MOODY'S RATINGS

CREDIT OPINION

11 April 2025

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Washington (State of)

Update to credit analysis

Summary

The State of Washington's (Aaa stable) credit profile is supported by its strong economic fundamentals, above-average demographic profile and robust liquidity position. The state's budgetary reserve is retreating from record positions (Exhibit 1) given slowed revenue growth and some deficit spending in fiscal 2025. We expect that the state will restore general fund operations to structural balance and keep adequate reserves in-line with the Treasurer's recommended 10% level to maintain financial flexibility.

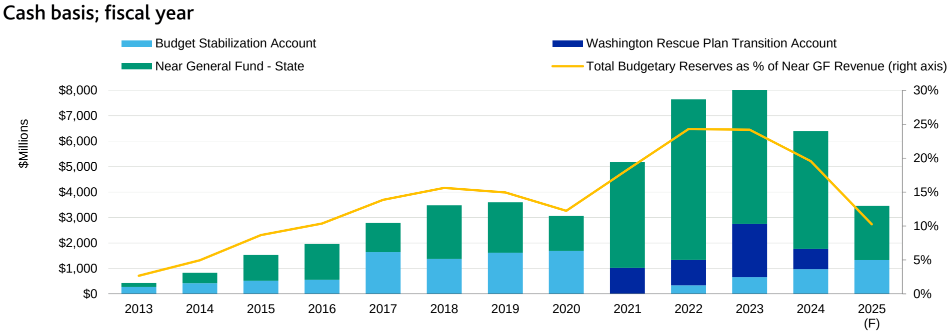
Broad and rapid federal policy changes since January 2025 have far-reaching credit negative implications for all states. Washington's largest exposure to federal policy shifts/proposals include a material cut to federal Medicaid spending, stricter immigration policies and escalating trade tension. However, the state's fundamentally strong, diverse and resilient economy will likely allow it to withstand economic headwinds ahead, albeit with slower growth. The state's budget balancing powers, including revenue-raising and expenditure-cutting ability, will be crucial to maintaining its financial health, a key component of its credit quality.

Washington's total leverage (debt, pension, OPEB, other long-term liabilities) is slightly higher than the 50-state median but has declined in recent years (Exhibit 2) and is much lower than that of the United States (Aaa negative).

Exhibit 1

Washington's budgetary reserve position will retreat from record positions

Cash basis; fiscal year



The Washington Rescue Plan Transition Account was established during the pandemic for related expenditures and serves as a secondary rainy day fund, but with less restrictions.
(F) reflects the state's March 2025 quarterly revenue forecast and incorporates the 2024 supplemental budget to the 2023-2025 biennium budget. Near General Fund – State includes General Fund - State and certain funds that are statutorily designated as "related funds": the Opportunity Pathways Account ("OPA"), the Education Legacy Trust Account ("ELTA"), and the Workforce Education Investment Account ("WEIA")
Source: State of Washington; Moody's calculations

Credit strengths

» Strong economic and demographic fundamentals

» Sound financial reserves and liquidity

» Pension funding levels are strong and retiree health insurance liability is manageable

» Institutionalized governance practices are strong

Credit challenges

» Surge in costs of living, outpacing all other states over the last decade, could drive continued spending pressure for social related services

» Above average exposure to several federal policy shifts, including trade tension and immigration restrictions and Medicaid cost shift

» Exposure to cyclical commercial aerospace industry and commodity export markets, although reduced in recent years

» Debt burden is above average, but has been declining

Rating outlook

Washington's outlook is stable, reflecting the positive underlying fundamentals of its economy and the state's strong governance practices which will continue to support sound reserves. Long-term liabilities are expected to remain manageable.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» A significant deterioration of the state's GAAP-basis available fund balance and cash balance to below 20% of own-source revenue

» Protracted structural budget imbalance and/or a shift to reliance on one-time budget solutions

» A sustained or structural weakening of the state's economy and demographic trends

» A material increase in leverage and fixed costs to levels well above sector medians

Key indicators

Exhibit 2

	2020	2021	2022	2023	2024	State Medians
Economy						
Nominal GDP ($billions)	620.1	687.7	742.9	807.9	854.7	329.4
Real GDP, annual growth	0.1%	6.9%	2.2%	5.1%	3.7%	2.4%
RPP-adjusted per capita income as % of US	106.1%	105.1%	103.9%	105.4%	106.8%	97.6%
Nonfarm employment, annual growth	-5.4%	2.7%	4.6%	2.0%	1.2%	1.1%
Financial performance						
Available balance as % of own-source revenue	26.9%	22.8%	40.5%	42.1%	40.0%	44.4%
Net unrestricted cash as % of own-source revenue	30.8%	35.4%	48.2%	46.1%	42.1%	72.4%
Leverage						
Total long-term liabilities as % of own-source revenue	187.1%	188.3%	150.7%	115.4%	108.9%	99.4%
Adjusted fixed costs as % of own-source revenue	7.3%	6.6%	4.9%	5.9%	5.9%	5.2%

Medians reflect 2024 economic data and FY2023 financial and leverage data (because several states have not yet published FY2024 ACFRs)
Source: State of Washington ACFRs with Moody's adjustments; US Bureau of Economic Analysis; US Bureau of Labor Statistics

Profile

Washington is the thirteenth largest state by population, at 8 million. Its nominal gross domestic product (GDP) is the ninth largest, at $854.7 billion as of 2024. Resident income measures are above average, although Washington's cost of living has surged in recent years. Washington's per capita personal income is equal to around 106.8% of the US after adjusting for regional cost of living.

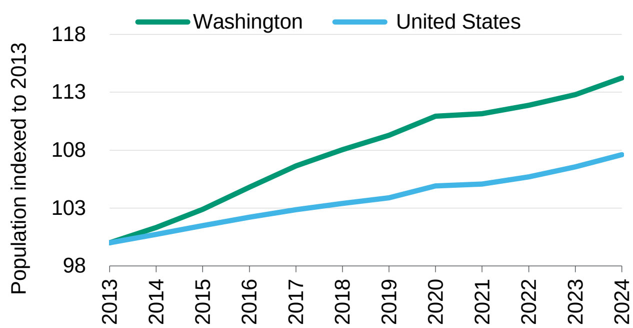
Detailed credit considerations

Economy

Washington's economy is demonstrating remarkable resilience amid higher interest rates, albeit slowing along with the nation's. Over the longer-term, we expect Washington's economy will continue to outperform the nation's, supported by its favorable demographic profile and diverse industrial base.

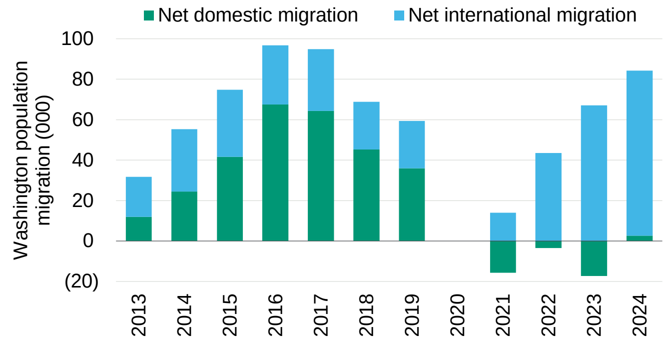
However, similar to many states, Washington is facing significant macroeconomic headwinds in the near to medium term. Broad and rapid federal policy changes/proposals since January – particularly tariffs, immigration and federal funding cuts – will weigh on Washington's economic prospects ahead. Washington has above average exposure to rising trade tension, as the state's 2024 exports represented 6.8% of GDP, higher than the 50-state median (5.2% of GDP) but markedly down from 13.6% in 2018. The state's economic growth could also slip closer to the national average if its strong population and labor force growth moderates. Washington's labor force has a higher share of unauthorized immigrants than the 50-state median, with the agriculture industry being the most exposed to a crackdown of unauthorized immigrants. Washington's pivotal professional and business services sector is also vulnerable to tighter international immigration policies because it has a high concentration of foreign-born workers. Further, given Washington's steep growth in costs of living, competition from lower-cost hubs could also gradually chip away the state's tech dominance and working-age population growth.

Exhibit 3
Washington benefits from above-average population growth....



Source: U.S. Census Bureau; Moody's Ratings

Exhibit 4
...in part driven by strong in-migration

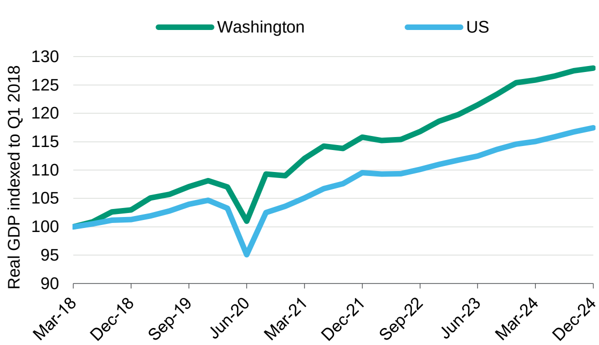


Note: migration data not available during census year (i.e. 2020)
Source: U.S. Census Bureau; Moody's Ratings

Washington has a much greater reliance on the information industry than the nation overall, and the state currently boasts the highest share of tech employment among all states. The technology sector centered in and around City of Seattle (Aaa stable) has expanded rapidly over the last decade, bolstering Washington's economic growth (Exhibit 5) and lessened the state's traditional dependence on aircraft manufacturing and exports.

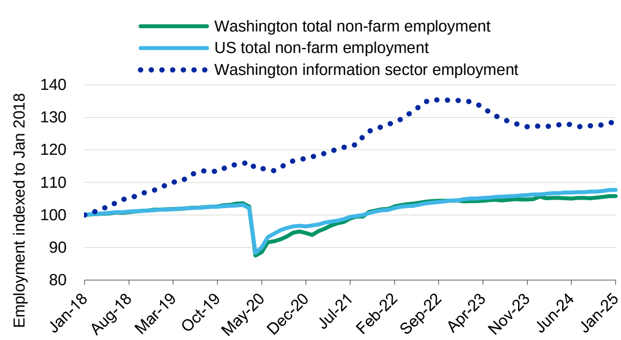
Despite some recent turbulence from the tech sector, Washington's real GDP growth continued to outpace that of the nation's in 2024 given continued recovery in other industries, including health services and manufacturing.

Exhibit 5
Washington's real GDP growth continues to outpace the US....



Source: U.S. Bureau of Economic Analysis; Moody's Ratings

Exhibit 6
...despite slowing job growth overall, including contracting tech employment amid higher interest rates



Source: U.S. Bureau of Economic Analysis; Moody's Ratings

The state's total employment growth has slowed amid cooler economic conditions; notably, employment in its information industry has contracted the first time since the 2007-08 financial crisis, but leveling off (Exhibit 6). As of January 2025, Washington's unemployment rate remains low at 4.3% and its labor force participation rate (63.1%) remains slightly above the US (62.6%).

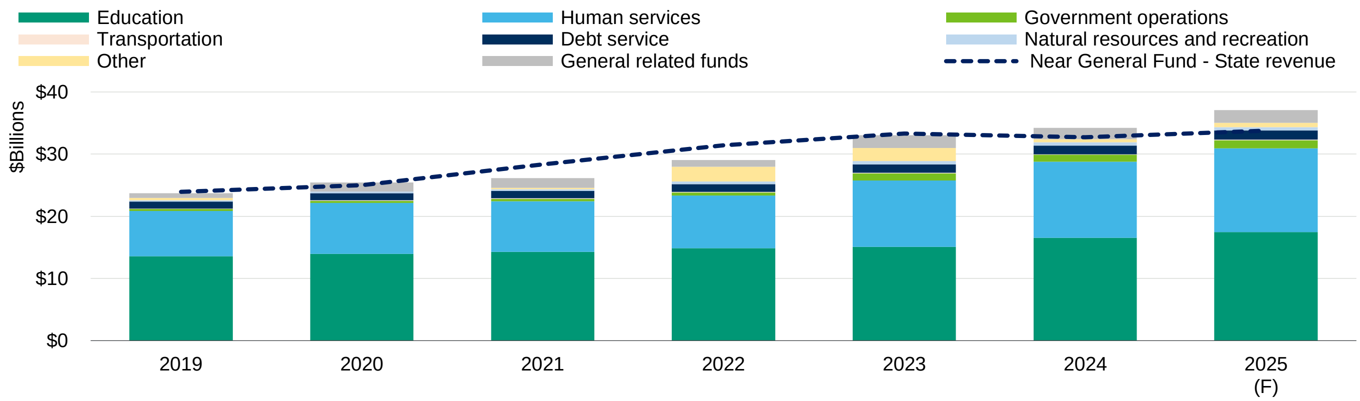
Finances and Liquidity

We expect Washington will maintain a sound financial position given its history of fiscal prudence.

After several years of record revenue increases followed by large expenditure growth, particularly for health and social services, budget writing in 2025 is proving more difficult for Washington. This is because costs to maintain current services continue to rise, while revenue growth softens. Washington's current 2023-2025 general fund biennium budget includes a manageable structural deficit bridged by record reserves, but this budget gap is set to widen over the next biennium because of caseload increases for social and health care services. At the same time, economic headwinds risk downward pressure on its revenues, testing Washington's fiscal management. The state's fiscal 2025 year to date General Fund-State revenue through Feb 2025 grew by 2.7% year-over-year, and its latest March 2025 revenue forecast revised down General Fund-Near revenue growth in fiscal 2026 and 2027 to 2.8% and 4.3%, respectively, amid decreasing consumer confidence, trade policy changes and reduced spending by the federal government.

Exhibit 7

Washington's health care and social services related spending saw large increase in recent years, creating a structural budget gap as revenue growth moderates



(F) reflects the state's March 2025 quarterly revenue forecast and incorporates the 2024 supplemental budget to 2023-2025 biennium budget.
Source: State of Washington; Moody's Ratings

Budget negotiation for the upcoming 2025-2027 (July 1, 2025 - June 30, 2027) biennium is underway and the budget will likely be finalized in May 2025. We expect Washington will restore to balanced operations and maintain adequate reserves. Former Governor Jay Inslee and current Governor Bob Ferguson have each recommended a number of budget tightening actions, including delaying the implementation of new programs, streamlining efficiencies, reducing spending across most agencies and furloughing state workers. A freeze on non-essential spending and hiring has also been in place since December 2024. Lawmakers have also proposed a number of tax increases, including tapping into the state's wealthy individuals and largest corporations, to balance the operating budget. A gas tax hike is also being considered for the state's transportation budget. Positively, voters rejected two citizen-initiated measures in November 2024 – to repeal the state's capital gains tax and climate cap-and-invest program – that would have constrained some revenue flexibility.

We expect the state's budgetary reserve (general fund plus budget stabilization fund) will retreat from a record position to a level more consistent with the Treasurer's recommended 10% level. The state's ability to maintain adequate reserves will be crucial amid shifts in federal policies and economic headwinds ahead. Washington's largest exposure to federal policy changes / proposals is a material cut in the federal share of Medicaid. Our Medicaid stress test shows that Washington would suffer the largest budget impact among all 50 states, if the federal government reduces Medicaid expansion costs from the current 90% to each state's core Federal Medical Assistance Percentage (FMAP). This is because Washington's high per capita income results in a lower core FMAP than many peers, and the state's budget size is relatively small in relation to the size of its economy among peers.

Liquidity

We expect the state's liquidity position will remain sound with conservative fiscal management.

Available operating reserves, which for the purpose of our analysis includes unassigned, committed and assigned general fund and non-major governmental fund balances and internal services fund balance, totaled $16.9 billion as of fiscal end 2024, representing a robust 40.0% of own-source revenue.

Year to date in fiscal 2025, the average daily balance of the Treasury / Treasurer's Trust Fund remains above $16 billion, well above its pre-pandemic level. The projected balance for the Treasury/Treasurer's Trust Fund as of June 30, 2025 will remain strong at $14.5 billion. Washington's statute allows for the commingling of all balances in the State Treasury and in the custody of the State Treasurer for banking, cash management, and investment purposes. This allows the state to use non-general fund money to provide liquidity to the general fund, if needed.

Leverage and fixed costs

The state's overall leverage (total debt, pension, OPEB and other long-term liabilities) is moderately higher than the sector median, but has declined. Consistent with sector-wide trends, Washington's ability to service long-term liabilities improved in recent years as it saw strong revenue growth; also, its pension and OPEB burden declined in part because of higher interest rates we use to discount these liabilities.

As of fiscal year end 2024, the state's total leverage represented 108.9% of own source revenue, slightly above the sector's 2023 median.

Washington's fixed costs, based on Moody's pension tread water metric, are moderate and represented 5.9% of own-source revenue in fiscal 2024, also slightly above the 50-state median.

Debt and debt structure

Debt currently represents the largest component (61%) of Washington's long-term liabilities. As of fiscal 2023, Washington's net tax-supported debt burden in relation to its own source revenue ranks the fifth highest among all 50 states.

Washington's net tax-supported debt (NTSD) consists primarily of general obligation bonds, including those secured by and expected to be paid from transportation revenue. The state's bonds are long-term fixed rate bonds, mainly issued with a 25-year maturity and level debt service structure; on an aggregate basis, the state's debt has a declining debt service structure.

Debt legal security

The state has four classes of general obligation bonds: General Obligation Bonds or Various Purpose General Obligation Bonds, Motor Vehicle Fuel Tax (MVFT) General Obligation Bonds, Motor Vehicle Fuel Tax and Vehicle Related Fees (MVFT/VRF) General Obligation Bonds and Triple Pledge Bonds – all of which are general obligations of the state, to which the state has pledged its full faith, credit and taxing power. The MVFT bonds are additionally secured by and expected to be paid from motor vehicle fuel taxes. The MVFT/VRF bonds are additionally secured by and expected to be paid from motor vehicle fuel taxes and other vehicle-related fees. The Triple Pledge Bonds are additionally secured by motor vehicle fuel taxes and toll revenues and expected to be paid from toll revenues.

The state also issues certificates of participation, rated Aa1, to finance capital projects and equipment on behalf of state and local agencies. The COPs are secured by and expected to be paid from payments made by participating state and local agencies including: (1) lease payments for real property projects, and (2) installment purchase payments for personal property. Payments made by the state agencies are subject to appropriation by the legislature and executive order reduction by the governor. The state has never failed to make needed appropriations to meet the payment obligations for state agencies related to its COPs. Payments made by the local agencies are secured by the full faith and credit of the local agencies, effectively general obligation, limited tax obligations. In the event any local agency fails to make its scheduled payment, the state will make payments on behalf of the local agencies, subject to appropriation. No local agency has ever failed to make a payment obligation related to state-issued COPs.

Debt-related derivatives

The state has no variable rate debt and no debt-related derivatives.

Pensions and OPEB

Washington's pension liability is expected to remain moderate, supported by proactive management. Based on the state's fiscal 2024 reporting, Moody's has calculated that the state's adjusted net pension liability (ANPL) to be $9.0 billion or 21.4% of own-source governmental revenues, well below the latest 50-state median (52.6% of own source revenue). Moody's adjustments are not intended to replace the state's reported liability information, but to improve comparability with other rated entities.

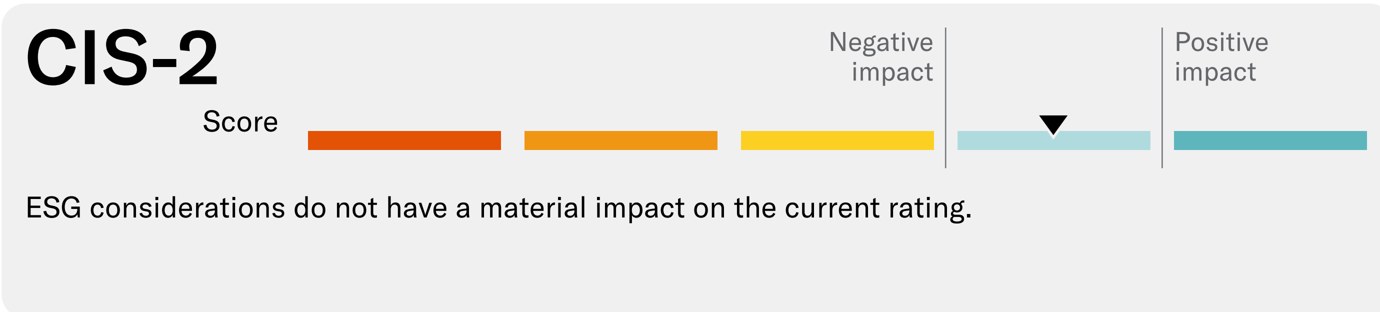
The state is committed to fully funding actuarially determined pension contributions. Notably, the state's pension contributions have consistently exceeded Moody's calculated tread water level, or the level of contribution that would prevent reported unfunded liabilities from growing under reported assumptions. Contributing at above the treadwater level signals that the state's reported pension burden will continue to decline if investment targets are achieved.

The state's other post-employment benefit (OPEB) liability is moderate. As of fiscal 2024 reporting, Moody's has calculated the state's adjusted net OPEB liability (ANOL) to be $3.0 billion, representing 7.2% of own source revenue, roughly in-line with the 50-state median.

ESG considerations

Washington (State of)'s ESG credit impact score is CIS-2

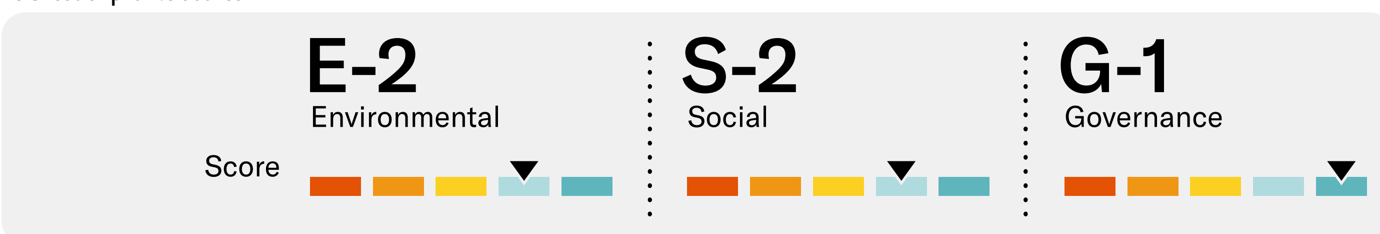
Exhibit 8
ESG credit impact score



Source: Moody's Ratings

Washington's ESG Credit Impact Score is **CIS-2** reflecting its neutral-to-low exposure to environmental risks and social risks and positive governance profile.

Exhibit 9
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Washington's E issuer profile score is **E-2**. According to data from Moody's ESG Solutions, Washington counties average projected rate of change in five climate risk factors, when weighted by county GDP, is below average in the nation. King County, which accounts for nearly 50% of the state's GDP, is not projected to have high risk in any of the five climate factors according to Four Twenty Seven's assessment scale. The most significant impact of climate change for Washington may be an increase in the frequency and severity of wildfires. The state budgets a contingent amount for fires each year, but it will continue to depend upon the availability of federal aid through FEMA to mitigate the cost of the largest fires.

Social

Washington's S issuer profile is **S-2**. Demographic trends and income levels are generally positive and have contributed to its strong economic growth, particularly in the Seattle area, where there has been growth in the working-age population supporting growth in high-wage industries. Housing affordability, however, is a significant challenge. Residents have above average educational attainment and the state's labor force participation rate is above average. All of these factors contribute to the state's strong economic fundamentals.

However, Washington's housing affordability has eroded and it is now one of the least affordable among 50 states. Weakened affordability will likely slow down migration, a main driver of the state's population growth. Washington also has one of the highest per capita homeless rates. The state has prioritized historic new investments in housing and homelessness in recent years.

Governance

Washington's G issuer profile score is **G-1**. Washington has strong governance practices including a quarterly consensus revenue forecasting process, multi-year revenue and expenditure projections, timely budget adoption and a demonstrated willingness to address budget shortfalls.

Since 2007, the State Constitution has required maintenance of a mandatory rainy day fund (Budget Stabilization Account), which requires the transfer, by the June 30 close of each fiscal year, of at least 1% of General State Revenues for that fiscal year. In addition, by June 30 of the second year of each Biennium, three-quarters of any “extraordinary revenue growth” must be transferred to the Budget Stabilization Account, unless the average state employment growth for the preceding biennium averaged less than 1% per fiscal year. “Extraordinary revenue growth” is defined as the amount by which the growth in General State Revenues exceeds the average biennial percentage growth in General State Revenues over the prior five biennia by more than one third. The state's constitutionally restricted Budget Stabilization Account may be spent only after appropriation and under specific circumstances: by legislation approved by a simple majority if the governor declares a state of emergency, or if employment growth is forecasted to be less than 1% for that fiscal year; or by legislation approved by at least 3/5 of the members of each house.

Although frequent voter initiative activity can create budget challenges, the state legislature has broad powers to amend or suspend voter-approved initiatives and a track record of doing so as needed to maintain budgetary balance.

Rating methodology and scorecard factors

The US States and Territories Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to state and territory credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 10

US states and territories rating methodology scorecard

Washington (State of)

	Measure	Weight	Score
Economy			
Resident Income (PCI Adjusted for RPP / US PCI)	106.8%	15%	Aaa
Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	1.2%	15%	Aaa
Financial performance			
Financial performance	Aaa	20%	Aaa
Governance/Institutional Framework			
Governance/Institutional Framework	Aaa	20%	Aaa
Leverage			
Long-term liabilities ratio (adjusted long-term liabilities / own-source revenue)	108.9%	20%	Aa
Fixed-costs ratio (adjusted fixed costs / own-source revenue)	5.9%	10%	Aaa
Notching factors			
Very limited and concentrated economy			
Scorecard-Indicated Outcome			Aaa
Assigned rating			Aaa

Source: US Bureau of Economic Analysis, State of Washington, Moody's Ratings

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