resilience since the Great Recession and the lowest point of the recent pandemic-driven downturn, repeatedly demonstrating its willingness and ability to utilize its broad gap-closing capacity in response to revenue volatility.

During the Great Recession, the state implemented a combination of ongoing and one-time actions that fully depleted reserves. Washington then took almost a decade to rebuild its reserves, reaching then-record levels by fiscal 2019. While the state implemented spending cuts and reserve draws at the outset of the pandemic, Washington ended fiscal 2020 with reserves much less diminished than anticipated. Reserves then increased further in fiscal 2021 and 2022 to reach double pre-pandemic levels.

Washington's November 2024 projection forecast the fiscal 2023–2025 biennium to see continued increases in recurring revenues outstripped by growing appropriations to fund mostly one-time expenditures in education and social services. Fitch anticipates that, absent unknown revenue or expense shocks, the new governor and legislature will be able to significantly mitigate projected out-year funding gaps while modestly drawing on available general fund balances, continuing to grow its formally designated fiscal reserves.

The Fitch Analytical Stress Test (FAST) model indicates that Washington's main revenue sources exhibit relatively low volatility and would decline by an estimated 2% in the event of a 1% decline in U.S. GDP, as modeled by FAST under the standard recession scenario. As per FAST output, Washington's state-source revenues would fully recover by year 2 of the scenario. Washington's 2% decline scenario is low compared to the U.S. states median decline of 3%, calculated by Fitch. Although FAST is not a forecast, it represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Actual revenue declines will vary from FAST results, which provide a relative sense of the risk exposure of a particular state compared to other states.

Budgeting can be pressured in part due to ongoing education and growth needs, as well as a statutory mandate that the budget show projected balance over the four-year budget outlook period, rather than just the current biennium. Though the state rebuilt formal reserves after a drop in fiscal 2021, the 2024 supplemental budget empties the WRPTA by the end of the 2024–2025 biennium, although the state is still budgeting to rebuild the BSA. The return of Washington's formal reserves back to pre-pandemic levels has nonetheless been set back by a couple of years.

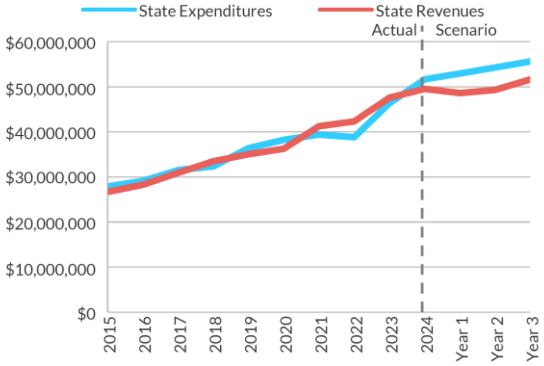
The state has solid funding provisions for its BSA, which supports financial flexibility in the long term. This constitutional account receives the first 1% of revenues collected every year until it reaches its cap of 10% of annual general revenues. Furthermore, 75% of extraordinary growth in state revenue (defined as growth in general state revenues that exceed by one third the average biennial growth rate of the prior five biennia) must be transferred to the BSA on top of the above-mentioned 1%. This measure serves to limit the effect of revenue volatility on the operating budget. The WRPTA provided a short-term additional source of fiscal reserves, with less restrictions on accessing it than the BSA. Given its flexibility, Fitch considered the WRPTA to be a component of the state's budgetary reserves, while recognizing that the fund was constructed from its inception to be rapidly drawn down.

Washington's voter initiative and referendum environment creates a level of operating and financial uncertainty. However, it is significant that any law approved by voters in this manner can be amended or repealed by the legislature by a two-thirds vote in the first two years after approval and by a simple majority vote thereafter. The legislature has repeatedly demonstrated its ability and willingness to suspend or revise voter initiatives. Additionally, the state constitution may not be amended by a voter initiative or referendum.

Peer Analysis

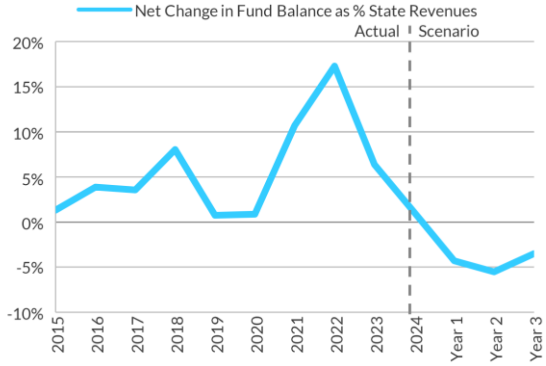
Washington's economic peers, or states within a similar GDP decile, are Georgia (AAA/Stable), Ohio (AAA/Stable), Pennsylvania (AA/Stable) and New Jersey (A+/Stable). The state's growth prospects are favorable to most of its peers, which are generally slower-growth economies. The liability burden and carrying costs for Washington are roughly middle-of-the-pack for its peer group, reflecting the offsetting dynamics of strong resource base gains and sizable infrastructure demands from that growth. The state's operating performance is not assessed to be as strong as Georgia's and Ohio's, although it is materially better than that of Pennsylvania and New Jersey.

State Revenues and Expenditures in an Unaddressed



Source: Fitch Ratings and U.S. state annual financial statements

Net Change in Fund Balance as % of State Revenues in an Unaddressed Stress ($000)



Source: Fitch Ratings and U.S. state annual financial statements

Scenario Parameters:			Year1	Year2	Year3
GDP Assumption (% Change)			(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)			2.5%	2.5%	2.5%
Revenue Output (% Change)	Minimum Y1 Stress: -1%	Case Used: Moderate	(1.9%)	1.4%	4.7%

Revenues, Expenditures, and Net Change in Fund Balance	Actuals										Scenario Output		
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Year1	Year2	Year3
Expenditures													
Total Expenditures	42,571,000	44,146,954	46,876,157	47,989,794	52,338,056	55,661,482	63,132,310	66,536,632	73,596,985	76,327,026	78,235,202	80,191,082	82,195,859
% Change in Total Expenditures	7.6%	3.7%	6.2%	2.4%	9.1%	6.3%	13.4%	5.4%	10.6%	3.7%	2.5%	2.5%	2.5%
State Expenditures	27,859,000	29,113,421	31,506,179	32,343,483	36,374,765	38,221,995	39,392,543	38,812,757	46,340,388	51,637,839	52,928,785	54,252,005	55,608,305
% Change in State Expenditures	5.6%	4.5%	8.2%	2.7%	12.5%	5.1%	3.1%	(1.5%)	19.4%	11.4%	2.5%	2.5%	2.5%
Revenues													
Total Revenues	41,399,000	43,294,691	46,269,050	49,114,776	50,993,434	53,683,175	64,976,549	70,038,802	74,819,273	74,208,277	73,899,796	75,229,827	78,214,502
% Change in Total Revenues	7.1%	4.6%	6.9%	6.2%	3.8%	5.3%	21.0%	7.8%	6.8%	(0.8%)	(0.4%)	1.8%	4.0%
Federal Revenues	14,712,000	15,033,533	15,369,978	15,646,311	15,963,291	17,439,487	23,739,767	27,723,875	27,256,597	24,689,187	25,306,417	25,939,077	26,587,554
% Change in Federal Revenues	11.7%	2.2%	2.2%	1.8%	2.0%	9.2%	36.1%	16.8%	(1.7%)	(9.4%)	2.5%	2.5%	2.5%
State Revenues	26,687,000	28,261,158	30,899,072	33,468,465	35,030,143	36,243,688	41,236,782	42,314,927	47,562,676	49,519,090	48,593,380	49,290,750	51,626,948
% Change in State Revenues	4.7%	5.9%	9.3%	8.3%	4.7%	3.5%	13.8%	2.6%	12.4%	4.1%	(1.9%)	1.4%	4.7%
Excess of Revenues Over Expenditures	(1,172,000)	(852,263)	(607,107)	1,124,982	(1,344,622)	(1,978,307)	1,844,239	3,502,170	1,222,288	(2,118,749)	(4,335,405)	(4,961,255)	(3,981,357)
Total Other Financing Sources	1,524,000	1,948,380	1,707,652	1,567,704	1,608,643	2,293,902	2,572,586	1,920,625	1,812,053	2,648,839	2,249,601	2,240,741	2,174,372
Net Change in Fund Balance	352,000	1,096,117	1,100,545	2,692,686	264,021	315,595	4,416,825	7,318,369	3,034,341	530,090	(2,085,804)	(2,720,514)	(1,806,985)
% Total Expenditures	0.8%	2.5%	2.3%	5.6%	0.5%	0.6%	7.0%	11.0%	4.1%	0.7%	(2.7%)	(3.4%)	(2.2%)
% State Expenditures	1.3%	3.8%	3.5%	8.3%	0.7%	0.8%	11.2%	18.9%	6.5%	1.0%	(3.9%)	(5.0%)	(3.2%)
% Total Revenues	0.9%	2.5%	2.4%	5.5%	0.5%	0.6%	6.8%	10.4%	4.1%	0.7%	(2.8%)	(3.6%)	(2.3%)
% State Revenues	1.3%	3.9%	3.6%	8.0%	0.8%	0.9%	10.7%	17.3%	6.4%	1.1%	(4.3%)	(5.5%)	(3.5%)

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. For further details, please see Fitch's US Tax-Supported Rating Criteria.
Source: Fitch Ratings and U.S. state annual financial statements

FitchRatings

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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