



Rating Action: Moody's Ratings assigns Aa1 to State of Washington's COPs, Series 2025B; outlook stable

25 Apr 2025

New York, April 25, 2025 -- Moody's Ratings (Moody's) has assigned a Aa1 rating to State of Washington's \$28.9 million Certificates of Participation, Series 2025B (State and Local Agency Real and Personal Property). We maintain a Aaa issuer rating for the state and Aa1 ratings for the state's around \$851 million similarly-secured Certificates of Participation (COPs) outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on the Certificates of Participation, one notch below the state's Aaa issuer rating, reflects the essential nature of the projects associated with the debt, the moderate legal structure and subject-to-appropriation nature of the state's payment obligations. The rating also incorporates active administration of the financing program by the state treasurer's office and the state's established track record of making appropriation-backed payments under a variety of financing programs.

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 106.8% of US after adjusting for costs of living and favorable demographic trends. The issuer rating incorporates the state's strong governance practices (governance issuer profile score G - 1) that include a history of addressing budget shortfalls as needed, frequent revenue forecast updates and proactive pension prefunding. As of fiscal 2024 which ended June 30, 2024, Washington's budgetary reserve (general fund plus budget stabilization fund) remained sound at around \$6.7 billion or 20% of Near General Fund-State revenue, while GAAP basis available governmental fund balance remained robust at \$16.9 billion (40% of own source revenue); unrestricted operating cash also totaled a strong \$17.7 billion (42% of own source revenue) and the state can use non-general fund money to provide liquidity to the general fund, if needed.

The state's budgetary reserve will decline from record positions to levels more in-line with the Treasurer's recommended 10% of revenue by end of fiscal 2025, given some deficit spending. Rising costs, including caseload increases for social and healthcare services, will test Washington's fiscal management to restore operations to structural balance, likely necessitating spending cuts and/or tax increases in the upcoming biennium budget. The state's budget balancing power will also be crucial to navigate federal policy shifts and economic headwinds ahead. While the state's total leverage (debt, pension, OPEB, and other long-term liabilities) and associated fixed cost ratio are slightly higher than 50-state medians, both metrics have favorably declined in recent years. As of fiscal 2024, Washington's governmental long-term liabilities represented a moderate 109% of own source revenue and fixed costs represented 5.9% of revenue.

RATING OUTLOOK

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

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- 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
- Material changes in federal policy that reduce or delay funding provided to the state
- A material increase in leverage and fixed costs to levels well above sector medians

LEGAL SECURITY

The Certificates of Participation (State and Local Agency Real and Personal Property) are secured by and expected to be paid from payments made by participating state and local agencies including: (1) rent payments for real property projects, and (2) installment 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.

USE OF PROCEEDS

Proceeds of the Series 2025B COPs will finance the costs of acquiring, constructing, and/or remodeling certain real and personal property for the benefit of certain state agencies and local agencies.

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.

METHODOLOGY

The principal methodology used in this rating was US States and Territories published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425428>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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