

RatingsDirect®

Summary:

Washington State; Appropriations; General Obligation

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Credit Profile		
US\$422.7 mil motor veh fuel tax & veh related fees GO bnds ser 2025D dtd 02/06/2025 due 06/01/2050		
<i>Long Term Rating</i>	AA+/Positive	New
US\$752.8 mil various purp GO bnds ser 2025C dtd 02/06/2025 due 02/01/2050		
<i>Long Term Rating</i>	AA+/Positive	New
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed
Fircrest Properties, Washington		
Washington		
Fircrest Properties (Washington) APPROP		
<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 approximately \$752.8 million series 2025C various-purpose general obligation (GO) bonds and \$422.7 million series 2025D motor vehicle fuel tax and vehicle-related fees GO bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term and underlying ratings on the state's GO bonds, motor vehicle fuel tax GO bonds, and motor vehicle fuel tax and vehicle-related fees GO bonds outstanding and our '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, which secure the series 2025C and 2025D bonds and GO debt outstanding. The series 2025D bonds and motor vehicle fuel tax and vehicle-related fees GO bonds outstanding are also secured and payable from 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 2025C bonds are being issued to fund various capital projects in the state and to pay the costs of issuance. The series 2025D bonds are being issued to fund various state transportation capital projects and to pay the costs of issuance.

Credit overview

Amid an evolving economic landscape over the last four years, Washington's financial management has remained resilient and its combined reserves have been preserved at solid levels, which we expect will continue. The state's robust management practices and forecasting have benefited it in tracking potential budgetary pressures, and we view its statutory mechanisms to ensure budgetary balance in outyears as prudent. We expect that the state's debt burden will remain at current levels for the foreseeable future, but given its strong pension funding, its collective liabilities should remain manageable, in our view.

The GO rating also reflects our view of the state's formal reserve levels, which historically have been narrower than those of higher-rated peers but could improve over the biennium to a level more in line with a higher rating. We will continue to monitor the state's commitment to its informal reserve targets, as well as its budgetary balance, as it prepares its next biennial budget.

In spring 2024, the state enacted its 2024 supplemental budget, which serves as a tool for making 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, and now totals about \$71.5 billion. The increases were largely driven by kindergarten-through-12th grade (K-12) education, behavioral health programs, and health care caseload increases. The state plans to use a portion of reserves built up since the last biennium to fund key priorities, including behavioral health, educational staffing, supplies, special education, and caseload increases. The next state budget outlook, which will reflect the governor's proposed 2025 supplemental budget and 2025-27 biennial budget, is expected to be available later this year. The current proposed governor's budget contemplates the use of some reserves for increased spending priorities. We understand that this document is a starting point; our view will solidify as the legislature weighs in on the biennium budget and we have a clearer picture of the state's reserve position going forward.

The state ended fiscal year 2024 with a general fund (GF) ending balance of \$4.884 billion and a balance of \$971 million in the budget stabilization account (BSA), or a combined 17.9% of general fund-state (GF-S) revenues. In 2021, during the COVID-19 pandemic, the state created the WA Rescue Transition Account to enhance support for education, human services, health care, and the economy, following COVID-related pressures. This account had \$2.1 billion at the close of 2021-23 biennium, and ended fiscal 2024 at \$798 million. On a combined basis, these three accounts equaled 20.3% of GF-S revenue for fiscal 2024, which we view as strong and as offsetting the lowered BSA balance. The state's 2024 supplemental budget includes a projected increase to its BSA of \$1.3 billion, which amounts to 3.9% of fiscal year 2025 near general fund-state (NGF-S) revenue. At the same time, it includes an NGF-S balance of \$2.0 billion, which, combined with the BSA, would result in 10.0% of fiscal year 2025 NGF-S revenue at biennium-end. The 2024 supplemental budget transferred the remaining \$798 million from Washington Rescue Plan Transition Account (WRPTA) to the general fund in fiscal year 2025, leaving a zero fund balance remaining in the account at the end of the 2023-25 biennium. We view the state's commitment to preserving combined reserves at healthy levels through the current biennium as a positive credit factor and we expect the state to continue balancing its revenues with ongoing operational needs in its upcoming biennial budget; we view this as an imperative factor in Washington's credit profile.

The state had two ballot initiatives in November 2024 that would have altered its finances. Specifically, these were voter initiatives to repeal Washington's cap-and-trade program, authorized by its Climate Commitment Act, and

Summary: Washington State; Appropriations; General Obligation

another to repeal its newly instituted capital gains tax. Both measures failed, and these programs will continue to generate significant revenues for the state, as they have in recent years.

S&P Global Ratings' latest economic forecast continues to project that national real GDP growth will slow from above-trend this year to below-trend in 2025, going from 2.7% to 2.0%. We expect unemployment will edge up to 4.2% by 2025 and 2026 as businesses continue to face higher costs of capital that will limit capital expenditures and hiring. For more information, see "Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty," published Nov. 26, 2024, on RatingsDirect. Looking ahead, S&P Global Market Intelligence forecasts Washington's gross state product (GSP) growth will be above the nation's between 2024 through 2027, consistent with its historical performance.

Based on the state's most recent monthly economic and revenue update produced by the Economic and Revenue Forecast Council (ERFC) through early November 2024, the state's cumulative total GF-S collections through November were 2.9% higher than the previous forecast in September 2024. The state's most recent quarterly economic and revenue forecast was released in late November, and ultimately led to minor revenue forecast changes for the current biennium. The forecast incorporated the machinists' strike at Boeing, which for now the state expects to not materially change the longer-term forecast. Aerospace employment is expected to continue to expand through 2028, and the state's overall nominal personal income growth expectations were slightly moderated compared to the September forecast.

The GO rating reflects our view of Washington's:

- Resilient and diverse economic base, with comparatively strong GSP and income figures.
- Sales-tax-based revenue structure, which has demonstrated less sensitivity to economic cycles than income tax-reliant states.
- Sophisticated financial policies and proactive management practices, including statutory provisions requiring that the state's biennial budget and projected subsequent two fiscal years' spending plans be balanced.
- Strong pension funding, leading to low unfunded retirement liabilities, with the expectation for this to continue.
- Somewhat higher debt profile, but which we consider manageable, and that we expect will remain steady over the medium term.
- An institutional framework that supports the predictability of the state's budgeting and operations, in our view, and demonstrates fiscal transparency through regular reporting of key financial information.

Environmental, social, and governance

While the state is exposed both to rising sea levels along its vast coastline and to 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. In recent years, the state has also 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.

For more information, see our full analysis on the state of Washington, published Sept. 20, 2024.

Rating above the sovereign

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, with significant state autonomy and flexibility demonstrated by serial bond amortization as well as independent treasury management.

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 to produce balanced operations and that the state will demonstrate its commitment to maintaining its combined reserves.

Downside scenario

We could revise our outlook 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 use available reserves, leading them to fall below target levels.

Upside scenario

Should the state demonstrate strong budgetary performance, leading to reserves being maintained at or above current levels, we could raise the rating.

Table 1

Washington State--Credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	1.65
Economy	1.0
Financial performance	2
Reserves and liquidity	2
Management	1.00
Debt and liabilities	2.25

Ratings Detail (As Of January 10, 2025)		
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
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed

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Ratings Detail (As Of January 10, 2025) (cont.)

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<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>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
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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

Ratings Detail (As Of January 10, 2025) (cont.)

Washington GO (SYNCORA GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Affirmed

FYI Properties, Washington

Washington		
FYI Properties (Washington) APPROP		
<i>Long Term Rating</i>	AA/Positive	Affirmed

Washington

Washington		
Washington State Toll Facility, Washington		
Washington GO		
<i>Long Term Rating</i>	AA+/Positive	Affirmed

Many issues are enhanced by bond insurance.

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