

RatingsDirect®

Summary:

Washington; General Obligation

Primary Credit Analyst:

Kevin R Archer, San Francisco + 1 (415) 3715031; Kevin.Archer@spglobal.com

Secondary Contact:

Oscar Padilla, Dallas + 1 (214) 871 1405; oscar.padilla@spglobal.com

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Credit Profile		
US\$349.63 mil various purp GO rfdg bnds ser R-2025D due 08/01/2040		
Long Term Rating	AA+/Positive	New
US\$125.805 mil motor veh fuel tax & veh related fees GO rfdg bnds ser R-2025E due 06/01/2041		
Long Term Rating	AA+/Positive	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Washington's \$349.6 million series R-2025D various-purpose general obligation (GO) refunding bonds and \$125.8 million series R-2025E motor vehicle fuel tax and vehicle-related fees GO refunding bonds.
- The outlook is positive.

Security

The rating reflects our view of Washington's full faith, credit, and taxing powers, which secure the series R-2025D and R-2025E bonds and GO debt outstanding. The series R-2025E bonds and motor vehicle fuel tax and vehicle-related fees GO bonds outstanding are also secured and payable from motor vehicle fuel tax and vehicle-related fees.

The series R-2025D bond proceeds will be used to refund portions of the state's series 2016A-1 GO bonds for interest savings and to pay the costs of issuance. The series R-2025E bond proceeds will be used to refund portions of the state's series 2016B motor vehicle fuel tax GO bonds for interest savings and to pay the costs of issuance.

Credit overview

Amid an evolving economic landscape over the past 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 out-years as prudent. We expect that the the debt burden will persist for the foreseeable future, but strong pension funding leads us to believe that collective liabilities should remain manageable.

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

In spring 2024, the state enacted its 2024 supplemental budget, which serves as a tool for making adjustments to the enacted 2023-25 biennial budget. The state's biennial budget increased by a net \$2.1 billion from the originally enacted budget, and now totals about \$71.5 billion. The increases were largely related to kindergarten through 12th-grade

education, behavioral health programs, and health care caseload increases. The state plans to use a portion of reserves built up since the previous biennium to fund key priorities, including behavioral health, educational staffing, supplies, special education, and caseload increases. The next state budget outlook, which will reflect the adopted 2025-27 biennial budget, is expected to be available after the conclusion of the legislative session. The proposed budget contemplates the use of some reserves for increased spending priorities. We understand that this document is a starting point; our view will solidify as the legislature weighs in on the biennium budget and we have a clearer picture of the state's reserve position.

The state ended fiscal 2024 with a general fund balance of \$4.88 billion and a budget stabilization account (BSA) balance of \$971 million, for a combined 17.9% of near general fund-state (NGF-S) revenue. In 2021, during the COVID-19 pandemic, the state created the Washington Rescue Plan Transition Account to enhance support for education, human services, health care, and the economy, following COVID-related pressures. This account had \$2.1 billion at the close of the 2021-23 biennium and \$798 million at fiscal year-end 2024. On a combined basis, these three accounts equaled 20.3% of GF-S revenue, which we view as strong and as offsetting the lowered BSA balance, for fiscal 2024. The state's 2024 supplemental budget includes a projected BSA balance of \$1.3 billion, which amounts to 3.9% of fiscal 2025 NGF-S revenue. At the same time, it includes an NGF-S ending balance of \$2.1 billion, which, combined with the BSA, would result in 10.3% of fiscal 2025 NGF-S revenue at biennium-end. The 2024 supplemental budget transferred the remaining \$798 million from the Washington Rescue Plan Transition Account to the general fund in fiscal 2025, leaving a zero fund balance at the end of the 2023-25 biennium. We view the state's commitment to preserving healthy combined reserves through the current biennium as a positive credit factor, and we expect the state to continue balancing revenue with ongoing operational needs in its upcoming biennial budget; we view this as a crucial factor in Washington's credit profile.

Based on S&P Global Economics' "Economic Outlook U.S. Q2 2025: Losing Steam Amid Shifting Policies," published March 25, 2025, on RatingsDirect, the shifting policy mix is altering the U.S. economic outlook, with our assumptions reflected in a likely downshift in GDP growth in 2025. We now forecast the U.S. real GDP growth rate to slow to 1.9% in 2025 and 2026, a sizable deceleration from the 3.2% and 2.5% expansion seen in 2023 and 2024, respectively. The forecast also incorporates assumptions on tariffs, some of which have been implemented and others that are likely forthcoming. The risk of a sharper slowdown has increased amid persistent policy uncertainty, which could lead to precautionary spending and retrenchment by households and businesses. That said, S&P Global Ratings Economics does not yet see a recession as the most likely outcome, penciling in a 25% probability of a recession starting within the next 12 months. (See "U.S. Business Cycle Barometer: Increasing Likelihood Of A Slowdown," published March 13, 2025.) However, we acknowledge that risk of a downturn will rise if conditions weighing on growth and sentiment intensify. S&P Global Market Intelligence forecasts that Washington's gross state product (GSP) growth will exceed GDP growth in 2025 to 2028, consistent with historical performance.

Based on the state's most recent monthly economic and revenue update produced by the Economic and Revenue Forecast Council in March 2025, the state's cumulative total GF-S collections were modestly lower than forecast in November 2024. The most recent forecast ultimately led to minor changes in the revenue forecast for the current biennium and in overall nominal personal income growth expectations for second-quarter 2025 (1.9% compared with 2.8% in the November forecast but comparable to figures for the third and fourth quarters of 2025).

The GO rating reflects our view of Washington's:

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

Environmental, social, and governance

While the state is exposed both to rising sea levels along its vast coastline and to risk of wildfires in its expansive forests, we believe physical factors are credit-neutral and mitigated by long-term planning and practices. The state has integrated considerations of a changing climate into its planning and decision-making processes, including multiple state agencies studying the effects of climate change on their areas of focus. In recent years, the state has also adopted legislation addressing climate change, including programs to reduce energy emissions. Social and governance factors have an overall neutral influence in our credit analysis.

For more information, see our report published Sept. 20, 2024.

Rating above the sovereign

Washington's GO bonds are eligible to be rated above the sovereign because we believe the state can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, U.S. states are considered moderately sensitive to country risk. The institutional framework in the U.S. is predictable, with significant state autonomy and flexibility (demonstrated by serial bond amortization) as well as independent treasury management. .

Outlook

The positive outlook reflects our expectation that there is a one-in-three chance we could raise our rating over the next two years. We expect strong budgetary management will continue to produce balanced operations and that the state will demonstrate its commitment to maintaining combined reserves.

Downside scenario

We could revise our outlook to stable if, in the face of budgetary pressure, lawmakers delay taking corrective action or rely extensively on one-time solutions to remediate potential gaps. We also could lower the rating if the state opts to use available reserves, leading them to fall below target levels.

Upside scenario

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

Table 1

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

Table 2

Washington--Key credit metrics			
	2024*	2023*	2022*
Economy			
State population (000s)	7,818	7,788	7,747
Real GSP per capita (\$)	86,630	82,702	81,333
Real GSP per capita as % of U.S.	129	126	126
State PCPI (\$)	80,881	75,640	73,601
State PCPI as % of U.S.	116	114	114
State unemployment rate (%)	4.1	4.1	5.2
Financial performance - S&P Global Ratings adjusted			
Operating fund revenue (mil. \$)	38,031	38,066	35,378
Operating fund expenditures (mil. \$)	33,877	33,563	29,374
Operating result (mil. \$)	4,154	4,503	6,004
Operating result as % of revenue	10.9	11.8	17.0
Reserves and liquidity - S&P Global Ratings adjusted			
Available reserves (mil. \$)§	5,936	7,256	7,316
Available reserves as % of operating revenue	15.6	19.1	20.7
Debt and liabilities			
Net direct debt cost as % of revenue	3.4	3.2	3.5
Pension and OPEB cost as % of revenue	0.8	0.9	0.8
Total current cost as % of total government revenue	4.3	4.1	4.3
Net direct debt (mil. \$)	21,514	20,833	20,602
Net direct debt per capita (\$)	2,762	2,675	2,645
Direct debt 10-year amortization (%)	56	58	58
Combined NPLs (mil. \$)	819	1,038	1,251
NPLs per capita (\$)	105	133	161

Table 2

Washington--Key credit metrics (cont.)			
	2024*	2023*	2022*
Combined pension plan funded ratio (%)	103.6	104.8	104.0

Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. *Audited. §Includes combined reserve balances in the budget stabilization account, Washington Rescue Plan Transition Account, and near general fund-state. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

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