

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aaa to State of Washington's GOs, Series 2025C and Series 2025D; Outlook stable**

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10 Jan 2025

New York, January 10, 2025 -- Moody's Ratings (Moody's) has assigned Aaa ratings to State of Washington's \$752.8 million Various Purpose General Obligation Bonds, Series 2025C and \$422.7 million Motor Vehicle Fuel Tax and Vehicle Related Fees General Obligation Bonds, Series 2025D. We maintain a Aaa issuer rating for the state and Aaa ratings for the state's over \$21 billion General Obligation (GO) Bonds outstanding. The outlook is stable.

#### RATINGS RATIONALE

The Aaa general obligation rating is the same as the state's issuer rating because the state has pledged its full faith, credit and taxing power to pay the bonds.

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 after adjusting for costs of living and favorable demographic trends. The issuer rating incorporates the state's strong governance practices (governance issuer profile score G - 1) that include a history of addressing budget shortfalls as needed, frequent revenue forecast updates and proactive pension prefunding. As of fiscal 2024 which ended June 30, 2024, Washington's budgetary reserve (general fund plus budget stabilization fund) remained sound at around \$6.7 billion or 20% of Near General Fund-State revenue, while GAAP basis available governmental fund balance remained robust exceeding \$16 billion (40% of own source revenue); unrestricted operating cash also exceeded \$17 billion (42% of own source revenue) and the state can use non-general fund money to provide liquidity to the general fund, if needed.

The state's budgetary reserve will decline from record positions to levels more in-line with the Treasurer's recommended 10% of revenue by end of fiscal 2025, given some deficit spending. Rising costs, including caseload increases for social and healthcare services, will test Washington's fiscal management to restore operations to structural

balance, likely necessitating spending cuts and/or tax increases in the upcoming biennium budget. Positively, voters rejected two citizen-initiated measures on the November 2024 ballot that would have constrained some revenue flexibility, and the Governor has already imposed a spending and hiring freeze in December 2024. 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. As of fiscal 2024, Washington's governmental long-term liabilities represented a moderate 109% of own source revenue and fixed costs represented 5.9% of revenue.

## RATING OUTLOOK

Washington's outlook is stable, reflecting the positive underlying fundamentals of its economy and our expectation that the state will continue to exercise fiscal prudence to maintain longer-term structural balance and a sound financial position. Long-term liabilities are expected to remain moderate.

## 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
- . Material changes in federal policy that reduce or delay funding provided to the state
- . 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 2025C 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 2025D will provide funds to 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.

## PROFILE

Washington is the thirteenth largest state by population, at around 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 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.

## REGULATORY DISCLOSURES

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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