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2025 Debt and Credit Analysis

A Review of Washington's Debt and Other Financial Obligations, Ratings, Credit Considerations, and Related Recommendations

Mike Pellicciotti
Washington State Treasurer

OFFICE OF THE TREASURER
STATE OF WASHINGTON
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Fellow Washingtonians:

Each year, in a spirit of transparency and accountability, the Office of the State Treasurer produces a comprehensive Debt and Credit Analysis to promote Washington's financial health and provide insight into our state's debt portfolio, financial obligations, financing practices, and credit ratings. This report is designed to serve as an aid for policymakers to help them craft budgets that will maintain, if not improve, the state's overall financial health, and keep debt costs manageable for this and future generations.

Washington balances its operating budget every year without utilizing debt to finance operating expenses. However, the Legislature does authorize the issuance of debt for the transportation and capital budgets, which funds everything from bridges, roads, and tunnels to schools, hospitals, housing, and conservation projects.

At the conclusion of the 2024 fiscal year, Washington had a total of $23.1 billion in outstanding debt and other financial obligations. Despite having the ninth highest debt per capita in the country Washington maintains a sound financial position thanks to disciplined crafting and effective managing of the operating, transportation, and capital budgets.

To sustain Washington's financial standing, the enclosed report details the following budget recommendations:

1. Maintain budget reserves at or above 10% of Near General Fund State Revenues;
2. Keep projected debt service costs within target debt service coverage ratios; and
3. Continue improving the excellent funding status of the state's pension system.

Adhering to these recommendations, coupled with Washington's diverse economy, keeps our state highly rated by rating agencies (Aaa/AA+/AA+). These strong ratings are essential to receiving competitive interest rates on state issued bonds and keeps debt costs low for transportation and capital projects. It also helps our local government partners achieve lower interest rates when they purchase things like fire trucks, ambulances, and snowplows and saves local taxpayers money when school districts issue school bonds.

Preserving the state's strong financial position not only prepares us for the next financial disruption, it also means that over time, Washington taxpayers will save money through lower interest costs. Already, these ratings have enabled our talented debt management team to refinance existing obligations, saving $732.7 million since the beginning of calendar year 2021.

Undeniably, the Legislature is facing new challenges and budgetary pressures in the upcoming session. However, this should only heighten the need to avoid solutions that create higher costs for taxpayers, diminish the state's strong financial position and leave Washington less able to navigate economic disruptions. Healthy reserves, manageable debt costs, and well-funded pensions must continue to be foundational.

Sincerely,

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This study is prepared primarily to provide information to state officials and lawmakers. It has not been prepared with a view to, nor is it suitable for any investment decision regarding any bonds or financial obligations of the state or any of its agencies. The financial data and other information provided herein is not warranted as to completeness or accuracy for purposes of federal securities laws and regulations and is subject to change without notice. Any investor or potential investor in bonds or financial obligations of the state or any of its agencies should obtain and carefully review the official statements and filings of the state at EMMA.msrb.org before making any investment decision.

The Office of the State Treasurer ("OST") issues debt and enters into financing contracts on behalf of the state of Washington ("the state" or "Washington") to fund capital projects such as land acquisition, building construction, transportation improvements, and equipment purchases.

In 2024, Washington's general obligation bonds carried ratings of Aaa/AA+/AA+ from Moody's Ratings ("Moody's"), S&P Global Ratings ("S&P"), and Fitch Ratings ("Fitch"), respectively. These very strong ratings reflect the state's prudent financial management, sound financial position, well-funded pension system, adequate reserves, and conservative debt portfolio, which includes no derivatives, variable rate debt, or other complex financial instruments.

More importantly, these strong ratings allow the state, our school districts (through the School Bond Guarantee Program), and local government participants in the state's Local Option Capital Assets Lending ("LOCAL") Program to borrow at very low interest rates. Given the significant role that financings play in funding Washington's Capital and Transportation Budgets, protecting the state's financial strength and its strong credit ratings is the most certain way to keep our debt costs as low as possible.

This report is intended to provide readers with a comprehensive overview of the state's debt and other financial obligations, constitutional and statutory limitations, credit ratings, and a comparison of the state's financial metrics to peer states. To better prepare members of the Legislature for the 2025 legislative session, this report contains three key financial recommendations, based on rating agency methodology, peer analysis, and best practices, that are intended to help Washington maintain or improve its strong credit ratings. Following the recommendations, the report details the various types of debt and financial obligations issued by the state in connection with the Capital Budget, and the associated impact that these bonds and obligations have on the Operating Budget. The report also describes the types of bonds issued through the Transportation Budget and their different repayment structures.

1. Recommendations

To protect the state's strong credit ratings, obtain the lowest possible borrowing costs, and place Washington in a position of strength as it navigates unpredictable economic conditions, OST offers the following three policy recommendations, based on rating agency criteria, best practices, peer comparisons, and projected future borrowing plans:

1) Maintain a minimum level of total reserves equal to no less than 10% of annual Near General Fund-State ("NGF-State") Revenues and develop a post-pandemic plan to restore the state's Budget Stabilization Account;
2) Manage future bond issuance plans to ensure that projected debt service costs do not exceed target debt service coverage ratios; and
3) Continue to improve the excellent funding status of the state's pension systems by fully funding the state's actuarially determined pension contributions.

These recommendations are supported by the published rating criteria of credit rating agencies, as well as comparisons to peer "AAA-rated" states. Striving for "AAA-rated" state metrics provides meaningful goals, and, more importantly, moving toward these goals places the state in the best possible position to weather the next economic downturn, while also ensuring that the state can continue borrowing at the lowest possible borrowing costs.

Recommendation 1: Reserves

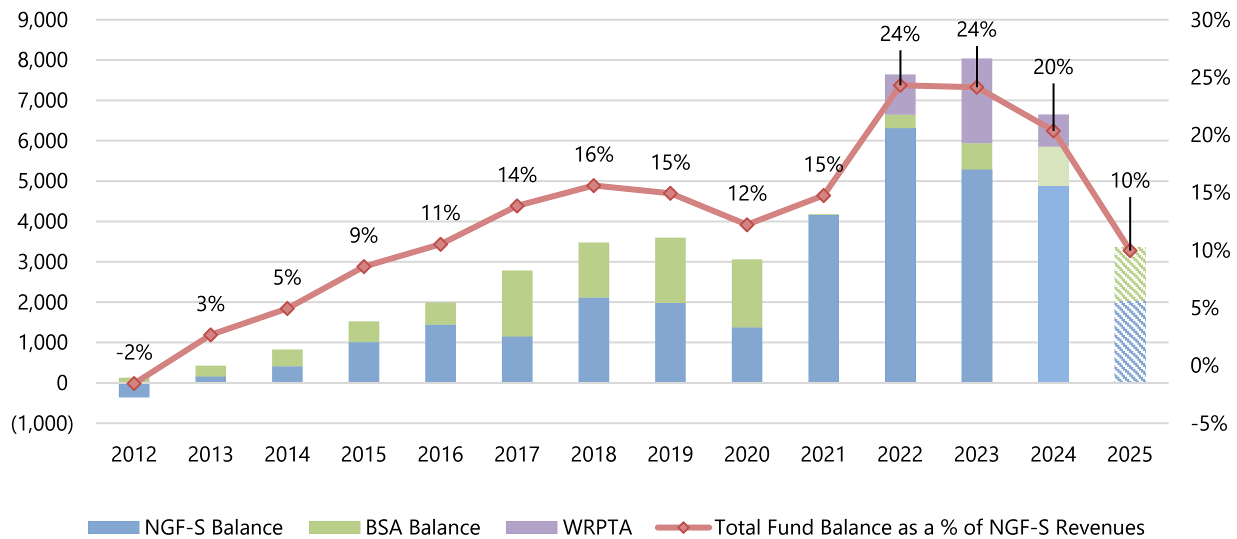
> Maintain a minimum level of total reserves equal to no less than 10% of annual NGF-State Revenues and develop a post-pandemic plan to restore the state's Budget Stabilization Account ("BSA" or "Rainy Day Fund").

Maintaining adequate reserves is a key driver in preserving (or improving, where applicable) the state's strong ratings, particularly given the state's elevated debt levels. Together, when adequately funded, the Operating Budget's ending balance ("NGF-State") and the BSA provide the state with the financial resiliency and flexibility needed to respond to emergencies and economic disruptions. Maintaining an adequate NGF-State balance and restoring the BSA are important metrics tracked by rating agencies and bond purchasers and are critical steps in preparing for the next emergency or economic cycle.

When Moody's upgraded the state to Aaa (its highest possible rating) in 2019, it cited "a significant increase in financial reserves even as the state increased funding for K-12 education in response to a state supreme court mandate" as one of the factors contributing to the upgrade.[1] As an additional example, S&P stated in its June 17, 2024, report "All else equal, we could raise the rating if Washington demonstrates a commitment over time to maintaining and replenishing reserves through positive economic periods...."

The state's Total Fund Balance as a percentage of NGF-State Revenues reached a high of 24% of NGF-State Revenues in FY 2022 and FY 2023 (Figure 1.1). This metric is forecasted to drop to 10% by the end of FY 2025 according to data from the Office of Financial Management ("OFM") and the Economic and Revenue Forecast Council ("ERFC").

Figure 1.1. Fund Balance as a Percentage of NGF-State Revenues ($ in millions)

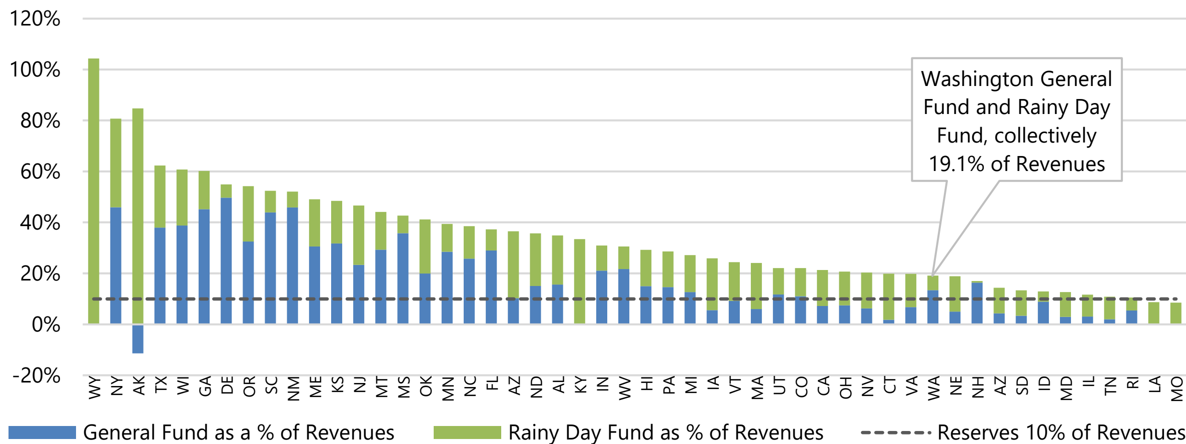


Note: Fund balances at close of fiscal year.
Source for 2012-2024: Office of Financial Management.
Source for 2025: Office of Financial Management based on November 2024 Economic and Revenue Forecast Council Revenue Forecast.

[1] Moody's Ratings, "Moody's Upgrades Washington State GOs to Aaa from Aa1; outlook stable," August 23, 2019.

Based on a 50-state survey of state reserves completed by the National Association of State Budget Officers ("NASBO"), Washington falls well below national medians.[2] For FY 2024, NASBO's survey determined the national median of combined general fund and rainy-day fund balances as a percentage of revenue to be 30.6%. NASBO's survey calculated Washington's combined fund balance to be 19.1% of general fund revenues, which placed it 39th of fifty in the nation, as shown in Figure 1.2. (The NASBO data was provided before FY 2024 audited actual numbers were available.) The combined fund balance of 19.1% of general fund revenues placed Washington 14th among the 18 Moody's Aaa-rated states, which range from a high of 62.3% down to a low of 10.8%.[2]

Figure 1.2. General Fund and Rainy Day Fund Balances as Percentage of Revenues



Source: The Fiscal Survey of States, Fall 2024. National Association of Budget Officers.
Ending balances are estimated as of the end of FY 2024 and shown as a percent of FY 2024 general fund revenues.

As a second benchmark, the Government Finance Officers Association ("GFOA") recommends maintaining adequate reserves to prepare for financial fluctuations and to stabilize tax rates. At a minimum, GFOA recommends maintaining two months' worth (16.7%) of operating revenues in fund balance.[3] Washington's projected FY 2025 combined fund balance of 10% falls below the GFOA recommendation.

OST's recommended 10% minimum target for total reserves as a percentage of revenues is supported by both Moody's and S&P's credit rating methodologies, especially when viewed in conjunction with Recommendation 2 regarding debt service as a percentage of General State Revenues ("GSRs"). More specifically, the rating agencies have repeatedly emphasized the importance of reserves in their analysis of the state's credit, with recent statements such as:

Moody's (August 15, 2024)

> *"[T]he state's ability to maintain structural balance over the longer-term and keeping its budgetary reserve at/around the Treasurer's recommended 10% level will remain crucial for its credit quality."*

S&P (September 20, 2024)

> *"We could revise our outlook [from positive] 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*

[2] NASBO, "Fall 2024 Fiscal Survey of States," December 2024.
[3] Government Finance Officers Association, "Fund Balance Guidelines for the General Fund," September 30, 2015. (https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund)

> *also could lower the rating if the state opts to use available reserves, leading the state to fall below target levels."*

Fitch (October 23, 2024)

> *"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."*

Further, the rating agency criteria additionally emphasize that states with larger overall debt burdens should maintain higher reserves. Given that Washington has an above average debt load, maintaining a minimum level of total reserves equal to no less than 10% of NGF-State Revenues (Recommendation 1) is critical to supporting the state's strong ratings.

Recommendation 2: Debt Service as a Percentage of Revenues

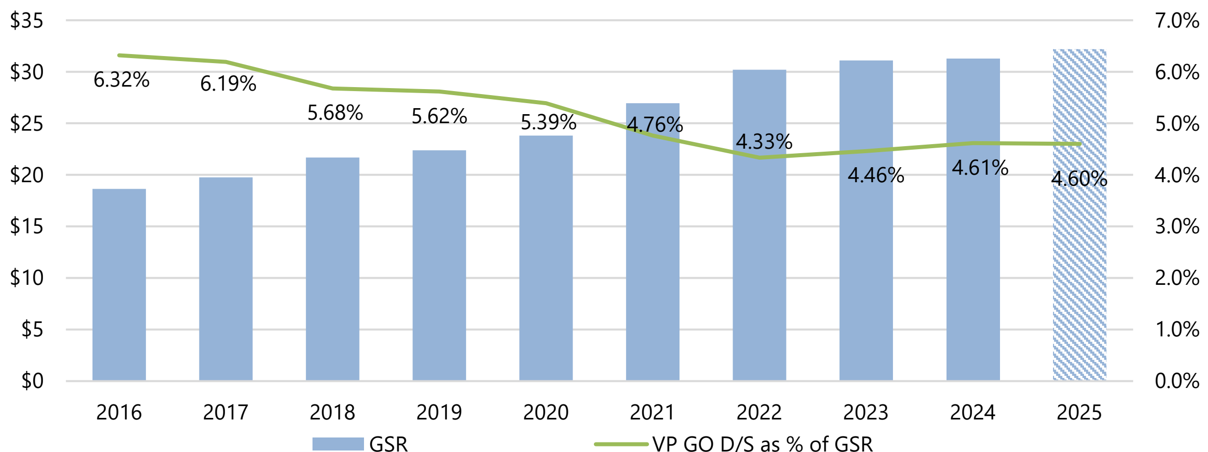
> Manage future bond issuance plans to ensure that projected debt service costs do not exceed target debt service coverage ratios.

When developing future budgets and financing plans it is important to consider the state's long-term debt load and the impact that increasing debt service could have on the Operating Budget and Transportation Budget. An increasing debt load reduces resources for essential services and diminishes the state's ability to address other budgetary needs. A high interest rate environment and/or an economic downturn can exacerbate this problem, with increasing interest costs consuming stagnating or declining revenues, while demands for state services increase.

Capital Budget

In 2002, debt service on the state's Various Purpose General Obligation ("VP GO") bonds as a percentage of GSR reached a high of 7.88%. Fortunately, increasing revenues and historically low interest rates in the years to follow helped limit the cost and budgetary impact of new debt, causing the Operating Budget's debt burden to decline through 2022. However, borrowing costs have increased significantly from their

Figure 1.3. VP GO Debt Service as a Percentage of General State Revenues ($ in billions)

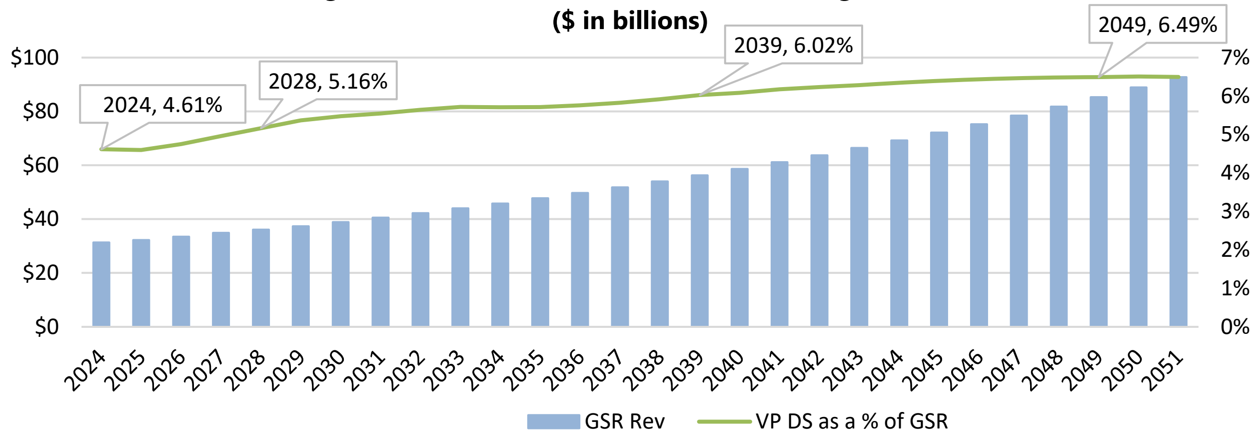


Source: Office of Financial Management, November 2024; Office of the State Treasurer. Reflects debt outstanding as of June 30, 2024.

historic pandemic-era lows, while revenue growth has slowed and bond issuance has increased, causing the Operating Budget's ratio of debt service to GSRs to increase from the low-mark hit in FY 2022.

In FY 2024, VP GO debt service was equal to 4.61% of the Operating Budget's GSRs, placing the state in a strong financial position (see Figure 1.3). However, looking into the future, Capital Budget debt issuance forecasts show the state's debt service to GSR ratio exceeding 5% in 2028 and then exceeding 6% in 2039. This upward trajectory continues until the state's statutory debt limit is projected to be reached in 2049, placing restrictions on the state's ability to borrow in the years to follow (see Figure 1.4).

Figure 1.4. VP GO Debt Service as a Percentage of GSR
($ in billions)



Source: Office of the State Treasurer, November 2024 Debt Model.
Note: VP GO debt service includes projected future bond issuance based on the debt model assumptions. Projected revenue is based on the November 2024 ERFC Revenue Forecast, followed by debt model growth assumptions.

To preserve Operating Budget flexibility, protect the state's ratings, and retain the flexibility to respond to emergencies, we recommend moderating the state's long-term Capital Budget debt issuance plans over the next 15 years (inclusive of VP GO debt issued outside of the constitutional debt limit) to limit projected debt service costs to no more than 5% to 6% of GSRs.

Actively managing future debt issuance plans to maintain a ratio of VP GO debt service to GSRs of not more than 5% to 6% will result in more Operating Budget flexibility during times of fiscal stress. Further, debt burden management is one of the key factors evaluated by the rating agencies in their assessment of the state's credit quality. A maximum target level of less than 6% is consistent with S&P's rating criteria concerning this metric, which suggests limiting debt service to GSR revenues to between 3% and 6% for a "moderate" debt load.[4]

In comparison to its "AAA-rated" peers, Washington has a high debt load, which is regularly cited as a risk by the rating agencies. Based on a 2024 report, Moody's calculates that, amongst all states, Washington has the 5th highest level of debt service as a percentage of general fund revenues at 4.40%. In this metric, Washington exceeded all Moody's Aaa-rated states, which averaged 1.78%.[5] The national median was 2.20%.

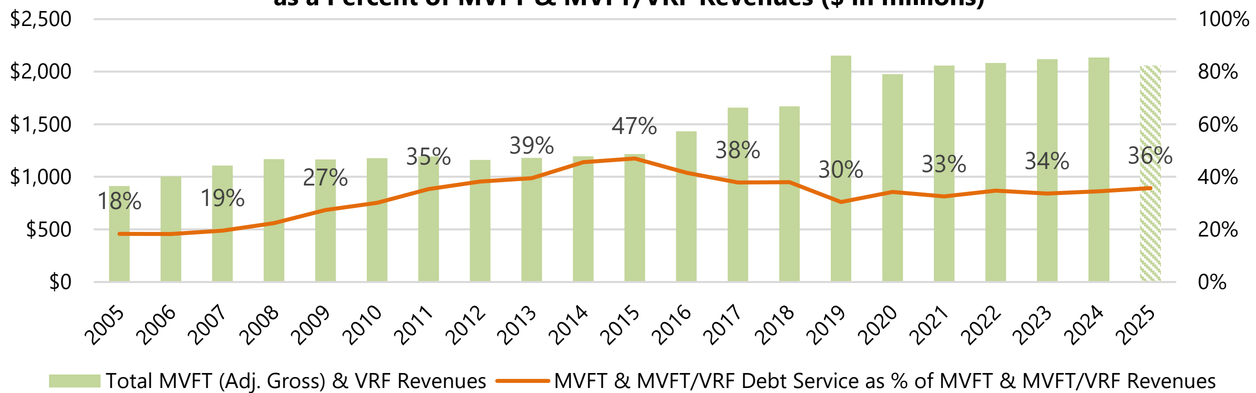
[4] S&P Global Ratings, "Methodology For Rating U.S. Governments," September 9, 2024.
[5] Moody's Investors Service, "Revenue growth and lower ANPLs boost capacity to manage long-term debt," October 7, 2024.

Transportation Budget

For the Transportation Budget, the state has traditionally sought to maintain at least a 2.0x debt service coverage ratio (pledged Motor Vehicle Fuel Tax ("MVFT") and Vehicle Related Fee ("VRF") revenues compared to the debt service paid from those revenues). Stated otherwise, the state's practice has been to limit the debt service on bonds paid by MVFT and VRF revenues to not more than 50% of those pledged revenues (see Figure 1.5 for historical percentages).

To preserve funds for operational expenses, ensure compliance with the state's constitutional debt limit, and to protect the state's credit ratings, we recommend that the state continue to maintain at least a 2.0x debt service coverage for all MVFT and MVFT/VRF bonds.

Figure 1.5. MVFT & MVFT/VRF Debt Service as a Percent of MVFT & MVFT/VRF Revenues ($ in millions)



Sources: MVFT: Nov-2024 TERFC, Volume II, Table A.3. VRF: Nov-2024 TERFC, Volume IV, Table H.1. Governor proposed budget, 12/2/2024; $1,086.1 million remaining unissued. Interest rates: November 2024 ERFC Forecast.

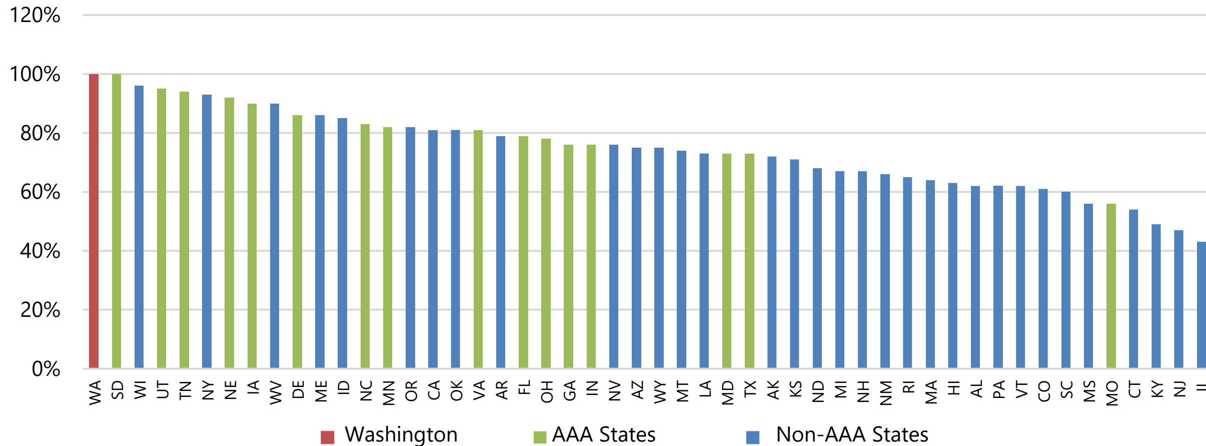
RECOMMENDATION 3: STATE PENSION FUNDING

> Continue to improve the excellent funding status of the state's pension system by fully funding the state's actuarially determined pension contributions.

Relative to other states, Washington enjoys a well-funded pension system and has been a leader amongst its peers in taking a disciplined approach to managing its pension plans. According to the most recent actuarial valuation report for the year ended June 30, 2023, the total funded status across the system measured 96%.[6] S&P published a report in October 2024 comparing the performance of all 50 states' pension systems. In this report, Washington ranked first for its aggregate pension funded ratio of 100% (Figure 1.6). In this regard, the state is ranked first among all S&P AAA-rated states, which have an average funded ratio of 82.1%.[7] In its September 20, 2024 rating report, S&P opined that "Offsetting a somewhat higher debt profile, Washington maintains well-funded pension systems, reflecting its strong funding practices."

[6] Office of the State Actuary, 2023 Actuarial Valuation Report, August 2024. (https://leg.wa.gov/studies-audits-and-reports/actuarial-reporting/pensions/funding/pension-valuations/).
[7] S&P, "*U.S. States' Fiscal 2023 Liabilities: Stable Debt, With Pension and OPEB Funding Trending Favorably,*" October 23, 2024.

Figure 1.6. Aggregate Pension Funded Ratio of State Pension Plans (%)



Source: U.S. States' Fiscal 2023 Liabilities: Stable Debt, With Pension And OPEB Funding Trending Favorably, S&P, October 23, 2024.

It should be noted that S&P derives their own calculations of pension liabilities based on the Net Pension Liability approach, using publicly reported financial statements, which results in a funded ratio shown in Figure 1.6 that differs somewhat from the ratio reported by the state in its actuarial report.

From a different perspective, the Government Finance Officers Association ("GFOA") provided recommendations on pension funding levels in a March 2023 report, recommending:

> "*[T]hat government officials ensure that the costs of [defined benefit] DB pensions and OPEB are properly measured and reported. Sustainability requires governments that sponsor or participate in [defined benefit] DB pension plans, or that offer OPEB, to contribute the full amount of their actuarially determined contribution (ADC) each year. Failing to fund the ADC during recessionary periods impairs investment returns by providing inadequate funds to invest when stock prices are low. As a result, long-term investment performance will suffer and ultimately require higher contributions.*"[8]

Similar to the GFOA recommendation, rating agencies encourage fully funding the annual actuarially determined pension contributions as a way to manage future pension costs. As an example, S&P assigns a positive score to states that regularly make actuarially determined payments that exceed the net periodic pension cost (service cost, interest cost, and an amortization component).

Allowing the unfunded liability (the gap between the present value of the state's pension liabilities and the market value of pension assets) to grow by contributing less than the actuarially determined contribution each year would put pressure on the state's budget in the intermediate- to long-term. Currently, for Washington, this unfunded liability, which is a form of long-term debt for the state, amounts to $5.37 billion (based on the June 30, 2023 funding valuation).

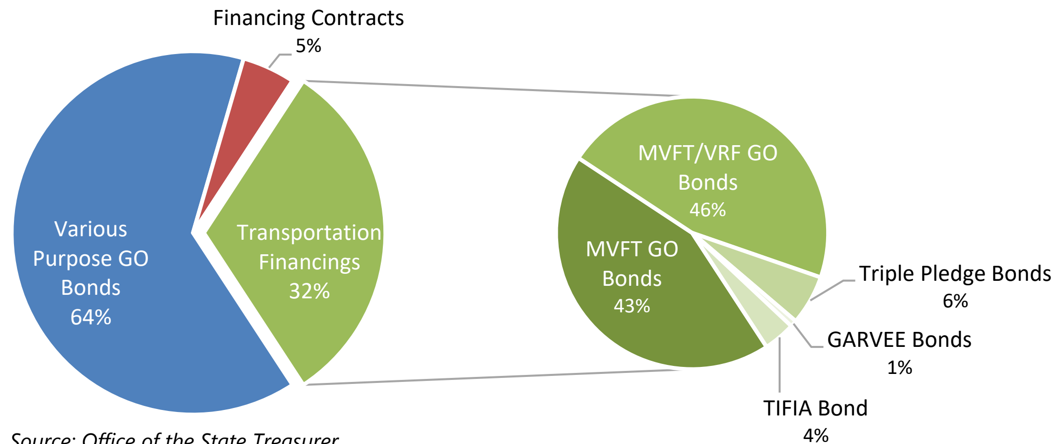
[8] Government Finance Officers Association, "Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB)," March 3, 2023. (https://www.gfoa.org/materials/sustainable-funding-practices-for-defined-benefit-pensions)

2. Overview of State Debt and Other Financial Obligations

Types Of Debt

The state's debt and other financial obligations consist of three primary categories: Various Purpose General Obligation ("VP GO") bonds, transportation-related financings, and financing contracts. The largest share of this portfolio, at about 64%, is VP GO bonds, issued to finance projects appropriated in the Capital Budget (Figure 2.1). VP GO bonds are backed by the full faith and credit of the state, also referred to as the state's General Obligation pledge or its "GO pledge", and are repaid primarily from General Fund-State ("GF-State") Revenues (e.g. sales tax, Business and Occupation tax, property tax, etc.).

Figure 2.1. Debt and Other Obligations (as of 6/30/2024)



Source: Office of the State Treasurer.
Totals may not add due to rounding.

The second-largest category, at approximately 32% of the state's portfolio of debt and other financial obligations, is transportation-related financings for projects such as highways, roads, bridges, and the state ferry system. Of the outstanding transportation-related financings, 43% are supported by the state's historic pledge of Motor Vehicle Fuel Tax ("MVFT") revenues, further guaranteed by the state's GO pledge ("MVFT GO" bonds). 46% of transportation financings are supported by the more modern pledge of MVFT and Vehicle Related Fees ("VRF"), further backed by the guarantee of the state's GO pledge ("MVFT/VRF GO" bonds). The remaining transportation financings (GARVEE, TIFIA, and Triple Pledge[9]) are project-specific and are backed by federal aid (GARVEE), toll revenues (TIFIA), and in the case of the outstanding Triple Pledge bonds, toll revenues further backed by MVFT revenues, and the state's GO pledge. As of September 1, 2024, the state's GARVEE bonds have been fully repaid.

Financing Contracts

Financing contracts account for approximately 5% of the state's portfolio of debt and other financial obligations, and are primarily issued as Certificates of Participation ("COPs"). COPs consolidate a group of state agency lease agreements (financing contracts) for the acquisition of property or equipment to be purchased. These leases are structured to expire on or before the end of the useful life of the property or equipment being financed, with ownership of the property transferring to the agency upon the conclusion of the lease.

[9] TIFIA and GARVEE are acronyms for federally sponsored programs. The full names are Transportation Infrastructure Finance and Innovation Act ("TIFIA") and Grant Anticipation Revenue Vehicle ("GARVEE").

The LOCAL Program is a special financing program available to local governments that are able to provide a general obligation pledge and meet the state's established credit criteria. The LOCAL Program offers local governments, including cities, counties, schools, fire districts, and others a way to finance essential real estate and equipment, such as fire stations, school buses, and ambulances, over a multi-year period. Debt service for COPs issued through the LOCAL Program is paid by the applicable local government.

Another form of financing contracts is 63-20 lease revenue bonds. These bonds are a special type of financing, authorized by Revenue Ruling 63-20 of the U.S. Treasury, that are issued by a non-profit corporation on behalf of the state. In this public-private-partnership arrangement, the non-profit constructs a facility and the state agrees to lease the property once completed. Ownership is transferred to the state upon the repayment of the bonds.

Outstanding Debt And Other Obligations

At the end of FY 2024, Washington's portfolio of debt and other financial obligations stood at $23.08 billion, as shown in Figure 2.2. The amount of outstanding state debt and other financial obligations has been stable in recent years, increasing by an average of 1.6% each year since FY 2020. Most notably, debt financings for transportation projects have slowed, while the amount of bonds issued to fund projects approriated in the Capital Budget has increased at a modest pace.

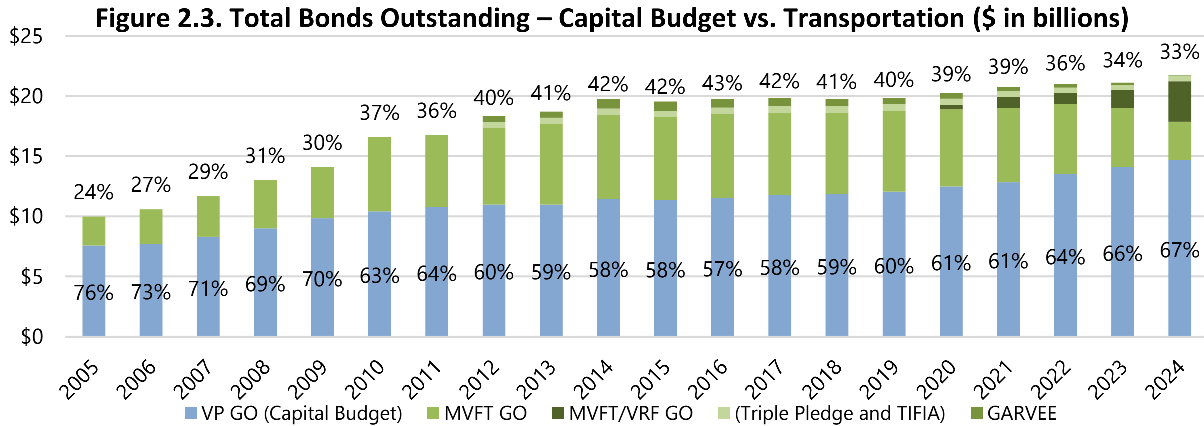
Figure 2.2. Outstanding Debt and Other Obligations ($ in millions)

As of:	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024
Various Purpose GO Bonds (Capital Budget)	$12,483	$12,827	$13,511	$14,097	$14,709
Transportation Budget-Related Bonds					
GO-Backed Bonds:					
MVFT GO Bonds	$6,418	$6,184	$5,841	$4,915	$3,167
MVFT/VRF GO Bonds	338	915	896	1,479	3,350
Triple Pledge Bonds	554	476	462	447	431
Non-GO-Backed Bonds:					
GARVEE Bonds	441	361	275	185	57
TIFIA Bond	290	287	284	280	275
Total Transportation Bonds	$8,042	$8,224	$7,758	$7,306	$7,280
Total Bonds Outstanding	$20,525	$21,050	$21,269	$21,403	$21,989
Financing Contracts					
COPs – State	$844	$848	$798	$741	$743
COPs – LOCAL	74	137	142	137	137
"63-20" Bonds	252	242	232	221	209
Total Financing Contracts	$1,170	$1,227	$1,172	$1,099	$1,089
Total Outstanding	$21,695	$22,277	$22,441	$22,502	$23,078

Source: Office of the State Treasurer.

Figure 2.3 shows how the state's ratio of Capital Budget and Transportation Budget debt has changed over time. Between 2005 and 2016, Transportation Budget-related obligations increased as a share of the state's overall bond portfolio. Of the state's total bonds outstanding, Transportation Budget-related debt increased from 24% in 2005 to a peak of 43% in 2016, before dropping to 33% in 2024.

Figure 2.3. Total Bonds Outstanding – Capital Budget vs. Transportation ($ in billions)



Source: Office of the State Treasurer.

Total Debt Service Due

As shown in figure 2.4, in FY 2024, a total of $2.50 billion was due by the state in principal and interest for its outstanding debt and other financial obligations. Figures 5.4 and 6.3 provide a breakout of the debt service due and applicable reimbursements for VP GO Bonds and Transportation Budget-Related Bonds.

Figure 2.4. Historical Annual Debt Service Due ($ in millions)*

Fiscal year:	2020	2021	2022	2023	2024
Various Purpose GO Bonds Debt Service	$1,283.1	$1,283.8	$1,308.9	$1,387.1	$1,443.7
Transportation Budget-Related Bonds					
GO-Backed Bonds:					
MVFT GO Bonds	$662.3	$634.6	$656.4	$645.2	$601.4
MVFT/VRF GO Bonds	13.7	34.9	66.1	67.6	134.6
Triple Pledge Bonds	43.2	26.9	38.2	38.2	38.2
Non-GO-Backed Bonds:					
GARVEE Bonds	99.8	99.7	99.6	99.4	98.5
TIFIA Bond	12.7	12.7	12.7	12.7	12.7
Total Transportation Bond Debt Service	$831.7	$808.8	$873.0	$863.1	$885.4
Total Bond Debt Service	$2,114.9	$2,092.6	$2,181.8	$2,250.1	$2,329.1
Financing Contracts					
COPs -- State	$135.5	$135.0	$131.3	$132.3	$127.1
COPs -- LOCAL	14.8	16.0	19.2	21.5	22.0
"63-20" Bonds	22.1	22.2	21.7	22.5	22.6
Total Financing Contracts	$172.3	$173.2	$172.2	$176.3	$171.7
Total Debt Service	$2,287.2	$2,265.9	$2,354.0	$2,426.4	$2,500.9

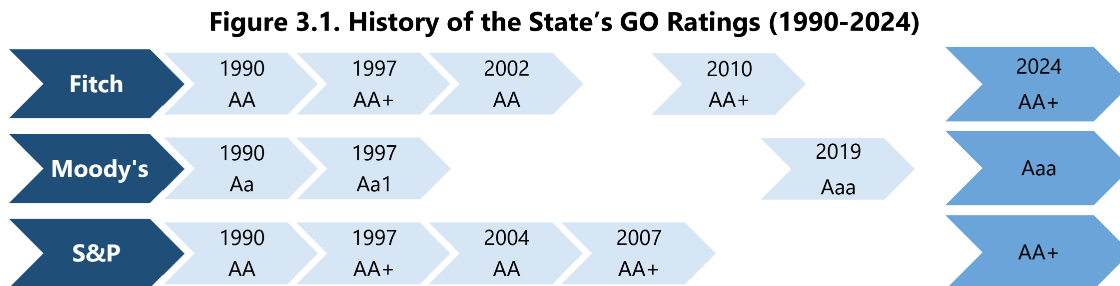
** Totals may not add due to rounding.*
Source: Office of the State Treasurer.

3. Credit Ratings and Debt Metrics

Washington is fortunate to be home to a strong and diverse economy, with a growing population, high personal income levels, and solid job growth. The state operates with sound financial management practices and has access to significant liquidity and reserves. For these reasons, the state has received high marks from credit rating agencies. In August 2019, the state reached a coveted milestone when Moody's upgraded Washington's GO rating to Aaa from Aa1. This was the first time the state received a Aaa GO rating. Fitch and S&P each rate the state AA+, which is their second highest rating. In January 2024, S&P changed the state's outlook from stable to positive, indicating a one-in-three chance that Washington's rating could be upgraded to AAA.

Figure 3.1 shows a history of the changes to Washington's GO ratings by the three major rating agencies since 1990. Maintaining strong and stable ratings is critical to ensuring that the state continues to have access to low interest rates on future borrowings.

Figure 3.1. History of the State's GO Ratings (1990-2024)



Source: Office of the State Treasurer.

Receiving top credit ratings distinguishes Washington's bonds and other financial obligations from other issuers and is part of the reason why the state is able to borrow at such low interest rates. However, it is important to note that Washington's debt burden places it among the nation's most heavily indebted states when assessed by several different metrics. For example, according to Moody's, Washington ranks in the top ten of all 50 states for debt per capita (6th), debt as a percentage of revenues (5th), and debt as a percentage of personal income (9th). Fortunately, while citing debt levels as a potential risk, each rating agency has recognized that several fundamental credit strengths of the state help to mitigate its above-average debt burden.[10]

Moody's (October 17, 2024)

> *"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 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."*

[10] The state's rating agency reports can be found on the Washington State Treasurer's website: https://tre.wa.gov/home/debt-management/debt-information/.

S&P (October 18, 2024)

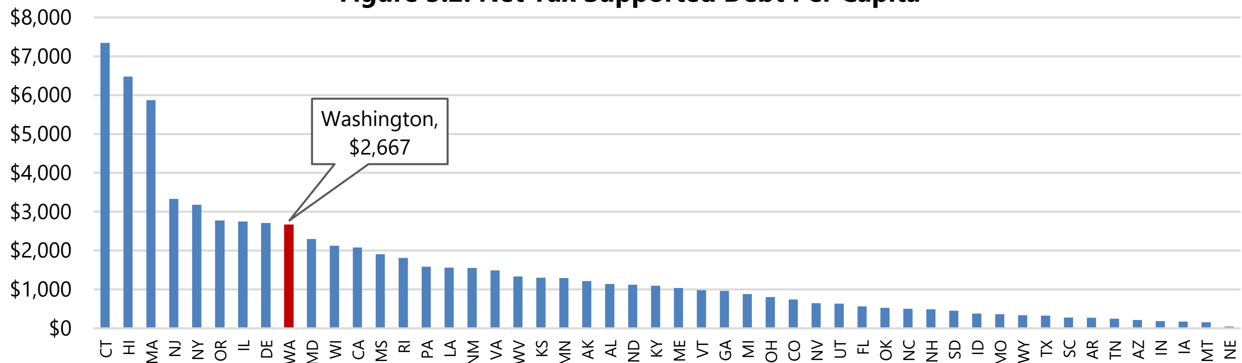
> *"Amid an evolving economic landscape over the last four years, Washington's financial management has remained resilient and its combined reserves have been preserved at solid levels, which we expect will continue. The state's robust management practices and forecasting have benefited it in tracking 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 limited formal reserve levels, which sets it apart from higher-rated peers. 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."*

Fitch (October 23, 2024)

> *"The State of Washington's 'AA+' Long-Term 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 spending pressure for the state given steady population growth and the state's role as the primary funding source for K-12 public schools."*

Peer Comparison

According to research conducted by S&P, Washington is one of the most highly leveraged states in the nation. For example, Figure 3.2 shows S&P's computation of net tax-supported debt (outstanding debt minus reimbursements, refinancings, and certain reserve requirements) per capita for all 50 states in FY 2023, the most recent data available for all states. S&P calculated Washington's debt per capita to be $2,667, the ninth highest in the country, and 2.5 times the national median of $1,067. Debt per capita is one metric commonly used by rating agencies to assess how leveraged a state is (along with debt as a percentage of personal income and debt as a percentage of gross state product).



Source: *U.S. States' Fiscal 2023 Liabilities: Stable Debt, With Pension And OPEB Funding Trending Favorably*. S&P. October 23, 2024.

While Washington's debt burden per capita is more than twice that of the national median, credit analysts generally focus on the overall liability profile of each state when reviewing debt affordability. When the broader liability profile is taken into account, which includes pension and other post-employment benefits ("OPEB") liabilities, Washington's liability metrics are near the national median and the state's relative

ranking improves significantly, as shown in Figure 3.3. This demonstrates the importance of the state's well-funded pension system as a component of the rating agencies' assessment of Washington's credit.

Figure 3.3. Debt Metrics: A Comparison to National Medians

	Moody's	S&P
Net Tax-Supported Debt ($ millions)[1,2]		
Washington	**$27,366**	**$20,833**
Median of States	$5,121	$4,093
WA Rank Compared to Other States	5th	7th
Net Tax-Supported Debt Per Capita[1,2]		
Washington	**$3,503**	**$2,667**
Median of States	$1,189	$1,067
WA Rank Compared to Other States	6th	9th
Net Tax-Supported Debt as % of Personal Income[1,2]		
Washington	**4.30%**	**3.30%**
Median of States	2.0%	1.6%
WA Rank Compared to Other States	9th	10th
Net Tax-Supported Debt as % of Gross State Product[1,2]		
Washington	**3.40%**	**2.60%**
Median of States	1.8%	1.4%
WA Rank Compared to Other States	11th	13th
Debt Service as % of State Revenue/Spending[1,2]		
Washington	**4.40%**	**7.00%**
Median of States	1.70%	2.90%
WA Rank Compared to Other States	5th	4th
Debt + Pension + OPEB as % of State Revenue[1]		
Washington	**5.90%**	
Median of States	5.40%	
WA Rank Compared to Other States	22nd	
Debt + Net Pension Liability + Net OPEB Per Capita[1,2]		
Washington	**-**	**$2,418**
Median of States	-	$2,442
WA Rank Compared to Other States	-	24th

1.) *Source:* Revenue growth and lower ANPLs boost capacity to manage long-term debt. *Moody's Investor Service. October 7, 2024.*
2.) *Source:* U.S. States' Fiscal 2023 Liabilities: Stable Debt, With Pension And OPEB Funding Trending Favorably. *October 23, 2024.*

Comparing Washington's debt metrics to other states with comparable or higher credit ratings provides insight into areas of financial strengths and weaknesses, demonstrates how Washington measures against its peers financially, and indicates opportunities for improving the state's ratings. Figure 3.4 compares the primary metrics used by rating agencies to calculate Washington's debt burden to those same metrics for states with similar or better credit ratings.

Despite many of these states having different economic, revenue, and debt characteristics, the comparison is meaningful as it shows that, amongst the 16 states with similar or better credit ratings, Washington has the highest debt as a percentage of spending, second highest total net tax supported debt, and fourth highest debt per capita. The state ranks fourth in debt as a percentage of personal income and fifth in debt as a percentage of gross state product amongst states with similar or better credit ratings.

Figure 3.4. Comparing the State of Washington to Similarly Rated States[1]

	Ratings (Moody's/ S&P/ Fitch)	Total Net Tax-Supported Debt ($ in millions)[2]	Debt Per Capita ($)[2]	Debt as % of Personal Income[2]	Debt Service as % of General Spending[2]	Debt as % Gross State Product[2]
Massachusetts	Aa1 / AA+ / AA+	$41,103	$5,871	6.7%	6.4%	5.6%
Washington	**Aaa / AA+ / AA+**	**$20,833**	**$2,667**	**3.3%**	**7.0%**	**2.6%**
Florida	Aaa / AAA / AAA	$12,703	$562	0.8%	3.2%	0.8%
Maryland	Aaa / AAA / AAA	$14,192	$2,296	3.1%	5.8%	2.8%
Virginia	Aaa / AAA / AAA	$12,999	$1,492	2.0%	4.2%	1.8%
Ohio	Aaa / AAA / AAA	$9,474	$804	1.3%	4.1%	1.1%
Texas	Aaa / AAA / AAA	$9,890	$324	0.5%	1.3%	0.4%
Georgia	Aaa / AAA / AAA	$10,628	$964	1.6%	5.1%	1.3%
Oregon	Aa1 / AA+ / AA+	$11,717	$2,768	4.2%	5.3%	3.7%
Minnesota	Aaa / AAA / AAA	$7,417	$1,293	1.8%	4.6%	1.6%
North Carolina	Aaa / AAA / AAA	$5,435	$502	0.8%	2.0%	0.7%
Colorado	Aa1 / AA / NR	$4,365	$743	0.9%	1.9%	0.8%
Utah	Aaa / AAA / AAA	$2,170	$635	1.0%	4.0%	0.8%
Delaware	Aaa / AAA / AAA	$2,803	$2,717	4.2%	5.4%	3.0%
Missouri	Aaa / AAA / AAA	$2,238	$361	0.6%	2.5%	0.5%
Nevada	Aa1 / AA+ / AA+	$2,063	$646	1.0%	1.7%	0.9%
National Median		$4,093	$1,067	1.6%	2.9%	1.4%

1: Cells colored yellow are the highest value for the column; cells colored blue are the second highest.

2: Source: *U.S. States' Fiscal 2023 Liabilities: Stable Debt, With Pension And OPEB Funding Trending Favorably.* S&P. October 23, 2024.

4. Constraints on Debt Issuance

Constitutional Debt Limit

Since ratification in 1889, the Washington constitution has limited the amount of certain types of state debt that can be issued. Originally, the state had a fixed debt limit of $400,000. In 1972, this was replaced with a limit on the state's maximum annual debt service ("MADS") relative to a historical average of GSR. Today, the constitution prohibits MADS for debt subject to this limit from exceeding 8.25% of the average of GSR over the preceding six fiscal years. Debt service on nearly all VP GO debt is subject to the constitutional debt limit.

Under Article VIII of the state constitution, GSR includes all state money received in the state treasury from each and every source, including monies received from ad valorem taxes levied by the state and deposited in the general fund, but not including:

> "(1) Fees and other revenues derived from the ownership or operation of any undertaking, facility, or project; (2) Moneys received as gifts, grants, donations, aid, or assistance or otherwise from the United States or any department, bureau, or corporation thereof, or any person, firm, or corporation, public or private, when the terms and conditions of such gift, grant, donation, aid, or assistance require the application and disbursement of such moneys otherwise than for the general purposes of the state of Washington; (3) Moneys to be paid into and received from retirement system funds, and performance bonds and deposits; (4) Moneys to be paid into and received from trust funds and the several permanent and irreducible funds of the state and the

> moneys derived therefrom but excluding bond redemption funds; (5) Moneys received from taxes levied for specific purposes and required to be deposited for those purposes into specified funds or accounts other than the general fund; and (6) Proceeds received from the sale of bonds or other evidences of indebtedness."

Each year, typically in December, the Treasurer certifies the debt limit when GSR calculations are finalized. The most recent debt limit report was published on January 3, 2025, and certified that the MADS for debt subject to the constitutional limit was $805,124,672 less than the constitutional debt service limitation. This number represents the difference between 8.25% of the 6-year average of GSR ($2.28 billion) and the MADS as of June 30, 2024 ($1.47 billion).

It is important to note that the constitutional debt limit restricts the incurrence of new debt that would cause debt service to be in excess of the limit; it does not prohibit the payment of debt service on outstanding bonds in excess of the limit, nor does it affect the state's ability to issue refunding bonds for savings.

Working Debt Limit

State statute provides for a working debt limit, which is used for budgeting and planning purposes. The State Finance Committee may adjust the working debt limit due to extraordinary economic conditions without action by the Legislature but may not exceed the constitutional debt limitation. Starting with the 2021-23 Biennium and applying to all subsequent biennia, state statute sets the working debt limit at 7.75% of the average of GSRs for the six preceding fiscal years.

Modeling Future Debt Capacity

In the mid-1990's, the Legislature, OFM, and OST developed a model to estimate debt capacity and to assess the affordability of bonds subject to the constitutional debt limit ("Debt Model"). The Debt Model is used for long-term financial planning and as an "early warning" mechanism during times of decreasing revenues. The model estimates debt service and debt capacity over a 30-year period based on the state's constitutional and working debt limits, projected GSR, projected future interest rates, and other assumptions.

To calculate future capacity, the model assumes that future biennial bond authorizations will grow at a uniform rate. Bonds authorized for each biennium are expected to be issued over a five-year period and amortized over 25 years with level annual debt service payments. Projections are reviewed at least quarterly. Both revenue and interest rate assumptions are aligned with projections from the Washington State Economic and Revenue Forecast Council and S&P Global Market Intelligence over the forecast horizon. In the years following the forecast horizon (FY 2035 and thereafter), the model assumes a long-term interest rate equal to the 30-year average of the Bond Buyer 20-Bond Index ("BBI") at the close of the prior fiscal year. The current assumed long-term borrowing rate is 4.37%.

The Debt Model calculates the maximum bond authorization for each biennium as the dollar amount that causes projected MADS to reach but not exceed the state's constitutional or working debt limits, given the assumed growth in GSR, future biennial bond authorizations, and projected future bond issuance. To the extent that the bond authorization for the current biennium is increased, future bond authorizations must be decreased to keep MADS below the limit, and vice versa. Thus, the model provides a regularly updated measure of current and projected future debt capacity governed primarily by projected growth in GSR.

Exemptions from the Constitutional Debt Limit

Article VIII of the constitution excludes certain types of debt from the debt limit, most notably debt payable from MVFT, VRF, and interest on the permanent common school fund (provided that the specified revenues are sufficient to repay the debt service secured by such revenues). All forms of non-recourse revenue debt, as well as debt approved by both the Legislature and the voters are excluded from the limit.

The most recent occurrences of bonds being authorized by state voters were in 1998 when voters approved $1.90 billion of bonds for state and local highway improvements (Referendum 49), and in 1997 when $300 million of bonds were approved for the Washington State Public Stadium Authority (Referendum 47). As a result of these bonds being approved by state voters, debt service on these bonds was excluded from the constitutional debt limit. Prior to these two authorizations, voters had not approved bonds since 1980.

Below is a summary of the state's existing debt that is excluded from the constitutional debt limit. The Transportation Budget-related debt is discussed in more detail in Section 6. Financing contracts are discussed in Section 8.

Motor Vehicle Fuel Tax GO Bonds are exempt from the constitutional debt limit provided that sufficient MVFT revenues are collected to pay the debt service on such bonds. Mindful of the constitutional provision, legislative bond authorizations for MVFT GO bonds include a statutory commitment to continue to impose excise taxes on motor vehicle fuels in amounts sufficient to pay the principal and interest of such bonds. Additionally, the State Finance Committee's MVFT GO authorizing resolutions incorporate this pledge into the contractual obligation made by the state to investors.

Motor Vehicle Fuel Tax and Vehicle Related Fees GO Bonds are exempt from the constitutional debt limit provided there are sufficient MVFT and VRF revenues to pay the debt service on such bonds. These bonds are structured very similarly to the state's MVFT GO bonds, with the addition of the VRF pledge, which provides flexibility to better accommodate future changes in transportation revenues.

Triple Pledge Bonds, which are backed by a pledge of toll revenues, MVFT, as well as the state's GO pledge are expected to be paid by toll revenues. Triple Pledge Bonds are exempt from the constitutional debt limit provided there are sufficient MVFT revenues (or, with respect to future Triple Pledge bonds, MVFT and VRF revenues) to pay the debt service on such bonds. The Triple Pledge Bonds' master bond resolution, under which the currently outstanding bonds were issued, provides specific toll rate covenants and additional bonds tests that set minimum debt service coverage levels. While backed by both MVFT revenues and the state's GO pledge, the state expects that such bonds will be repaid from toll revenues.

In 2019, the Legislature authorized the issuance of additional Triple Pledge Bonds expected to be repaid from tolls on the I-405 & SR 167 Express Toll Lanes and the Puget Sound Gateway toll facilities, and to be backed by a pledge of both MVFT and VRF revenues in addition to the state's GO pledge. Bonds have not yet been issued under the 2019 authorization.

The state's **TIFIA Loan** (Transportation Infrastructure Finance and Innovation Act), which was executed in connection with the SR 520 Corridor project, is exempt from the debt limit as the loan, which is provided by the United States Department of Transportation, is payable solely from net toll revenues of the SR 520 Corridor.

Financing Contracts such as COPs and 63-20s are not subject to the state's constitutional debt limit as these obligations do not constitute debt as defined by the state constitution. COP payments are subject to appropriation by the Legislature and executive order reduction by the Governor. The State Finance Committee is responsible for establishing the maximum aggregate principal amount of financing contracts that may be issued.

5. Capital Budget Debt

Various Purpose General Obligation ("VP GO") Bonds

VP GO bonds are issued to pay for projects appropriated in the Capital Budget, including K-12 public school construction, higher education facilities, environmental preservation, correctional facilities, public works infrastructure, and state office buildings. The term of each financing is generally 25 years or less, but always with an average life within the expected weighted average useful life of the asset(s) being financed.

The state irrevocably pledges its full faith, credit, and taxing power to the payment of its VP GO bonds. The ability of the state to make this pledge is provided in the state constitution. The constitutional mandate regarding payment of state debt requires that the Legislature appropriate sufficient funds to pay state debt when due and provides expressly for judicial enforcement of the state's payment obligation on that debt. No other provision of the constitution contains comparable language providing courts with authority to compel payment of other state obligations.

In the last five biennia, VP GO bonds have been used to fund an average of 61% of Capital Budget appropriations. In contrast, in the 20 years prior to the Great Recession, bonds funded an average of 52% of Capital Budget appropriations. In the 2023-25 Capital Budget, bonds are projected to fund 49% of the appropriations, with the remainder funded primarily from dedicated state revenues and federal funding. Figure 5.1 shows historical Capital Budget appropriations for projects funded by bonds and the percentage of total appropriations funded by bonds.

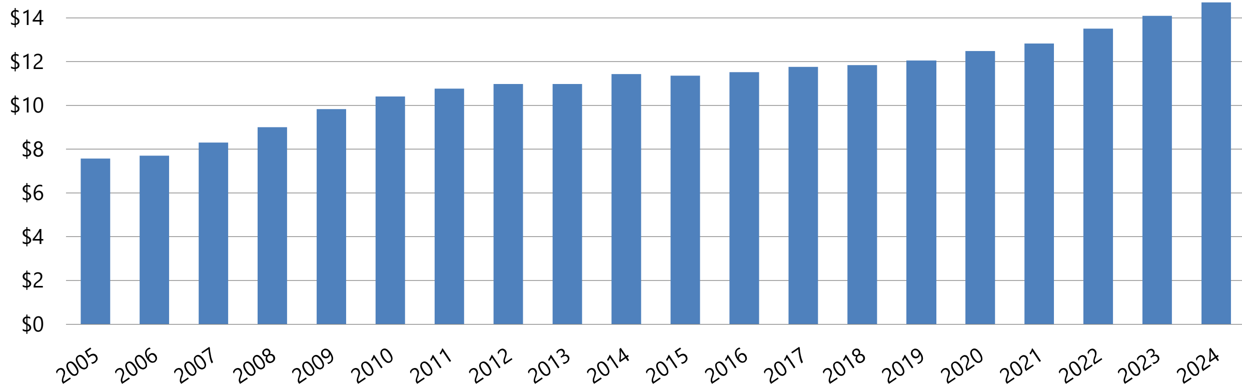
Figure 5.1. New Capital Budget Appropriations ($ in millions)

	2013-15	2015-17	2017-19	2019-21	2021-23	2023-25
Bond Appropriations						
Governmental Operations	$534	$502	$678	$750	$1,039	$1,814
Human Services	70	131	145	239	308	928
Natural Resources	547	517	761	713	786	854
Higher Education	425	541	486	626	1,033	890
K-12 Education	462	625	822	935	767	308
Bond Appropriations	$2,038	$2,316	$2,893	$3,262	$3,933	$4,795
Other Funds Appropriated	$1,362	$1,356	$1,311	$1,416	$3,410	$4,896
Total Appropriations	$3,400	$3,672	$4,203	$4,679	$7,343	$9,690
Percent Funded by Bonds	60%	63%	69%	70%	54%	49%

Source: Legislative Evaluation & Accountability Program (LEAP) Committee.

As Figure 5.2 shows, the state's total outstanding principal amount of VP GO debt was $14.70 billion in FY 2024, a nearly twofold increase over the last 20 years and a 29% increase since FY 2014.

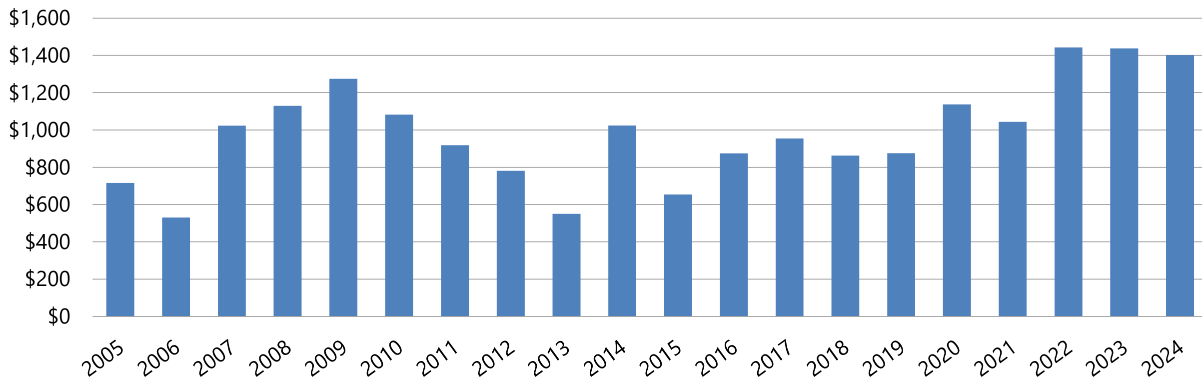
Figure 5.2. Outstanding VP GO Principal ($ in billions)



Source: Office of the State Treasurer.

The amount of VP GO bonds issued annually has varied over the last 20 years (Figure 5.3). Over the last three years, the average amount of new money VP GO bonds issued was $1.43 billion per year. Total new money VP GO issuance in FY 2024 was the third largest on record, totaling $1.40 billion (in FY 2022 VP GO issuance was the highest at $1.44 billion).

Figure 5.3. Annual New Money Issuance of VP GO Bonds* ($ in millions)



**Excludes refundings.*
Source: Office of the State Treasurer.

Certain VP GO bonds are issued from time to time with the intention that the general fund will be wholly or partially reimbursed for debt service expenditures from sources outside of GF-State Revenues. The amount of these bonds outstanding is relatively small and has been decreasing for several years. Funds from these sources are not pledged to bondholders and the reimbursement source or amount may be altered at any time by legislative or executive action. Examples of reimbursement sources include higher education tuition and fees and medical patient fees, and a small amount of multimodal transportation projects reimbursed out of the Multimodal Transportation Fund.

Figure 5.4 shows historical debt service for VP GO bonds, net of reimbursements from non-GF-State sources. In FY 2024, VP GO debt service, net of reimbursements, totaled $1.40 billion.

Figure 5.4. VP GO Bond Debt Service, Net of Reimbursable Debt ($ in millions)

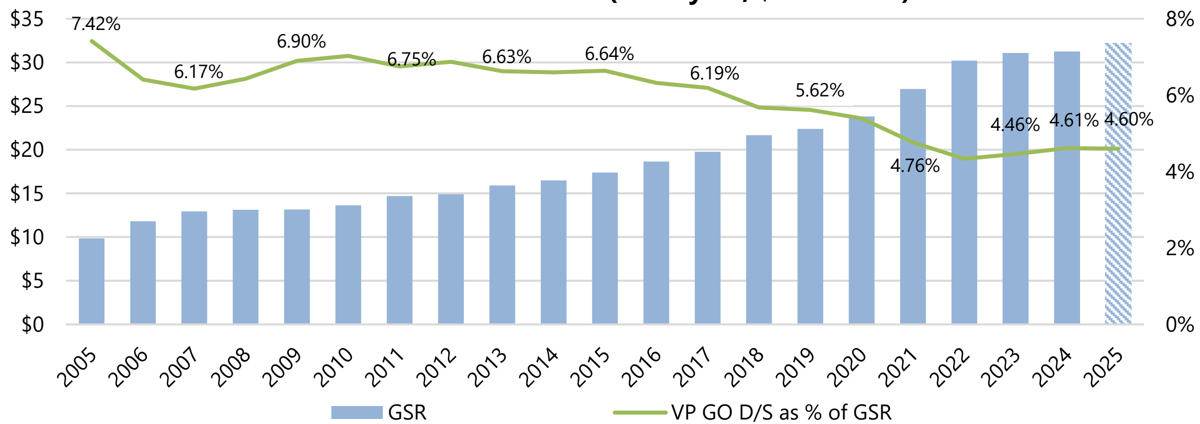
Fiscal year:	2020	2021	2022	2023	2024
Various Purpose Bonds (Capital Budget)					
VP GO Bonds	$1,283.1	$1,283.8	$1,308.9	$1,387.1	$1,443.7
Various Reimbursements	(104.1)	(78.3)	(43.6)	(42.8)	(41.8)
Net Debt Service Requirements	$1,179.1	$1,205.6	$1,265.2	$1,344.3	$1,401.9

Source: Office of the State Treasurer.

The portion of GSR used to pay debt service hit a highwater mark of 7.88% in FY 2002. Figure 5.5 shows VP GO debt service as a percentage of GSR since FY 2005. For FY 2025, debt service on VP GO bonds is projected to be approximately $1.47 billion or 4.60% of projected GSR, before FY 2025 bond issuances.

The total amount of future debt service to be paid on the state's currently outstanding Capital Budget-related VP GO bonds is $22.26 billion (see Figure 5.6). This table does not reflect projected future bond issuances, reimbursements, or refinancings.

Figure 5.5. VP GO Debt Service as a Percent of General State Revenues (fiscal year, $ in billions)



Source: Office of Financial Management, November 2024; Office of the State Treasurer. Outstanding as of June 30, 2024.

Figure 5.6. Annual VP GO Debt Service Requirements

(for bonds outstanding as of June 30, 2024)

Fiscal Year	Total Capital Budget-Related Bond Debt Service (VP GO Bonds)
2025	$ 1,481,533,073
2026	1,446,563,355
2027	1,408,839,139
2028	1,374,341,096
2029	1,349,920,914
2030	1,308,101,041
2031	1,265,401,750
2032	1,232,118,831
2033	1,186,041,831
2034	1,098,752,031
2035	1,015,915,281
2036	946,283,791
2037	888,047,850
2038	842,843,800
2039	809,672,750
2040	746,608,281
2041	701,859,031
2042	641,111,875
2043	574,703,750
2044	514,224,250
2045	453,487,875
2046	373,564,125
2047	300,322,625
2048	199,471,125
2049	8,736,500
Total	$ 22,258,465,971

Source: Office of the State Treasurer.

6. Transportation Budget Debt

MVFT GO, MVFT/VRF GO, Triple Pledge, TIFIA, and GARVEE Bonds

MVFT/VRF GO bonds are the primary source of financing for capital projects in the Transportation Budget. MVFT/VRF GO bonds are paid from state excise taxes on motor vehicle fuels and vehicle related fees and are backed by the full faith, credit, and taxing power of the state. Proceeds of MVFT/VRF GO bonds are constitutionally restricted to highway projects, which include public highways, county roads, bridges, city streets, and the ferry system. MVFT/VRF GO bonds carry the same ratings as VP GO bonds and borrowing rates are essentially the same. The term of each financing is generally 25 years or less, but always with an average life within the expected weighted average useful life of the asset(s) being financed.

During the 2022 legislative session, the Legislature passed SB 5898 (enacted as Chapter 103, Laws of 2022), effective June 9, 2022. This bill amended existing transportation bond authorizations by adding the VRF

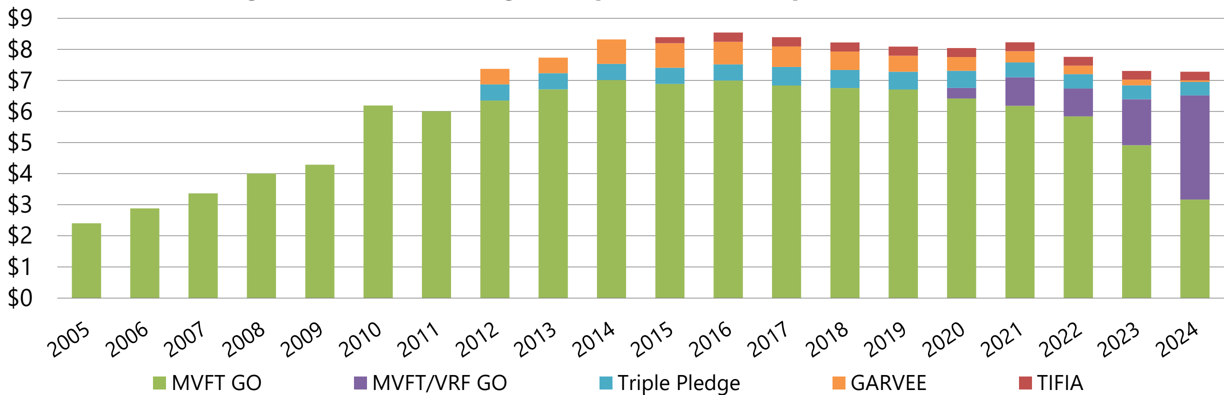
pledge to older authorizations that had been structured with only the MVFT GO pledge. SB 5898 follows the precedent set by the more modern Connecting Washington Bond Act by supplementing older MVFT GO bond authorizations with the additional pledge of VRF to any new bonds or refunding bonds issued under these authorizations. Adding the VRF pledge provides the Legislature with increased flexibility in how the debt service on bonds issued under these older authorizations can be paid and will proactively help the state adapt to future changes in transportation revenues.

Over the past 20 years, Washington significantly increased its reliance on bonds to implement legislative spending plans for transportation projects. Leveraging revenues from the 2003 Nickel Act and the 2005 Transportation Partnership Act, which collectively raised the gas tax 14.5 cents, resulted in the state's annual MVFT GO issuance increasing from an average of $65 million per year in the 1990s, to a peak of over $2 billion in 2010 with the issuance of Build America Bonds ("BABs").

In 2015, the Legislature approved an additional 11.9 cent gas tax increase and also pledged certain Vehicle Related Fees ("VRF") in the Connecting Washington transportation package. VRFs are defined as vehicle related fees imposed under Title 46 RCW that constitute license fees for motor vehicles required to be used for highway purposes.

Connecting Washington authorized the issuance of $5.30 billion of bonds, secured by a new pledge of MVFT and VRF revenues, and further backed by the guarantee of the state's GO pledge. By the end of FY 2024, the state had issued more than $1.53 billion of Connecting Washington bonds backed by MVFT/VRF revenues. The remaining unissued $3.77 billion of the Connecting Washington bond authorization is expected to be issued during the next ten or more years. As seen in Figure 6.1, at the end of FY 2024 the state had a total of $7.28 billion of outstanding transportation bonds, with approximately $3.17 billion of outstanding MVFT GO bonds as well as approximately $3.35 billion of bonds backed by a pledge of MVFT/VRF revenues.

Figure 6.1. Outstanding Transportation Principal ($ in billions)

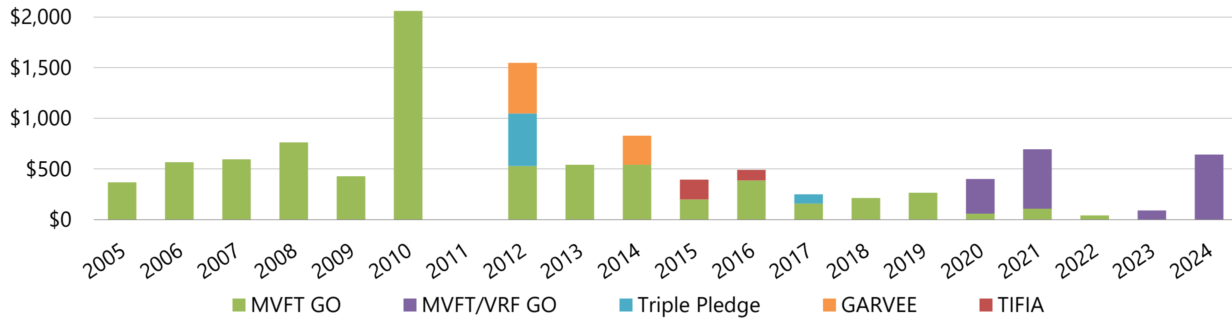


Source: Office of the State Treasurer.

In addition to MVFT GO and MVFT/VRF GO financings, the state issued three additional types of transportation bonds to finance the SR 520 Bridge Replacement and HOV Program: Triple Pledge bonds, GARVEE bonds, and a TIFIA loan.

Figure 6.2 shows the amount of the state's annual transportation bond issuances by fiscal year, excluding refundings. Between FY 2012 and FY 2017, the state issued a total of $609.2 million in Triple Pledge bonds, which are first paid from SR 520 toll revenue, and further backed by MVFT revenues and a guarantee of the state's GO pledge. Triple Pledge bonds carry the same ratings as other GO bonds and borrowing rates are essentially the same.

Figure 6.2. Issuance of New Money Transportation Bonds ($ in millions)



Source: Office of the State Treasurer.
Note: In FY 2010, $1.43 billion of MVFT GO bonds were issued as Build America Bonds ("BABs"). BABs were created through the American Recovery and Reinvestment Act of 2009. This program offered state and local governments federal subsidies on taxable municipal bonds. The state's outstanding BABs were refinanced in 2024.

In FYs 2012 and 2014, the state issued $786.3 million in Grant Anticipation Revenue Bonds, or GARVEE bonds, secured solely by funds received from the Federal Highway Administration ("FHWA"). As of September 1, 2024, the state no longer has any outstanding GARVEE bonds. Per the State Finance Committee's policy "Guidelines For Use Of Federal Highway Grant Anticipation Revenue Bonds" the State Treasurer must provide yearly estimates of GARVEE capacity in the Debt and Credit Analysis. The state's maximum capacity for additional GARVEE bonds is estimated to be approximately $3.38 billion.

In FY 2013, the state secured a $300.0 million TIFIA bond from the FHWA which was drawn down in 2015 and 2016. The TIFIA bond is secured by and repaid solely from SR 520 toll revenues.

The state has not issued new Triple Pledge bonds, GARVEE bonds, or TIFIA loans since 2017. By the end of FY 2024, the combined outstanding amount of bonds issued for SR 520 was approximately $763.1 million.

In FY 2022, the issuance of bonds for transportation projects was significantly reduced as American Rescue Plan Act money received by the state as a result of the COVID-19 pandemic helped maintain higher cash balances in construction accounts. The Legislature also passed the Move Ahead Washington ("MAW") transportation package that included a short-term loan to the Connecting Washington Account for the 2021-23 Biennium to delay bond issuance. The Legislature assumed this loan would be repaid over the next two biennia.

From time to time, certain transportation financings are undertaken with the intent that they will be wholly or partially reimbursed from other sources, including toll revenues, federal tax credits, and pledged federal aid. Figure 6.3 shows historical debt service for transportation financings, net of reimbursements. In FY 2024, approximately $265.2 million of transportation budget-related debt service was reimbursed from other sources. The aggregate net debt service requirement for transportation financings after these reimbursements totaled $620.2 million.

Figure 6.3. Transportation Budget Financing Debt Service, Net of Reimbursements ($ in millions)

Fiscal year:	2020	2021	2022	2023	2024
Transportation Budget-Related GO-Backed Bonds					
MVFT GO Bonds	$662.3	$634.6	$656.4	$645.2	$601.4
TNB Toll Revenue Reimbursements	(73.1)	(72.2)	(77.2)	(79.1)	(82.9)
SR 99 Tunnel Toll Revenue Reimbursements	(7.4)	(8.1)	(11.4)	(11.4)	(11.4)
BABs Federal Tax Credit Reimbursements	(24.3)	(23.6)	(23.0)	(22.2)	(21.4)
Net Debt Service Requirements	$557.5	$530.6	$544.8	$532.5	$485.6
MVFT/VRF GO Bonds	$13.7	$34.9	$66.1	$67.6	$134.6
Reimbursements	--	--	--	--	--
Net Debt Service Requirements	$13.7	$34.9	$66.1	$67.6	$134.6
SR 520 Triple Pledge Bonds	$43.2	$26.9	$38.2	$38.2	$38.2
Net SR 520 Toll Revenues	(43.2)	(26.9)	(38.2)	(38.2)	(38.2)
Net Debt Service Requirements	--	--	--	--	--
GARVEE Bonds (SR 520)	$99.8	$99.7	$99.6	$99.4	$98.5
Federal Aid applied to debt service	(99.8)	(99.7)	(99.6)	(99.4)	(98.5)
Net Debt Service Requirements	--	--	--	--	--
TIFIA Loan (SR 520)	$12.7	$12.7	$12.7	$12.7	$12.7
Net SR-520 Toll Revenues applied to debt service	(12.7)	(12.7)	(12.7)	(12.7)	(12.7)
Net Debt Service Requirements	--	--	--	--	--
All Transportation Financings					
Aggregate Debt Service Requirements	$831.7	$808.8	$873.0	$863.1	$885.4
Aggregate Reimbursements and Revenues	(260.5)	(243.3)	(262.1)	(263.0)	(265.2)
Aggregate Net Debt Service Requirements	$571.2	$565.5	$610.9	$600.1	$620.2

Totals may not add to rounding.

Source: Office of the State Treasurer.

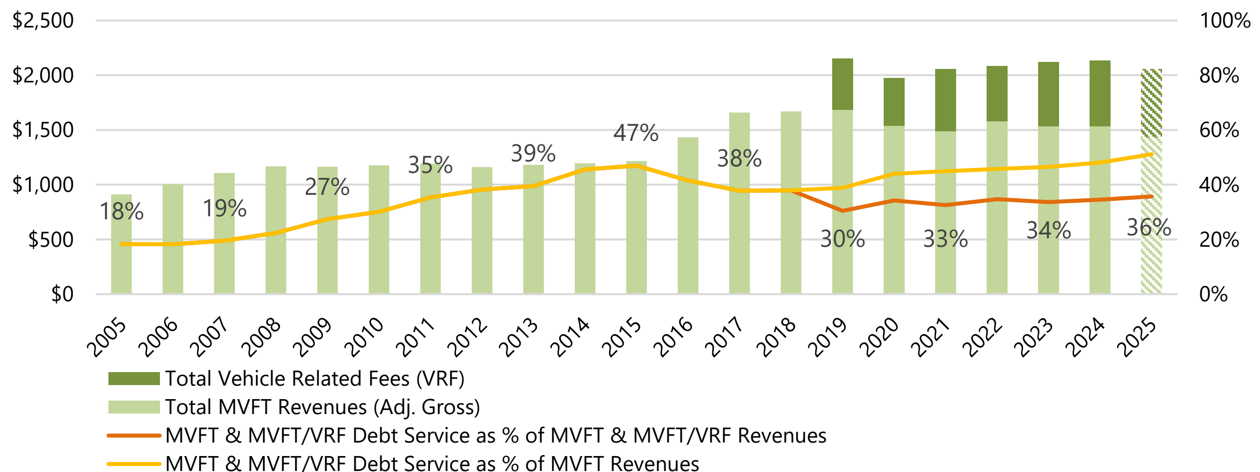
TRANSPORTATION DEBT SERVICE COVERAGE

For the Transportation Budget, the state has traditionally sought to maintain at least a 2.0x debt service coverage ratio (pledged MVFT and VRF revenues compared to the debt service paid from those revenues). Stated otherwise, the state's practice has been to limit the debt service on bonds paid by MVFT and VRF revenues to not more than 50% of those revenues (see Figure 6.4 for historical percentages). To preserve funds for operational expenses, ensure compliance with the state's constitutional debt limit, and to protect the states credit ratings, we recommend that the state continue to maintain the minimum 2.0x debt service coverage for MVFT GO and MVFT/VRF GO debt.

In recent years, MVFT GO and MVFT/VRF GO debt service have grown from requiring from 38% of MVFT revenues (2.63x coverage) in FY 2017 to a projected 51% (1.96x coverage) in FY 2025. This increase is the result of flat fuel tax revenue growth paired with additional debt service from new bond issuances. However, when revenues from VRF are included, as pledged by Connecting Washington and SB 5898, the ratio of debt service to revenues decreases to a projected 36%, or 2.78x coverage, in FY 2025.

In 2022, the Legislature approved the MAW transportation package. Among other provisions, MAW provided increases to certain VRFs which are projected to further improve debt service coverage ratios.

Figure 6.4. MVFT & MVFT/VRF Debt Service as a Percent of MVFT & MVFT/VRF Revenues ($ in millions)



Sources: MVFT: Nov-2024 TERFC, Volume II, Table A.3. VRF: Nov-2024 TERFC, Volume IV, Table H.1. Governor proposed budget, 12/2/2024; $1,086.1 million remaining unissued. Interest rates: November 2024 ERFC Forecast.

The amount of future annual debt service requirements for the state's currently outstanding transportation bonds is shown in Figure 6.5. This table does not reflect projected future bond issuance, reimbursements, refinancings, or TIFIA prepayments.

Figure 6.5. Annual Transportation Debt Service Requirements

(for bonds outstanding as of June 30, 2024)

Fiscal Year	MVFT GO Bonds	MVFT/VRF GO Bonds	SR 520 Triple Pledge Bonds	GARVEE Bonds	TIFIA Bond	Total Transportation Budget Debt Service
2025	$ 450,650,725	$ 282,115,417	$ 38,187,800	$ 58,727,375	$ 12,685,912	$ 842,367,229
2026	448,082,013	278,533,375	38,190,450	--	12,685,912	777,491,750
2027	435,338,213	278,475,750	38,183,750	--	12,685,912	764,683,625
2028	413,989,038	278,395,125	38,185,500	--	12,685,912	743,255,575
2029	403,820,513	278,326,625	38,186,250	--	12,685,912	733,019,300
2030	373,733,469	292,995,875	38,188,750	--	12,685,912	717,604,006
2031	272,460,225	292,902,000	38,190,500	--	12,685,912	616,238,637
2032	259,771,425	276,508,625	38,184,000	--	12,685,912	587,149,962
2033	234,148,344	265,895,500	38,187,000	--	12,685,912	550,916,756
2034	186,154,363	265,805,125	38,191,250	--	12,685,912	502,836,650
2035	158,934,288	265,711,125	38,188,750	--	12,685,912	475,520,075
2036	133,729,838	265,623,875	38,186,750	--	12,685,912	450,226,375
2037	133,212,938	265,506,500	38,192,000	--	12,685,912	449,597,350
2038	133,762,972	265,408,250	38,190,750	--	12,685,912	450,047,884
2039	133,749,956	265,304,375	38,189,750	--	12,685,912	449,929,993
2040	133,776,706	230,891,875	38,190,250	--	12,685,912	415,544,743
2041	119,592,106	201,239,750	38,183,250	--	12,685,912	371,701,018
2042	92,301,481	136,220,125	--	--	23,557,857	252,079,463
2043	59,094,903	136,229,875	--	--	23,557,857	218,882,635
2044	26,364,500	117,992,250	--	--	23,557,857	167,914,607
2045	14,186,150	102,053,500	--	--	23,557,857	139,797,507
2046	9,991,800	85,533,750	--	--	23,557,857	119,083,407
2047	--	51,944,500	--	--	23,557,857	75,502,357
2048	--	51,944,500	--	--	23,557,857	75,502,357
2049	--	18,873,750	--	--	23,557,857	42,431,607
2050	--	--	--	--	23,557,857	23,557,857
2051	--	--	--	--	23,557,857	23,557,857
Total	$ 4,626,845,963	$ 5,250,431,417	$ 649,196,750	$ 58,727,375	$ 451,239,072	$ 11,036,440,576

Source: Office of the State Treasurer.

7. Authorized but Unissued Debt

As of the end of FY 2024, the state had the authority to issue approximately $14.35 billion of bonds to finance Capital Budget and Transportation Budget-related projects. Approximately $7.19 billion, roughly 50% of the total, is authorized but unissued VP GO bonds. Of the VP GO total, $3.92 billion was authorized for the 2023-25 Capital Budget, and $3.26 billion remains authorized from prior biennia.

The other 50% of the authorized but unissued debt, or $7.16 billion, is for transportation projects. The largest portion of unissued transportation bonds is the Connecting Washington bond authorization, of which approximately $3.77 billion remains. Issuance of the remaining Connecting Washington bonds is anticipated to occur over the next ten or more years.

Figure 7.1. Authorized but Unissued Debt
(as of June 30, 2024)

VP GO Bonds (Capital Budget)	**Unissued Bonds**
Subject to the Debt Limit	
2023-25 Biennium	$3,922,996,000
2021-23 Biennium	2,049,670,793
2019-21 Biennium	887,276,000
Prior Biennia	326,935,000
Excluded from Debt Authorization	85,000
Total VP GO Bonds (Capital Budget)	$7,186,962,793
Transportation Budget-Related Bonds	
Connecting Washington	$3,767,195,000
I-405 & SR-167 Express Toll Lanes	1,160,000,000
Transportation Partnership	1,121,431,664
Puget Sound Gateway Project	340,000,000
Triple Pledge Toll (SR 520)	254,540,000
2003 Nickel Account	212,491,123
Special Category C	140,742,291
Miscellaneous MVFT Authorizations	163,578,288
Total Transportation Budget-Related Bonds	$7,159,978,366
Total Authorized but Unissued Debt	$14,346,941,159

Source: Office of the State Treasurer.

8. Financing Contracts and Lease Obligations

Certificates of Participation – State

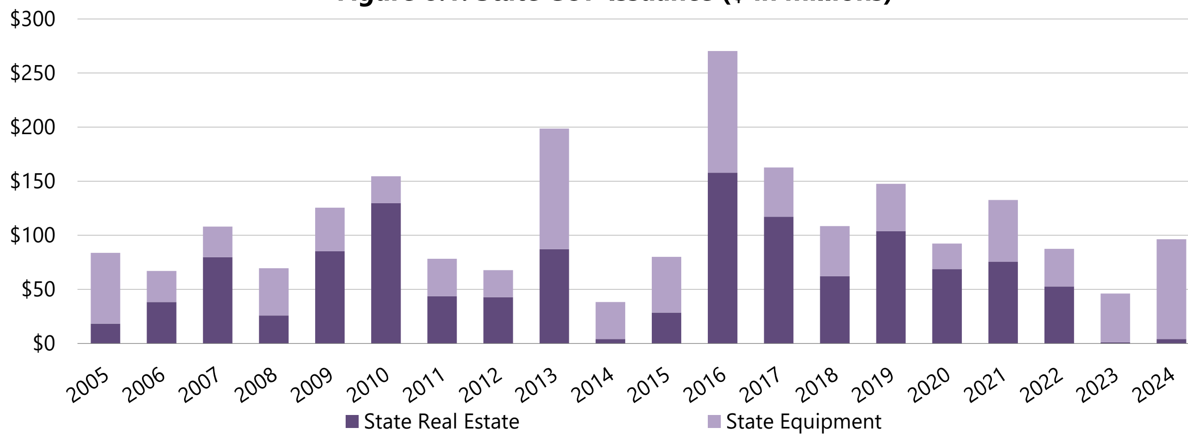
The state regularly finances real estate projects and equipment purchases by issuing Certificates of Participation ("COP" or "COPs"). COPs consolidate multiple financing contracts used to finance real property (such as land and building acquisition, new construction, and facility improvements) or personal property (such as vehicles, computer hardware, and office equipment).

The maximum term of each lease is determined by the useful life of the asset(s) being financed. Real estate financings have a maximum term of 25 years, while equipment is typically financed for a period of three to ten years.

Consolidating multiple financing contracts into each COP issuance achieves economies of scale and minimizes issuance costs for participating agencies. Reflecting the shorter average life of the items generally being financed, approximately half of the state's outstanding COPs will be paid off within five years.

COPs are not backed by the full faith and credit of the state. COPs are payable only from current appropriations and/or from funds that do not constitute GSR. Payments made by state agencies are subject to appropriation risk and executive order reduction. COPs are typically rated one notch below GO debt, and borrowing rates are slightly higher as a result. Most recently, Moody's affirmed its Aa1 rating of the state's COPs on October 17, 2024. State real estate acquisition and construction projects financed with COPs must be authorized by the Legislature. Additionally, OST may require prior legislative approval for major equipment acquisitions.

Figure 8.1. State COP Issuance ($ in millions)



Source: Office of the State Treasurer.

As seen in Figure 8.1, COP issuance peaked at $270.4 million in FY 2016. In FY 2024, the state issued $96.3 million of COPs ($92.2 million for equipment and $4.1 million for real estate). At the end of FY 2024, the state had $743.0 million in outstanding COPs (Figure 8.2).

Figure 8.2 State COPs Outstanding ($ in millions)

As of:	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024
State COP Outstanding*	$843.7	$847.6	$797.9	$740.8	$743.0

** Totals include any principal that has been voluntarily prepaid by certain state agencies.*
Source: Office of the State Treasurer.

Figure 8.3 shows historical debt service on state COPs, with FY 2024 debt service amounting to approximately $127.1 million, a decrease of approximately 6.2% from four years prior.

Figure 8.3. State COP Debt Service ($ in millions)

Fiscal year:	2020	2021	2022	2023	2024
Annual Principal	$97.3	$97.0	$93.9	$96.5	$93.8
Interest	38.1	38.0	37.5	35.8	33.3
Total Annual Debt Service	$135.5	$135.0	$131.3	$132.3	$127.1

Source: Office of the State Treasurer.

Figure 8.4 shows future annual debt service payments for outstanding COPs for state agencies as of June 30, 2024.

Figure 8.4. Future COP Debt Service for State Agencies

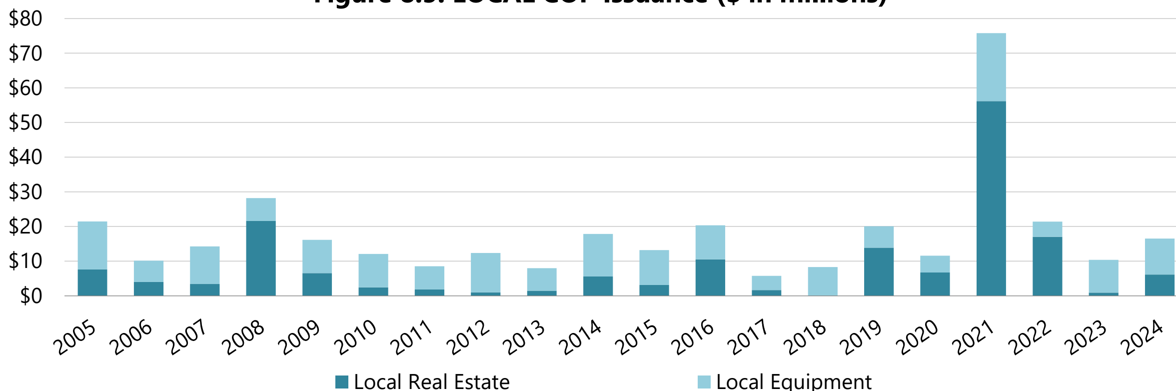
Fiscal Year	Principal	Interest	Total
2025	$90,369,063	$33,429,051	$123,798,114
2026	84,683,135	29,822,350	114,505,485
2027	83,982,103	25,622,754	109,604,857
2028	71,734,269	21,731,735	93,466,004
2029	58,699,746	18,509,450	77,209,196
2030	50,294,703	15,942,156	66,236,859
2031	43,408,593	13,687,336	57,095,929
2032	34,144,682	11,715,731	45,860,413
2033	29,585,879	10,235,976	39,821,855
2034	25,602,703	8,962,852	34,565,555
2035	25,980,374	7,795,316	33,775,690
2036	26,010,000	6,615,263	32,625,263
2037	25,225,000	5,378,125	30,603,125
2038	25,560,000	4,170,100	29,730,100
2039	17,845,000	3,013,500	20,858,500
2040	10,250,000	2,270,250	12,520,250
2041	9,360,000	1,768,000	11,128,000
2042	9,685,000	1,293,000	10,978,000
2043	7,160,000	848,250	8,008,250
2044	7,435,000	483,375	7,918,375
2045	3,985,000	197,875	4,182,875
2046	1,965,000	49,125	2,014,125
Total	$742,965,248	$223,541,570	$966,506,819

Source: Office of the State Treasurer.

Certificates of Participation – Local Governments

OST issues COPs on behalf of local governments through the Local Option Capital Asset Lending ("LOCAL") Program. The LOCAL Program is a special financing program available to local governments that are able

Figure 8.5. LOCAL COP Issuance ($ in millions)



Source: Office of the State Treasurer.

to provide a general obligation pledge and meet the state's established credit criteria. The LOCAL Program offers local agencies a way to finance essential real estate and equipment, such as fire stations, school buses, and ambulances, over a multi-year period. The program provides smaller municipal governments with economies of scale and the same low interest rates available through the state COP program by efficiently pooling local government financing contracts with the state's larger financing contracts. Debt service for COPs issued through the LOCAL Program is paid by the applicable local government.

Figure 8.5 shows LOCAL Program COP issuance from FY 2005 through FY 2024, and Figure 8.6 shows the total outstanding obligations of the program. LOCAL Program COP issuance in FY 2021 was significantly higher than in previous years with $75.8 million in new financing contracts. The increase was largely due to several large real estate projects that were included in FY 2021 transactions. This larger annual issuance also increased the total amount of outstanding LOCAL Program COPs. At the end of FY 2024, outstanding LOCAL Program COPs totaled $137.2 million.

Figure 8.6. LOCAL COP Outstanding ($ in millions)

As of:	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024
LOCAL COP Outstanding	$74.4	$137.1	$142.2	$137.0	$137.2

Source: Office of the State Treasurer.

Figure 8.7 shows historical debt service for the LOCAL Program, with FY 2024 debt service amounting to approximately $22.0 million.

Figure 8.7. LOCAL COP Debt Service ($ in millions)

Fiscal year:	2020	2021	2022	2023	2024
Annual Principal	$11.7	$11.9	$13.7	$15.4	$16.1
Interest	3.1	4.1	5.5	6.1	5.9
Total Annual Debt Service	$14.8	$16.0	$19.17	$21.5	$22.0

Source: Office of the State Treasurer.

Figure 8.8 shows future annual debt service payments for outstanding local agency COPs as of June 30, 2024.

Figure 8.8. Future COP Debt Service for Local Agencies

Fiscal Year	Principal	Interest	Total
2025	$16,490,937	$5,913,860	$22,404,797
2026	14,641,865	5,349,140	19,991,005
2027	14,132,897	4,659,732	18,792,629
2028	12,515,732	4,036,814	16,552,545
2029	10,455,254	3,501,033	13,956,288
2030	9,065,297	3,021,407	12,086,704
2031	7,441,407	2,629,719	10,071,126
2032	6,750,318	2,290,373	9,040,691
2033	5,299,121	2,005,365	7,304,486
2034	5,057,297	1,761,703	6,819,000
2035	4,539,626	1,534,353	6,073,979
2036	4,415,000	1,334,181	5,749,181
2037	4,370,000	1,134,468	5,504,468
2038	4,560,000	930,450	5,490,450
2039	4,760,000	716,800	5,476,800
2040	4,690,000	500,605	5,190,605
2041	4,835,000	282,865	5,117,865
2042	1,895,000	125,375	2,020,375
2043	445,000	53,375	498,375
2044	395,000	30,625	425,625
2045	415,000	10,375	425,375
Total	$137,169,752	$41,822,617	$178,992,368

Source: Office of the State Treasurer.

63-20 Lease Revenue Bonds

As of the close of FY 2024, the state has entered into two long-term leases known as "63-20" lease revenue bond financings, a special type of financing authorized by Revenue Ruling 63-20 of the U.S. Treasury. With this type of public-private partnership, a non-profit corporation issues bonds on behalf of the state and uses the proceeds for the design and construction of a facility. Once the project has been completed, the state leases the facility from the non-profit and the lease payments are pledged to the repayment of the bonds. Upon repayment of the bonds, the state takes title to the property. Similar to COPs, the state's lease payments are subject to appropriation risk and across-the-board cuts by the Governor.

The state's two 63-20 projects as of June 30, 2024, are highlighted in Figure 8.9. The Edna Lucille Goodrich Building is a state office building in Tumwater, Washington. The 1500 Jefferson Building, located in Olympia, WA, is a six-story state office building and a three-story data center. The final maturities for the related lease revenue bonds are July 1, 2028, and June 1, 2039, respectively. Collectively, outstanding principal for 63-20s at the end of FY 2024 totaled approximately $209.0 million.

Figure 8.9. Payments Under 63-20 Lease Revenue Bonds ($ in thousands)

Fiscal Year	Edna Lucille Goodrich Building		1500 Jefferson Building		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2024	$3,460	$1,064	$8,280	$9,798	$11,740	$10,861	$22,601
2025	3,790	883	8,700	9,384	12,490	10,266	22,756
2026	4,140	684	9,135	8,949	13,275	9,633	22,908
2027	4,510	468	9,590	8,492	14,100	8,960	23,060
2028	4,930	257	10,070	8,012	15,000	8,269	23,269
2029	3,955	79	10,570	7,509	14,525	7,588	22,113
2030	-	-	11,100	6,980	11,100	6,980	18,080
2031	-	-	11,650	6,425	11,650	6,425	18,075
2032	-	-	12,235	5,843	12,235	5,843	18,078
2033	-	-	12,845	5,231	12,845	5,231	18,076
2034	-	-	13,490	4,589	13,490	4,589	18,079
2035	-	-	14,170	3,914	14,170	3,914	18,084
2036	-	-	14,875	3,206	14,875	3,206	18,081
2037	-	-	15,620	2,462	15,620	2,462	18,082
2038	-	-	16,400	1,681	16,400	1,681	18,081
2039	-	-	17,220	861	17,220	861	18,081
Total	$24,785	$3,435	$195,950	$93,334	$220,735	$96,769	$317,504

Source: Office of the State Treasurer.

9. Refinancings and Borrowing Costs

OST actively monitors the state's portfolio of debt and other financial obligations for opportunities to lower its borrowing costs through refinancings, also known as refundings. All refinancings are executed in accordance with the debt policies of the State Finance Committee, which specify minimum savings thresholds.

2024 Refinancings

During FY 2024, interest rates increased above the historically low rates of the pandemic, but remained lower than the 30-, 50-, and 100-year averages. With rates still lower than historic averages, OST was able to refinance millions of dollars of VP GO bonds and transportation-related bonds, providing the state with significant debt service cost savings.

Various Purpose General Obligation Refunding Bonds

In FY 2024, the state issued one series of VP GO Refunding Bonds, totaling $289.7 million. The refunding benefitted the general fund (Operating Budget) by producing net present value ("NPV") savings of $29.34 million, or 10.13% of the refunding bonds.

Transportation Refunding Bonds

Also in FY 2024, the state issued two series of MVFT/VRF GO Refunding Bonds. One series of bonds was issued to refund outstanding MVFT bonds, which provided WSDOT and taxpayers with NPV savings of $18.0 million, or 9.92% of the refunding bonds. A second series of bonds was issued to refund the state's outstanding BABs, which produced NPV savings of $18.8 million, or 1.72% of the refunding bonds.

Refinancing Financing Contracts

OST regularly monitors outstanding lease-purchase obligations on behalf of state agencies and local governments for refinancing opportunities. Refinancings are conducted on a lease-by-lease basis and are regularly included in COP issuances. In FY 2024, there were no state COP or LOCAL Program refinancings.

Refunding Summary

Figure 9.1. Fiscal Year 2024 Refundings Summary ($ in millions)

	Par Amount of Refunding	Net Present Value (NPV) of Savings	NPV Savings as % of Refunding Bonds
Various Purpose GO			
Series R-2024A	$289.7	$29.4	10.13%
MVFT/VRF GO			
Series R-2024B	$181.8	$18.0	9.92%
Series R-2024C	1,092.6	18.8	1.72%
	$1,274.4	$36.9	2.89%
Total FY 2024 Refundings	$1,564.1	$66.2	4.23%

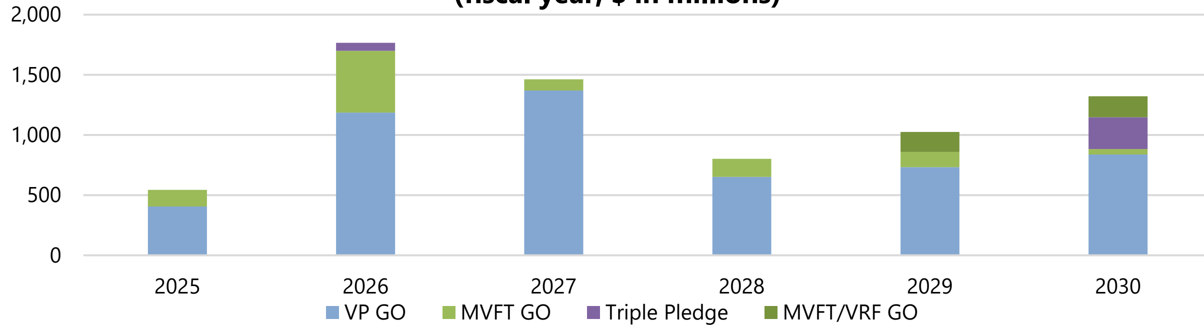
Source: Office of the State Treasurer.
Totals may not add due to rounding.

Future Refunding Opportunities

Unfortunately, the Federal Tax Cuts and Jobs Act of 2017 eliminated state and local governments' abilities to issue tax-exempt advance refunding bonds. "Advance refunding bonds" are refunding bonds issued more than 90 days in advance of the call date of the bonds to be refunded. The loss of advance refundings has reduced the state's financial flexibility and limited its ability to lock in debt service savings during periods of historically low interest rates. While flexibility is now constrained, OST continues to monitor the state's outstanding obligations for opportunities to reduce debt service costs through current refundings (refunding bonds issued within 90 days of the call date of the bonds to be refunded).

Figure 9.2 summarizes the outstanding bonds that can be currently refunded in FY 2025 through FY 2030. OST actively monitors these callable bonds for refunding opportunities in order to produce debt service savings for the state. As we pass the seventh anniversary of the Federal Tax Cuts and Jobs Act of 2017 and the loss of tax-exempt advance refundings, the amount of callable bonds eligible to be currently refunded now averages $1.28 billion per year.

Figure 9.2. Callable Principal Amounts by Earliest Refunding Date (fiscal year, $ in millions)

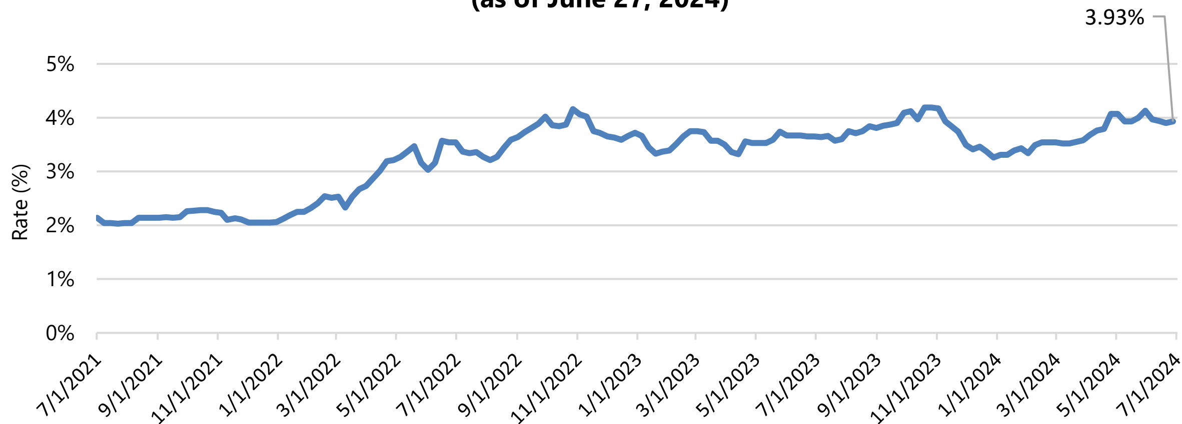


Source: Office of the State Treasurer
Note: OST refunded $976,745,000 of VP GO bonds and $713,570,000 of MVFT GO bonds on November 14, 2024.

Borrowing Costs

Figure 9.3 shows a three-year history of the Bond Buyer 20-Bond Index ("BBI") through the close of FY 2024. The BBI is an index based on a group of general obligation bonds maturing in 20 years, from 20 different issuers. The BBI is published by the Bond Buyer, a daily financial publication, and serves as an approximate benchmark for the state's borrowing costs. The BBI stood at 3.93% on June 27, 2024, which is 191 basis points higher than the 2.02% rate on August 6, 2020, the pandemic-era low.

Figure 9.3. Interest Rate Trends
Weekly Bond Buyer 20-Bond Index (BBI)
(as of June 27, 2024)

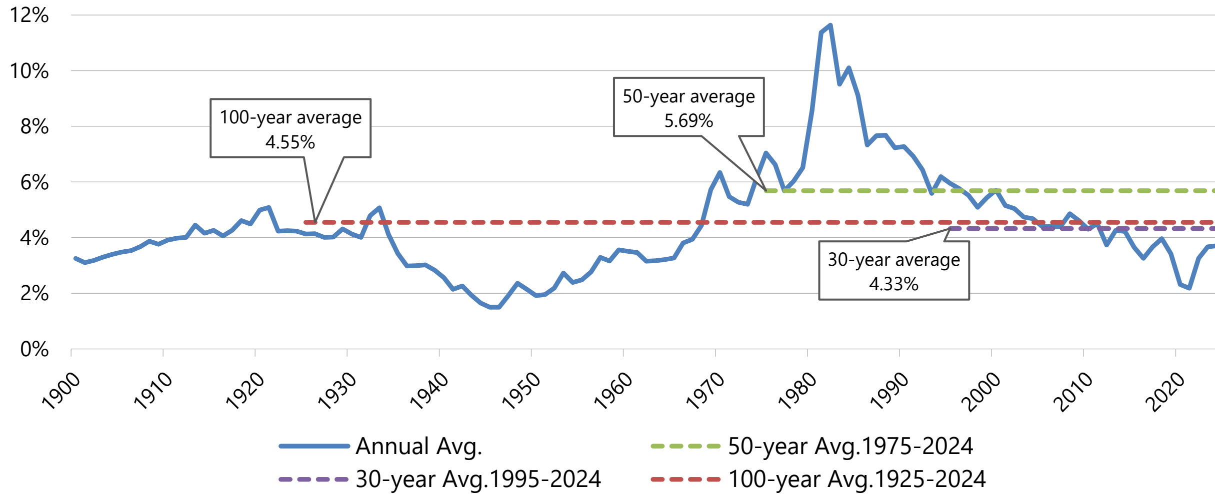


Source: Office of the State Treasurer.

Borrowing costs in calendar year 2024 were higher than the historically low pandemic-era rates from 2020 through 2022. As a result of the Federal Reserve's efforts to combat inflation, interest rates increased significantly starting in mid-2022. The July 2024 sale of VP GO bonds (Series 2025A) with a 25-year final maturity and level debt service achieved a combined True Interest Cost ("TIC") of 3.38%, compared to a TIC of 2.49% for structurally similar Series 2022A bonds that sold during July 2021. The weighted average cost of funds for the entire VP GO bond portfolio is currently 3.06%.

Despite the recent increase in interest rates, rates are still below historic averages relative to long-term borrowing costs. As shown in Figure 9.4, the BBI started trending upward in the near term, but remains below the 30-, 50-, and 100-year annual averages.

9.4. Weekly Bond Buyer 20-Bond Index (BBI)
Annual Averages – 1900-2024 – as of 6/27/2024



Source: Office of the State Treasurer.

10. Other State Obligations

Pensions

Washington's pension plans are consistently recognized as some of the best-funded plans in the nation. The state administers twelve defined benefit retirement plans and three hybrid defined benefit/defined contribution plans. As of June 30, 2024, the plans collectively covered 668,777 state and local government members (including active employees, terminated employees entitled to a future benefit, retirees, and beneficiaries).[11]

For FY 2023, the combined funded status for all the state-administered retirement plans was very strong at 96%—up from 93% in FY 2021, despite the assumed investment rate of return being reduced from 7.5% to 7.0% in 2021—with $140.44 billion in accrued liability and $135.07 billion as the actuarial value of assets, leaving a total of $5.37 billion in unfunded liability.

Another measure, Net Pension Liability ("NPL"), represents unfunded actuarial accrued liability, and equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) less the value of the assets in the pension trust that can be used to make benefit payments. Under the Governmental Accounting Standards Board ("GASB") reporting standards, the state's share of NPL reported for FY 2023 is a collective negative $4.78 billion (indicating the state's proportionate share of the collective NPL had a surplus at this specific point in time)—a decrease of $402,020 from the prior year. It should be noted that the NPL calculation is impacted by changing interest rates. Given the NPL relies on a market value of assets, investment returns that deviate from what is assumed can cause significant volatility in results. For example, from FY 2020 to FY 2021, the surplus in the state pension system

[11] Department of Retirement Services. 2024 Annual Comprehensive Financial Report. https://www.drs.wa.gov/wp-content/uploads/2024/10/2024-ACFR-Document-for-Website-sm.pdf

increased by $10.11 billion, largely due to the FY 2021 investment return of 28.68%. For comparison, the average year-over-year change for the three fiscal years prior was a surplus of $730,000.

According to a 2024 report by S&P, Washington's pension systems score well when compared to peer states. S&P calculated Washington's aggregate funded ratio, based on the NPL approach, to be 100% in FY 2023, which is the highest of any state. Similarly, the state's NPL per capita of negative $793 (reflecting a surplus) is the nation's lowest. The median NPL per capita for all 50 states is $1,011.

Figure 10.1. Comparing Washington to Other States Pension Liability

	Ratings (Moody's/ S&P/ Fitch)	Aggregate Pension Funded Ratio[1]	Net Pension Liability per Capita[1]	Debt, Pension and Net OPEB per Capita[1,2]
Washington	**Aaa / AA+ / AA+**	**100.0%**	**-$793**	**$2,418**
Utah	Aaa / AAA / AAA	95.0%	$285	$912
Delaware	Aaa / AAA / AAA	86.0%	$1,728	$11,637
North Carolina	Aaa / AAA / AAA	83.0%	$388	$1,381
Minnesota	Aaa / AAA / AAA	82.0%	$422	$1,842
Oregon	Aa1 / AA+ / AA+	82.0%	$1,159	$3,911
Virginia	Aaa / AAA / AAA	81.0%	$709	$2,201
Florida	Aaa / AAA / AAA	79.0%	$336	$1,245
Ohio	Aaa / AAA / AAA	78.0%	$578	$1,413
Georgia	Aaa / AAA / AAA	76.0%	$1,023	$2,265
Nevada	Aa1 / AA+ / AA+	76.0%	$952	$1,884
Texas	Aaa / AAA / AAA	73.0%	$1,927	$3,845
Maryland	Aaa / AAA / AAA	73.0%	$3,603	$7,820
Massachusetts	Aa1 / AA+ / AA+	64.0%	$6,109	$14,009
Colorado	Aa1 / AA / NR	61.0%	$2,480	$3,268
Missouri	Aaa / AAA / AAA	56.0%	$1,336	$2,123
National Median		75.0%	$1,011	$2,442

1. U.S. States' Fiscal 2023 Liabilities: Stable Debt, With Pension And OPEB Funding Trending Favorably, S&P, October 23, 2024.

2. Revenue growth and lower ANPLs boost capacity to manage long-term debt, Moody's Investor Service, October 7, 2024.

In terms of assumptions, it is important to note that the unfunded liability calculation assumes a long-term rate of return on pension investments of 7.0%, which some observers believe is aggressive. For example, a Pew Charitable Trust Report dated May 3, 2022 states that "most economists, wealth managers and other specialists expect average future returns closer to 6%,"[12] and the Equable Institute's State of Pensions 2024 annual report suggests a standard pension fund has only a 48.7% chance to earn 7.0% over the next ten years.[13] According to the National Association of State Retirement Plan administrators, the average assumed rate of return for public plans had dropped below 7.0% (6.90%) as of July 2024 and eleven states had assumed rates of return below 6.5%.[14]

[12] Pew, "State Public Pension Fund Returns Expected to Decline," May 3, 2022. (https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/05/state-public-pension-fund-returns-expected-to-decline)

[13] Equable Institute, "State of Pensions 2024: Equable Institute's Annual Report," July 12, 2024. https://equable.org/wp-content/uploads/2024/07/Equable-Institute_State-of-Pensions-2024_FINAL.pdf)

[14] National Association of State Retirement Administrators, "Latest Investment Return Assumptions," July 1, 2024. https://www.nasra.org/latestreturnassumptions

If the state's actual rate of return is lower than 7.0%, and/or the state has made less than the annual actuarially determined contribution, the unfunded liability will be greater than projected and require higher annual funding contributions in the future. Pension liabilities could also increase more than expected if human longevity increases substantially. Due to these factors, funding the actuarially determined pension contribution should be viewed as the minimum prudent annual contribution.

Other Post-Employment Benefits ("OPEB")

The state provides health care benefits to its retirees through implicit and explicit subsidies. Unlike the state's pension obligations, neither the implicit nor explicit subsidies are contractual obligations to retirees.

The state allows retirees not yet eligible for Medicare to use their own money to pay for health insurance at group rates negotiated for public employees. This results in an implicit subsidy of the rates paid by those individuals choosing to participate. There is no direct contractual obligation for the state to provide this benefit, and the state does not pay any portion of retirees' premiums. Nonetheless, by including retirees in this purchasing pool, it does marginally increase overall insurance rates (including the rates that are paid to cover current employees).

In addition to the implicit subsidy, the state provides an explicit subsidy to reduce Medicare-eligible retiree Part A and B premiums by an amount determined each year by the Public Employee Benefits Board ("PEBB"). In calendar year 2024, the explicit subsidy was up to $182 per member per month. Like the implicit subsidy, the state is under no contractual obligation to retirees to continue to provide this benefit. Instead, the Legislature determines each biennium whether or not to include it in the state's budget. The state funds both the implicit and explicit subsidies on a pay-as-you-go basis; that is, the state pays the costs as they occur. For FY 2024, the state's estimated cost to fund the OPEB implicit and explicit subsidies was $107 million.[15]

GASB Statement No. 75 requires that the total OPEB liability be determined through an actuarial valuation of the future costs of the implicit and explicit subsidies. Under GASB 75, the state's total OPEB liability was reported as $4.37 billion for the fiscal year ending June 30, 2023, an increase of $125.9 million from the prior year.

School Bond Guarantee Program

The School Bond Guarantee Program is a direct credit enhancement program administered by OST that provides savings to state taxpayers by pledging the full faith, credit, and taxing power of the state to the payment of voter-approved school district GO bonds. The state's obligation is a contingent obligation, in that the state is only required to make a payment in the event that a participating school district is unable to make a timely payment of principal and/or interest on guaranteed bonds. Additionally, the School Bond Guarantee Program is excluded from the constitutional debt limitation.

As of June 30, 2024, there were a total of 397 bond issues guaranteed, an average outstanding principal amount for each guaranteed issue of $38.7 million, and a total principal outstanding of $15.37 billion (Figure 10.2). The School Bond Guarantee Program saves taxpayers in participating districts a significant amount of money each year due to the reduced interest costs resulting from the state guarantee and the strength of the state's ratings.

[15] Office of Financial Management, 2024 Annual Comprehensive Financial Report. (https://ofm.wa.gov/sites/default/files/public/accounting/report/CAFR/2024/ACFR24.pdf)

Figure 10.2. Outstanding Guaranteed School District Bonds ($ in billions)

As of:	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024
Guaranteed principal amount outstanding	$15.547	$16.323	$16.025	$15.283	$15.367
Number of participating school districts	175	172	170	159	154
Number of guaranteed bond issues outstanding	489	474	463	414	397

Source: Office of the State Treasurer.

The state has only made one advance under the School Bond Guarantee Program in the program's history. On June 1, 2021, the state made a payment of approximately $3.2 million to ensure the timely payment of debt service due on bonds issued by the school districts located in Mason County. The county treasurer is responsible for making debt service payments on behalf of all school districts located within the county. The timing of the payment was delayed due to an internet connectivity issue experienced by the county's depository banking institution, which prevented the timely delivery of the payment to the state fiscal agent for the guaranteed bonds. The delay did not reflect any financial difficulties of the school districts or of the county. Payment from the county, on behalf of the school districts, was delivered to the state fiscal agent later in the day and the state's advance was fully reimbursed at that time.

Guaranteed Education Tuition ("GET") Program

The Washington Guaranteed Education Tuition Program ("GET Program") is a 529 college savings plan that allows Washington residents to prepay college tuition. Individual accounts are guaranteed by the state to keep pace with rising college tuition, based on the highest tuition at Washington's public universities. This guarantee creates a potential state obligation, in the event of insufficient GET Program assets.

The after-tax contributions to a GET account grow tax-free and can be withdrawn tax-free when used for eligible higher education expenses. As of June 30, 2023, the present value of GET Program assets totaled $1.69 billion, or 148.2% of estimated program obligations, producing a reserve of $551 million.[16] The Office of the State Actuary calculates these values in odd-numbered years.

In 2018, the state also began offering the DreamAhead College Investment Plan, a 529 college savings plan that is managed and invested separately from assets in the GET Program. The state does not guarantee DreamAhead account investments, and participant account values are based on the performance of financial markets, rather than changes in tuition.

11. Obligations of Other Washington State Entities

Revenue bonds and COPs issued by the state's colleges and universities, conduit issuers and financing authorities, and the Tobacco Settlement Authority are not legal or moral obligations of the state. The debt service on those revenue bonds and obligations is payable solely from the revenues pledged to the repayment of the obligations.

Higher Education Revenue Bonds

Revenue bonds and COPs can be issued by the state's colleges and universities to finance major campus construction projects. In addition, certain state colleges and universities are authorized to independently issue revenue bonds for the construction of certain types of revenue-generating facilities for student housing, dining, and parking. These revenue bonds are payable solely from revenues derived from the

[16] 2023 GET Actuarial Valuation Report, Office of the State Actuary. (https://wsac.wa.gov/WA529-Static-Reports)

operation of the constructed facilities. Figure 11.1 lists the total revenue bonds outstanding for each state university over the past five fiscal years.

Figure 11.1. Higher Education Revenue Bonds Outstanding ($ thousands)

As of:	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024
University of Washington	$2,246,475	$2,248,916	$2,287,211	$2,214,593	$1,980,706
Washington State University	542,800	577,790	550,295	525,325	498,335
Western Washington University	145,950	155,325	152,290	146,335	140,200
Central Washington University	147,532	141,885	134,057	128,508	122,688
Eastern Washington University	76,010	73,835	71,575	69,210	66,740
The Evergreen State College	2,300	1,935	1,565	1,190	805
Total	$3,161,067	$3,199,686	$3,196,993	$3,085,161	$2,809,474

Source: Office of Financial Management.

Conduit Issuers and Financing Authorities

Washington has four conduit financing authorities that can issue non-recourse revenue bonds to make loans to qualified borrowers for capital projects. The four financing authorities are: the Washington State Housing Finance Commission ("WSHFC"), the Washington Health Care Facilities Authority ("WHCFA"), the Washington Economic Development Finance Authority ("WEDFA"), and the Washington Higher Education Facilities Authority ("WHEFA").

Bonds issued by these conduit issuers do not constitute obligations, either general, special, or moral, of the state of Washington or pledges of the faith and credit of the state. All four financing authorities are financially self-supported and do not receive funding from the state.

Figure 11.2. Conduit Issuer Debt Outstanding ($ in thousands)

As of:	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024
WA State Housing Finance Commission	$6,721,888	$6,907,398	$6,812,873	$7,132,884	$7,837,420
WA Health Care Facilities Authority	5,464,508	5,295,552	5,059,797	5,118,964	5,134,061
WA Economic Development Finance Auth.	653,906	740,250	772,841	1,018,460	838,584
WA Higher Education Facilities Authority	703,014	735,422	734,192	708,385	720,713
Total	$13,543,316	$13,678,622	$13,379,703	$13,978,693	$14,530,778

Source: Office of Financial Management.

Tobacco Settlement Securitization

The Tobacco Settlement Authority ("TSA") was created to securitize a portion of the state's revenue from the 1998 Tobacco Master Settlement Agreement. In 2002, the TSA issued $517.9 million in bonds and transferred $450.0 million to the state to be used for increased health care, long-term care, and other programs. As of May 15, 2024, the TSA's bonds were paid in full and on June 24, 2024, the TSA was dissolved.[17]

The TSA bonds were not obligations of the state and were payable solely from the special fund or funds created by the TSA for their payment. As a result of the repayment of the bonds and the dissolution of the TSA, an average of $30 million a year will now flow directly to state coffers instead of being used to repay the bonds, which were issued to close a hole in the state budget in 2002."[18]

[17] Tobacco Settlement Authority, 2024 Financial Report. https://emma.msrb.org/P21868953.pdf.
[18] Tobacco Settlement Authority. "Millions to come back to state as tobacco settlement bonds are paid off." https://tsa-wa.org/TSA_Closeout_6-24_final.pdf

The following quotations provide examples of how the state's credit is viewed and analyzed by the agencies that provide the state's ratings:

"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 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."

– Moody's Investor Services (October 2024)

"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 limited formal reserve levels, which sets it apart from higher-rated peers. 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."

– S&P Global Ratings (October 2024)

"The State of Washington's 'AA+' Long-Term 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 spending pressure for the state given steady population growth and the state's role as the primary funding source for K-12 public schools."

– Fitch Ratings (October 2024)

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