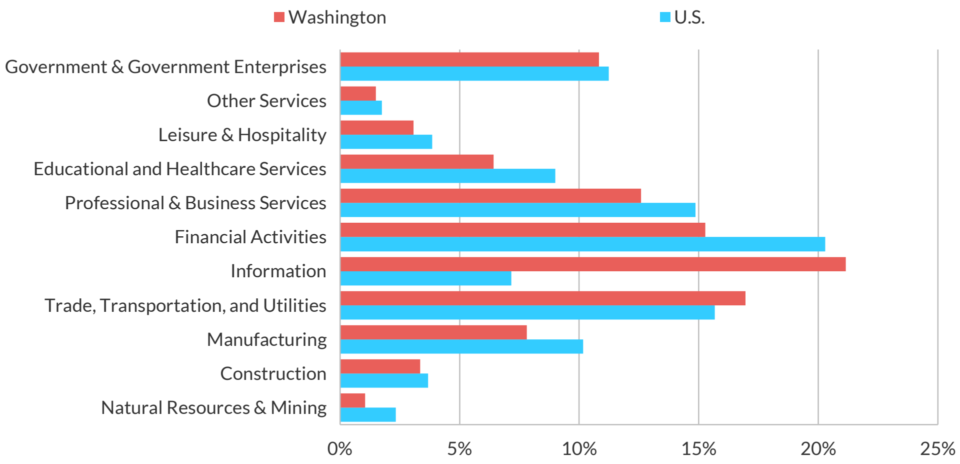
State of Washington

The State of Washington's 'AA+' Long-Term Issuer Default Rating (IDR) and GO bond rating reflect its broadened and growing economy, and demonstrated commitment to reaching structural balance. The ratings also reflect long-term liabilities that place a low burden on the economic resource base.

The 'AA+' ratings 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 BSA contributions have built solid dedicated operating reserves, although they remain below pre-pandemic levels relative to near-general fund revenues. Education funding poses continued long-term spending pressure for the state, given its steady population growth and role as the primary funding source for K-12 public schools.

Components of Real GDP



Source: Fitch Ratings, DIVER by Solve, U.S. Bureau of Economic Analysis

Population Data Overview

	Washington	U.S.
Total population (2024)	7,958,180	340,110,988
1990–2000 (% growth)	21.1	13.2
2000–2010 (% growth)	14.1	9.7
2010–Present (% growth)	18.3	10.2

Source: Fitch Ratings, DIVER by Solve, U.S. Census Bureau

Ratings

Long-Term IDR	AA+

Outlooks

Long-Term IDR	Stable

New Issues

$1,026,090,000 Various Purpose General Obligation Bonds, Series 2026A	AA+
$283,770,000 Motor Vehicle Fuel Tax and Vehicle Related Fees General Obligation Bonds, Series 2026B	AA+
$152,835,000 General Obligation Bonds, Series 2026T (Taxable)	AA+

Sale Date

The week of July 28

Outstanding Debt

Issuer Ratings Information

Applicable Criteria

U.S. Public Finance State Governments and Territories Rating Criteria (February 2025)

Related Research

Fitch Rates State of Washington $1.5B GOs 'AA+'; Outlook Stable (July 2025)

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Key Rating Drivers

Revenue Framework - 'aaa'

Revenue performance over time has exceeded U.S. GDP growth, which Fitch expects to continue supporting strong revenue growth prospects. The state has complete independent control over taxation, with an unlimited legal ability to raise operating revenues as needed.

Expenditure Framework - 'aa'

Washington possesses ample expenditure flexibility, with various statutory commitments including broad responsibility for education and infrastructure spending offset by low carrying costs. Washington also benefits from the broad expense-cutting authority common to most U.S. states. Washington's spending growth, absent policy actions, will likely be marginally above its pace of revenue growth, requiring regular budget management actions to ensure ongoing structural balance.

Long-Term Liability Burden - 'aaa'

The combined burden of debt and net pension liabilities is low as a percentage of personal income but above the median for U.S. states, as calculated by Fitch. Debt ratios incorporate the funding of substantial capital needs, particularly for transportation, but are offset by a low net pension liability and an expanding economic resource base.

Operating Performance - 'aa'

Washington maintains very strong gap-closing capacity and budgetary flexibility with solid reserves. The state is prudently rebuilding its dedicated operating reserves, following the recent sizable withdrawals. Dedicated operating reserves are growing, despite spending pressures from education and other pressing needs.

Rating Sensitivities

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 continuing draws on dedicated operating reserves in the BSA to support operations.
- A sustained increase in the long-term liability burden to 10% or more of personal income.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Ability to sustain dedicated operating reserves, other than those in the ending general fund balance, to at least pre-pandemic levels relative to near-general fund (NGF) revenues.
- Demonstrated ability to manage growth pressures, particularly management of education cost growth while reaching overall structural balance.

Economic Resource Base

Washington's fundamental economic profile remains strong, with long-term steady growth prospects, particularly in information technology, and a diverse employment base. Continued economic gains will be supported by Washington's high educational attainment and income levels, which are above the national average.

IDR Current Developments

Economic Recovery Outpaces National Levels

Washington's post-pandemic job rebound has exceeded national trends. Early in the pandemic, Washington's labor market suffered a less severe decline than the nation's with 11.8% of the state's jobs lost between February and April 2020, versus 15% nationally. Employment in Washington as of May 2025 was 4.3% higher than pre-pandemic levels, slightly below the national employment recovery of 4.8% but well above the median rate among U.S. states of 3.2%.

Washington's headline unemployment rate of 4.5% in May 2025 was slightly above the 4.2% U.S. rate for the same month, and is consistent with trends prior to the pandemic. The state's employment-to-population ratio (EPOP; a measure of labor force utilization) was 59.7% as of May 2025, below the February 2020 level of 63.1%. Washington’s EPOP now matches the national figure of 59.7% in May 2025. The national EPOP still lags the 61.2% at February 2020.

Washington Budget Update

Washington's enacted fiscal 2025-2027 biennium budget (July 2025 through June 2027) evinces the state’s strong gap-closing capacity, conservative revenue forecasting and sophisticated budgeting practices. Washington navigated highly uncertain, yet ultimately favorable, economic conditions over the past four years, while rebuilding weakened dedicated operating reserves amid rapid projected expenditure growth and somewhat slowed economic growth.

Washington just completed its 2023–2025 biennium, with large spend-downs of general fund and Washington Rescue Plan Transition Account (WRPTA) balances, partially offset by increased dedicated operating reserves in the BSA to $1.3 billion (4% of NGF revenues). The WRPTA was fully drawn down in fiscal 2025, two years earlier than previously envisioned. The state does not currently anticipate building additional savings in the WRPTA, leaving the BSA as Washington's sole dedicated operating reserve fund going forward.

A new gubernatorial administration negotiated the 2025-2027 biennial budget with both sides of the Legislature, resulting in a combination of expenditure growth cuts, broad-based tax increases and draws on the general fund ending balance while adding to the BSA. As enacted, Washington estimates adding $4.3 billion to biennium revenues through increased business and occupation taxes, as well as expanding excise taxes, capital gains taxes and estate taxes. New revenue growth from these sources are forecast to combine with statewide expenditure cuts to mitigate cost pressures from K-12 education, medical care, salary increases, and new human services and housing programs.

The enacted biennial budget continues to rebuild the BSA, which is expected to reach $2.1 billion (5.3% of NGF revenues) by FYE 2027, despite ongoing draws on general fund reserves to a thin biennium-end general fund balance of $80 million (less than 1% of NGF revenues). The fiscal 2027-2029 biennium, as forecast in the state's statutorily mandated four-year budget outlook, continues building the BSA to $3.0 billion (7% of NGF revenues), and begins rebuilding general fund balance to $381 million (just under 1% of NGF revenues) by the end of the biennium. However, the forecast first has the general fund balance dipping to -$56 million in fiscal 2028. Fitch anticipates that, absent unknown revenue or expense shocks, the governor and Legislature will continue to act to mitigate projected out-year funding gaps by moderating draws on general fund balances and maintaining or growing dedicated operating reserves.

Credit Profile

Revenue Framework

Fitch expects Washington to demonstrate strong revenue growth that outpaces national GDP, reflecting favorable cyclical trends buttressed by the state's ongoing population growth and rapid economic expansion. Recent implementation of a capital gains tax and a cap and trade regime may improve long-term revenue growth prospects by broadening and diversifying the state's revenue pool.

Washington has complete independent legal ability to set and enact taxes and fees, a significant credit strength.

Washington lawmakers recently created two crucial new revenue streams outside the general fund. The 2021 passage of ESSB 5096, along with subsequent court victories, helped the state effectuate a new 7% tax on certain capital gains over $250,000 beginning in fiscal 2023. Capital gains tax receipts are not general fund revenues and are only available for state education needs. This new revenue source is projected to generate over $200 million annually to the Education Legacy Trust Account (ELTA).

In calendar year 2023, the state also began implementing its Climate Commitment Act (CCA), including a carbon emissions cap and trade (or cap and invest) system with some emissions allowances auctioned quarterly by the state to generate revenues. CCA proceeds are to be used for clean energy transition and assistance, clean transportation and climate resiliency projects. The state generated $1.8 billion in CCA revenues over four auctions in 2023, far surpassing original estimates for $360 million annually.

Both new revenue sources successfully avoided repeal via two November 2024 ballot measures in which voters approved the continued use of these revenues. Fitch notes that the Washington Legislature nonetheless retains the ability to amend or repeal voter initiatives (*as discussed in more detail below*).

Economic Data Overview

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-yr CAGR
Total nonfarm employment (% change)												
Washington	2.2	2.5	2.9	3.1	2.4	2.4	2.0	-5.3	2.7	4.7	2.0	1.9
U.S.	1.6	1.9	2.1	1.8	1.6	1.6	1.3	-5.8	2.9	4.3	2.3	1.4
Labor force (% change)												
Washington	-0.2	1.0	1.7	2.6	2.2	2.3	3.8	-1.8	-0.6	2.6	1.4	1.5
U.S.	0.3	0.3	0.8	1.3	0.7	1.1	0.9	-1.7	0.3	1.9	1.7	0.7
Unemployment rate (% labor force)												
Washington	6.6	5.9	5.4	5.2	4.6	4.4	4.2	8.5	5.2	4.1	4.1	5.2
U.S.	7.4	6.2	5.3	4.9	4.4	3.9	3.7	8.1	5.3	3.6	3.6	5.1
Personal income (% change)												
Washington	1.9	7.3	5.9	5.6	6.5	6.8	7.3	7.8	9.1	3.3	7.3	6.7
U.S.	1.1	5.1	4.7	2.7	4.9	5.1	4.8	6.8	9.2	3.1	5.9	5.2
Real GDP (% change)												
Washington	3.1	3.8	4.5	4.0	6.3	6.6	4.8	0.1	6.9	2.2	5.1	4.4
U.S.	2.1	2.5	2.9	1.8	2.5	3.0	2.6	-2.2	6.1	2.5	2.9	2.4

Source: Fitch Ratings, Lumesis, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

Expenditure Framework

As in most states, education and health and human services are Washington's largest areas of operating expenditures. Education is the larger line item, with funding for local school districts and the public university and college system accounting for more than half of general fund spending. Human services programs represent another one-third of total spending.

Washington's future spending growth, absent policy actions, will likely be marginally above its solid revenue growth, requiring regular budget management actions to ensure ongoing structural balance. Education, specifically K–12, poses a particular pressure point. Washington provides essentially full basic operational funding for K–12 school districts. Since the 2011–2013 biennium, K–12 state funding has more than doubled. Local school districts can also levy their own taxes to supplement state aid. The maintenance of the capital gains tax for education may improve the prospects for education-related revenue growth relative to education spending.

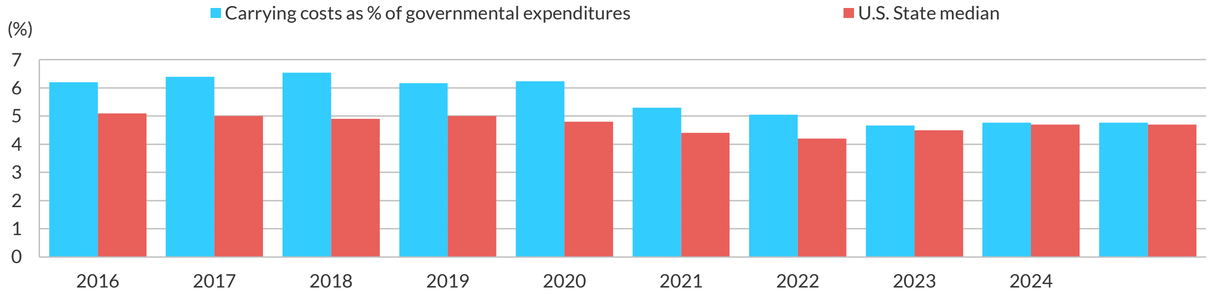
The fiscal challenge of Medicaid is common to all U.S. states. Based on Congressional Budget Office (CBO) estimates, Fitch projects that the enacted reconciliation bill, H.R. 1, would reduce federal Medicaid aid to states by approximately 3% in federal fiscal year (FFY) 2026 (beginning Oct. 1, 2025), rising to 18% by FFY 2034. Fitch considers these levels within the capacity of most states to manage primarily with spending reductions, likely within states' own Medicaid spending and, possibly, revenue increases.

Importantly, the most substantial change (implementation of work requirements for certain Medicaid recipients) is likely to reduce overall enrollment and, therefore, both state and federal spending. The curtailment of provider taxes, which will directly reduce revenues for state governments and providers, phases in gradually. Additionally, the bill includes a Rural Health Transformation Program funded at $50 billion that aims to smooth revenue losses for rural health providers. Specific implications of the Medicaid revisions for each state will vary, potentially widely, and are contingent on how the federal government and states implement the statutory changes.

For Washington, federal revenues have ranged from 33%-40% of total governmental funds revenues since fiscal 2021. This is up from 31%-34% of total governmental funds from fiscal years 2016-2020. The state's spending on health and social services, primarily Medicaid, is typically under one-third of total governmental funds expenditures. Beyond statutory changes, as with all federal programs, Medicaid remains subject to regulatory changes that could affect various aspects of the program.

Washington retains ample expenditure flexibility. While Medicaid costs are beyond the state's ability to materially change, given federal program requirements, the state's carrying costs for long-term liabilities have decreased relative to total expenditures, and the state retains the broad expense-cutting ability common to most U.S. states. Washington's operating budget (outside of Medicaid) goes largely toward the funding of services, rather than direct service delivery, allowing the state to shift costs to lower levels of government in times of fiscal stress. This is true even for education spending, as the state transfers money to local school districts, rather than operating any schools itself.

State of Washington — Carrying Costs



Source: Fitch Ratings, Washington, State of Annual Comprehensive Financial Reports

Long-Term Liability Burden

On a combined basis, Washington's burden of direct debt and adjusted net pension liabilities, at 4.1% of personal income in fiscal 2023, was in line with the 4.2% median for U.S. states (see Fitch's "2024 State Liability Report," dated November 2024) and still low overall. Washington's ratio stayed flat at 4.1% in fiscal 2024.

Debt levels are twice the state median, reflecting the capital and infrastructure demands related to strong population growth. However, pension liabilities are well below the U.S. median for states. Fitch expects the combined liability burden to remain at similar levels, despite Washington's large capital spending pressures.

Capital needs are substantial, particularly for transportation, and future borrowing is anticipated. The state has also repeatedly demonstrated its ability and willingness to raise revenues in support of transportation capital investments, most recently through a new fee for electric vehicles and an increase to vehicle titling and registration fees. Tolls have also been utilized as part of the funding solution.

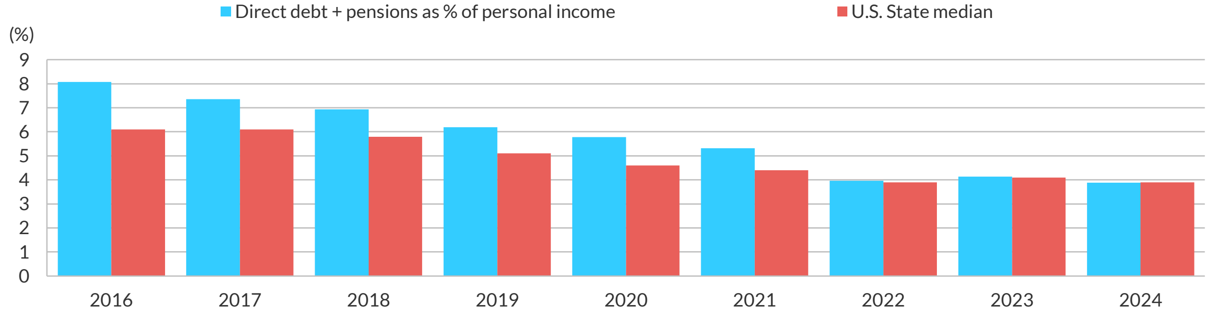
In its 2022 session, the Legislature adopted the Move Ahead Washington revenue package that allocated $16.9 billion over 16 years toward various transportation needs. The largest revenue sources are $5.4 billion from Climate Commitment Act revenues (*noted earlier*) and $3.7 billion of federal moneys allocated to the state via the federal Infrastructure Investment and Jobs Act (IIJA). Approximately one-third of the state's outstanding GO debt is supported by motor vehicle-related taxes, fees and tolls.

The state made changes to manage pension costs, including elimination of cost-of-living adjustments for closed legacy plans. Washington has also managed times of economic strain through such initiatives as short-term deferral of full contributions. Other post-employment benefits (OPEB) are limited and funded on a pay-as-you-go basis.

Contingent liabilities include the School Bond Guarantee Program, which provides a GO guarantee to outstanding school district debt. The state utilized the enhancement (for the first time) on June 1, 2021 to advance approximately $3.2 million for Mason County, when an internet connectivity issue with the county's bank delayed debt service transfers for school districts in the county. The county made the transfer within the same day, fully covering the state's advance.

Fitch continues to exclude the covered school district debt from its long-term liability calculation, as it considers the recent advance to be a short-term issue affecting only a minimal portion of the contingent liability, and does not believe it is indicative of any ongoing need for state advances.

State of Washington — Long-Term Liability Burden



Source: Fitch Ratings, Washington, State of Annual Comprehensive Financial Reports

Operating Performance

Frequent reviews of economic and financial forecasts allow the state to respond effectively to changing conditions. Washington has significantly improved its resilience since the Great Recession and the lowest point of the recent pandemic-driven downturn, repeatedly demonstrating its willingness and ability to utilize its broad gap-closing capacity in response to revenue volatility.

During the Great Recession, the state implemented a combination of ongoing and one-time actions that fully depleted dedicated operating reserves. Washington then took almost a decade to rebuild its dedicated operating reserves, reaching then-record levels by fiscal 2019. The state balanced its pandemic-era budget with spending cuts and draws to dedicated operating reserves, with the BSA reaching a near-zero $19 million in fiscal 2021 before gradually rebuilding to $971 in fiscal 2024. The state's June 2025 economic and revenue forecast anticipates ending fiscal 2025 with $1.3 billion in the BSA, or just under 4% of preliminary fiscal 2025 revenues.

Washington's enacted fiscal 2025-2027 biennium projection envisions greater balance than previous state estimates, with recurring revenue growth outstripping growing appropriations through a combination of tax growth cuts and broad-based tax increases. The state estimates adding $4.3 billion to biennium revenues through increased business and occupation taxes, as well as expanding excise taxes, capital gains taxes and estate taxes. Fitch anticipates that, absent unknown revenue or expense shocks, the new governor and Legislature will continue to significantly mitigate projected out-year funding gaps while modestly drawing on available general fund balances, continuing to grow the dedicated operating reserves.

The Fitch Analytical Stress Test (FAST) model indicates that Washington's main revenue sources exhibit relatively low volatility and would decline by an estimated 2% in the event of a 1% decline in U.S. GDP, as modeled by FAST under the standard recession scenario. As per FAST output, Washington's state-source revenues would fully recover by year 2 of the scenario. Washington's 2% decline scenario is low compared to the U.S. states' median decline of 3%, calculated by Fitch. Although FAST is not a forecast, it represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Actual revenue declines will vary from FAST results, which provide a relative sense of the risk exposure of a particular state compared to other states.

Budgeting can be pressured in part due to ongoing education and growth needs, as well as a statutory mandate that the budget show projected balance over the four-year budget outlook period, rather than just the current biennium. Although the state began rebuilding dedicated operating reserves after a steep drop in fiscal 2021, the 2024 supplemental budget depleted the WRPTA by the end of the 2024–2025 biennium. The enacted state budget rebuilds the BSA to $3.0 billion (7.3% of revenues) by fiscal 2029. The rebuilding of Washington's dedicated operating reserves back to pre-pandemic levels continues, albeit set back by several years.

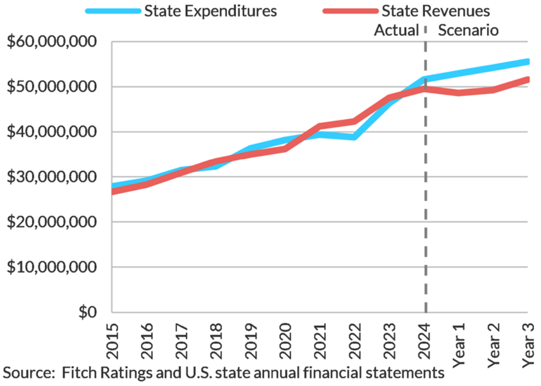
The state has solid funding provisions for its BSA, which supports financial flexibility in the long term. This constitutional account receives the first 1% of revenues collected every year until it reaches its cap of 10% of annual general revenues. Furthermore, 75% of extraordinary growth in state revenue (revenues that exceed by one-third the average biennial growth rate of the prior five biennia) must be transferred to the BSA on top of the above-mentioned 1%. This measure serves to limit the effect of revenue volatility on the operating budget. The WRPTA provided short-term additional reserves, with less restrictions on accessing it than the BSA.

Washington's voter initiative and referendum environment creates a level of operating and financial uncertainty. However, it is significant that any law approved by voters in this manner can be amended or repealed by the Legislature by a two-thirds vote in the first two years after approval and by a simple majority vote thereafter. The Legislature has repeatedly demonstrated its ability and willingness to suspend or revise voter initiatives. Additionally, the state constitution may not be amended by a voter initiative or referendum.

Peer Analysis

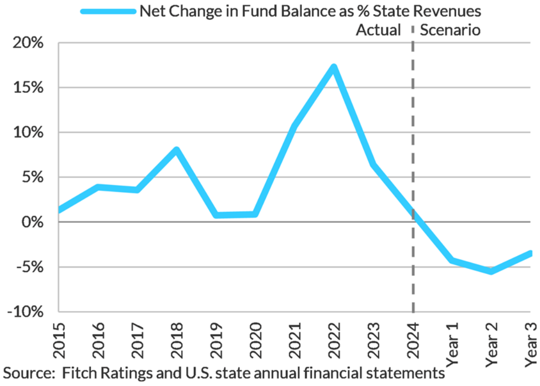
Washington's economic peers, or states within a similar GDP decile, are Georgia (AAA/Stable), Ohio (AAA/Stable), Pennsylvania (AA/Stable) and New Jersey (A+/Stable). The state's growth prospects are favorable to most of its peers, which are generally slower-growth economies. The liability burden and carrying costs for Washington are roughly middle-of-the-pack for its peer group, reflecting the offsetting dynamics of strong resource base gains and sizable infrastructure demands from that growth. The state's operating performance is not assessed to be as strong as that of Georgia and Ohio, although it is materially better than that of Pennsylvania and New Jersey.

State Revenues and Expenditures in an Unaddressed



Source: Fitch Ratings and U.S. state annual financial statements

Net Change in Fund Balance as % of State Revenues in an Unaddressed Stress ($000)



Source: Fitch Ratings and U.S. state annual financial statements

Scenario Parameters:											**Year 1**	**Year 2**	**Year 3**
GDP Assumption (% Change)											(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)											2.5%	2.5%	2.5%
Revenue Output (% Change)				**Minimum Y1 Stress:**	-1%		**Case Used:**	Moderate			(1.9%)	1.4%	4.7%

Revenues, Expenditures, and Net Change in Fund Balance	**Actuals**										**Scenario Output**		
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Year 1**	**Year 2**	**Year 3**
Expenditures													
Total Expenditures	42,571,000	44,146,954	46,876,157	47,989,794	52,338,056	55,661,482	63,132,310	66,536,632	73,596,985	76,327,026	78,235,202	80,191,082	82,195,859
% Change in Total Expenditures	7.6%	3.7%	6.2%	2.4%	9.1%	6.3%	13.4%	5.4%	10.6%	3.7%	2.5%	2.5%	2.5%
State Expenditures	27,859,000	29,113,421	31,506,179	32,343,483	36,374,765	38,221,995	39,392,543	38,812,757	46,340,388	51,637,839	52,928,785	54,252,005	55,608,305
% Change in State Expenditures	5.6%	4.5%	8.2%	2.7%	12.5%	5.1%	3.1%	(1.5%)	19.4%	11.4%	2.5%	2.5%	2.5%
Revenues													
Total Revenues	41,399,000	43,294,691	46,269,050	49,114,776	50,993,434	53,683,175	64,976,549	70,038,802	74,819,273	74,208,277	73,899,796	75,229,827	78,214,502
% Change in Total Revenues	7.1%	4.6%	6.9%	6.2%	3.8%	5.3%	21.0%	7.8%	6.8%	(0.8%)	(0.4%)	1.8%	4.0%
Federal Revenues	14,712,000	15,033,533	15,369,978	15,646,311	15,963,291	17,439,487	23,739,767	27,723,875	27,256,597	24,689,187	25,306,417	25,939,077	26,587,554
% Change in Federal Revenues	11.7%	2.2%	2.2%	1.8%	2.0%	9.2%	36.1%	16.8%	(1.7%)	(9.4%)	2.5%	2.5%	2.5%
State Revenues	26,687,000	28,261,158	30,899,072	33,468,465	35,030,143	36,243,688	41,236,782	42,314,927	47,562,676	49,519,090	48,593,380	49,290,750	51,626,948
% Change in State Revenues	4.7%	5.9%	9.3%	8.3%	4.7%	3.5%	13.8%	2.6%	12.4%	4.1%	(1.9%)	1.4%	4.7%
Excess of Revenues Over Expenditures	(1,172,000)	(852,263)	(607,107)	1,124,982	(1,344,622)	(1,978,307)	1,844,239	3,502,170	1,222,288	(2,118,749)	(4,335,405)	(4,961,255)	(3,981,357)
Total Other Financing Sources	1,524,000	1,948,380	1,707,652	1,567,704	1,608,643	2,293,902	2,572,586	1,920,625	1,812,053	2,648,839	2,249,601	2,240,741	2,174,372
Net Change in Fund Balance	352,000	1,096,117	1,100,545	2,692,686	264,021	315,595	4,416,825	7,318,369	3,034,341	530,090	(2,085,804)	(2,720,514)	(1,806,985)
% Total Expenditures	0.8%	2.5%	2.3%	5.6%	0.5%	0.6%	7.0%	11.0%	4.1%	0.7%	(2.7%)	(3.4%)	(2.2%)
% State Expenditures	1.3%	3.8%	3.5%	8.3%	0.7%	0.8%	11.2%	18.9%	6.5%	1.0%	(3.9%)	(5.0%)	(3.2%)
% Total Revenues	0.9%	2.5%	2.4%	5.5%	0.5%	0.6%	6.8%	10.4%	4.1%	0.7%	(2.8%)	(3.6%)	(2.3%)
% State Revenues	1.3%	3.9%	3.6%	8.0%	0.8%	0.9%	10.7%	17.3%	6.4%	1.1%	(4.3%)	(5.5%)	(3.5%)

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section.
For further details, please see Fitch's US Tax-Supported Rating Criteria.
Source: Fitch Ratings and U.S. state annual financial statements

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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