MOODY'S RATINGS

CREDIT OPINION
24 July 2025

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Washington (State of)

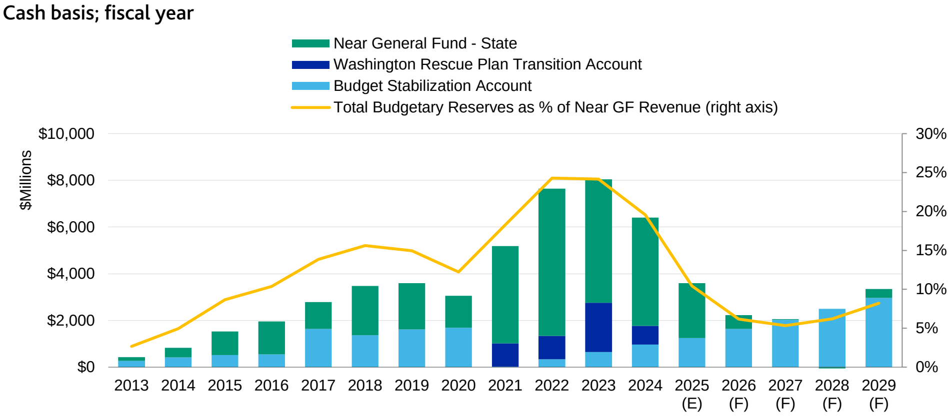
Update to credit analysis

Summary

The State of Washington's (Aaa stable) credit profile is supported by its strong economic fundamentals, above-average demographic profile and sound financial management. While the state's budgetary reserve (general fund plus budget stabilization fund) has retreated from record positions (Exhibit 1), we expect that the state will continue to maintain a sound overall governmental fund balance and liquidity position. Washington's total leverage (debt, pension, OPEB, other long-term liabilities) has declined in recent years (Exhibit 2) and is much lower than that of the United States (Aa1 stable).

Broad and rapid federal policy changes since January 2025 will weigh on Washington's economy and revenue growth, while also exert spending pressures for the state. However, we expect that the state's fundamentally strong, diverse and resilient economy will allow it to withstand economic headwinds. The implementation of key federal policy changes, such as reduced federal spending on Medicaid and food assistance, is not immediate, which gives Washington time to mitigate any negative credit impacts.

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.
(E) reflects estimated results. (F) reflects the state's forecast and incorporates the 2025-2027 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 Medicaid cost shift, tariffs and immigration restrictions

» 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 requiring significant reserve draws and/or other 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 fiscal 2023 financial and leverage data (because several states have not yet published fiscal 2024 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

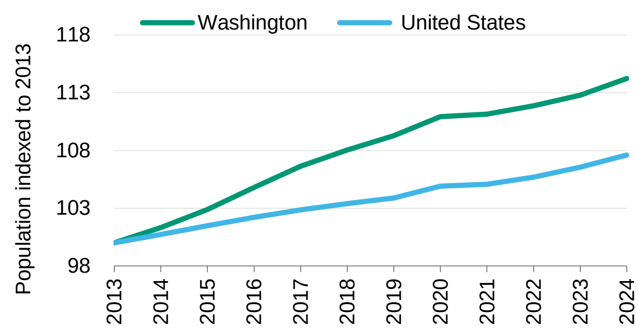
Economy

Washington's economic growth will continue to slow, along with the nation's, in coming quarters amid weakening macroeconomic conditions. Over the longer-term, we expect Washington's economy will continue to outperform the nation's, supported by its diverse industrial base and favorable socioeconomic profile.

Similar to many states, broad and rapid federal policy changes since January – particularly tariffs, immigration and federal funding cuts – will weigh on Washington's economic prospects ahead. Washington has above average exposure to tariffs, as the state's 2024 exports represented 6.8% of GDP, higher than the 50-state median (5.2% of GDP), although markedly down from 13.6% in 2018. The state's economic growth could slip closer to the national average if its strong population and labor force growth moderates. Given the state's weakening housing affordability, domestic in-migration into Washington has greatly moderated in recent years and Washington's strong population growth is vulnerable to less supportive international immigration policies (Exhibit 3 and 4).Washington's pivotal professional and business services sector is particularly vulnerable to tighter international immigration policies because it has a high concentration of foreign-born workers.

Exhibit 3

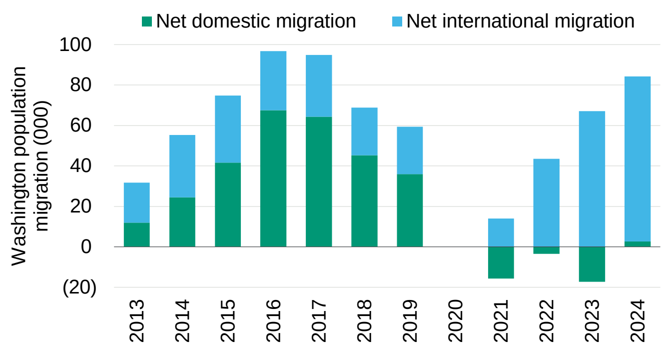
Washington has long benefitted from above-average population growth....



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

Exhibit 4

...but tighter international immigration policies stand to limit in-migration

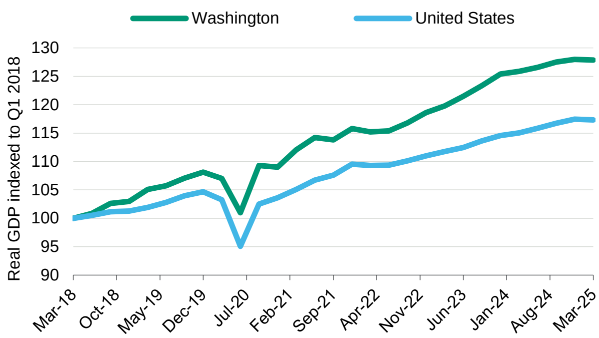


Note: migration data not available during census year (i.e. 2020)
Source: U.S. Census Bureau; Moody's Ratings

Washington has a much greater reliance on the information industry than the nation overall, and the state 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.

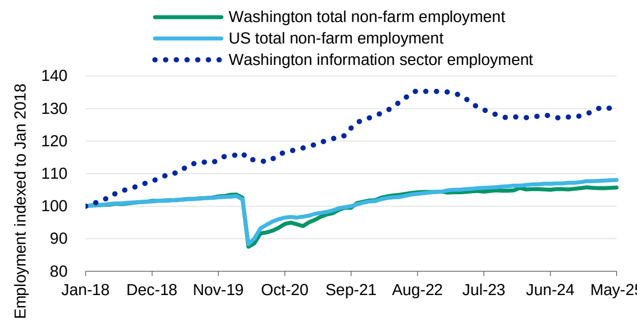
Despite some recent turbulence from the tech sector, Washington's real GDP growth continued to outpace that of the nation's in 2024 given continued recovery in other industries, including health services and manufacturing.

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

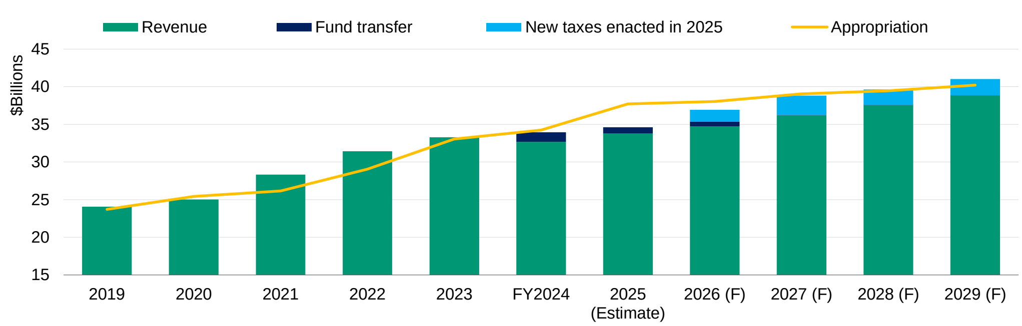
The state's total employment growth has slowed amid cooler economic conditions; notably, employment in its information industry has contracted the first time since the 2007-08 financial crisis, but leveling off (Exhibit 6). As of May 2025, Washington's unemployment rate was 4.5% and its labor force participation rate (62.5%), while in-line with the nation's, has weakened from a peak of 65.9% before the Covid-19 pandemic.

Finances and Liquidity

We expect Washington to maintain a sound financial position, supported by its demonstrated willingness and ability to balance budgets, policy flexibility and strong financial management practices – including frequent revenue monitoring and forecasting, multi-year financial planning and a constitutionally restricted Budget Stabilization Account that may only be appropriated under specific circumstances (see Governance under ESG section).

Following rapid budget growth, particularly for health and social services, Washington entered 2025 facing a sizable general fund budget gap given slowing revenue growth and rising safety net caseloads. The recently enacted 2025-2027 (July 1, 2025 – June 30, 2027) biennium budget addresses this gap through tax increases — largely business and occupation tax, excise tax, and various fee increases totaling $4.3 billion (6.0%) for the biennium — alongside targeted spending cuts and fund transfers (Exhibit 7). Spending reductions include pension contributions, early learning program expansions, and cuts to certain corrections facilities, behavioral health facility and higher education grants, partially offset by increased funding for K–12 special education, salaries, and select human services.

Exhibit 7
Recently adopted 2025-2027 biennium budget will restore Washington's general fund budget balance with largely tax increases and some targeted cuts
Near-General Fund



State of Washington June 2025 Budget Outlook (Near-General Fund)
Source: State of Washington Economic and Revenue Forecast Council

Washington's budgetary reserve (general fund plus budget stabilization fund) has retreated from a record position to $3.6 billion (10% of revenue) by end of fiscal 2025. Based on the 2025-2027 enacted budget and the state's latest June 2025 revenue forecast, budgetary reserve is projected to total $2.1 billion (5.7% of revenue) by the end of the 2025-2027 biennium (Exhibit 1). While the general fund will narrow as tax increases phase in, the budget stabilization fund is expected to grow to $2.0 billion through formulaic deposit. The state remains committed to rebuilding budgetary reserves to the state treasurer's recommended 10% target as tax increases phase in and economic conditions improve. Notably, the state's latest multi-year budget outlook uses more realistic revenue forecasts for the outer years (2027–2029 biennium), instead of incorporating a 4.5% revenue growth factor allowed by its statute – this shift in practice emphasized by the Governor is more conservative to ensure long-term budget balance, which we view positively.

We expect Washington will maintain a strong overall governmental fund and cash position, providing ample liquidity to the general fund. As of fiscal year-end 2024, Washington's GAAP-basis available operating reserves totaled $16.9 billion (40% of own source revenue) and includes substantial fund balances committed to transportation, wildlife and natural resources and human services. New 2025 legislation indexing the gas tax and raising several other transportation fees further enhances Washington's overall financial flexibility.

Looking ahead, macroeconomic headwinds and a less supportive federal policy environment – particularly federal cuts to Medicaid and food assistance – will exert challenges for many state governments. Given Washington's already high cost of living, reductions in safety net programs could deepen its affordability and related social challenges, including slow working age population growth, constrain economic growth and increase homelessness. Our Medicaid stress test shows that Washington has among the weakest capacity to backfill federal funding cuts to Medicaid, the largest federal spending item for the state, in part because Washington's budget size (as measured by own source revenue) is relatively small in relation to the size of its economy (as measured by GDP) among all states. As such, Federal policy shifts will likely push Washington to reduce benefits, unless it chooses to raise revenue to sustain these safety net programs, or both. The implementation of key federal policy changes is not immediate, which gives Washington time to adapt and mitigate any negative credit impacts. We expect that Washington is well positioned to adapt given its substantial policy flexibility and a history of addressing spending needs with a balanced approach – including raising taxes and finding spending efficiencies.

Liquidity

We expect the state's liquidity position will remain sound with conservative fiscal management. Washington's GAAP-basis available fund balance never fell below 20% over the last decade.

As of fiscal end 2025, the Treasury / Treasurer's Trust Fund remained roughly $14.6 billion (close to 40% of own source revenue). 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

Consistent with sector-wide trends, Washington is in a good position to continue and even accelerate its capital investments given recent year leverage declines. This mitigates risks associated with rising costs, growing need to invest in climate resilience initiatives and federal policy changes.

The state's total governmental leverage (debt, pension, OPEB and other long-term liabilities) has moderated to 108.9% of own source revenue as of fiscal 2024 from 187.1% five years ago as it saw strong revenue growth. Pension and OPEB liabilities declined in part because of the market-based discount rates we apply to these liabilities.

Washington's fixed costs, based on Moody's pension tread water metric, are also moderate at 5.9% of own source revenue in fiscal 2024, just 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 issues certificates of participation (COPs), 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 be low. 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. Washington'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 tread water level signals that the state's reported pension burden will continue to decline if investment targets are achieved.

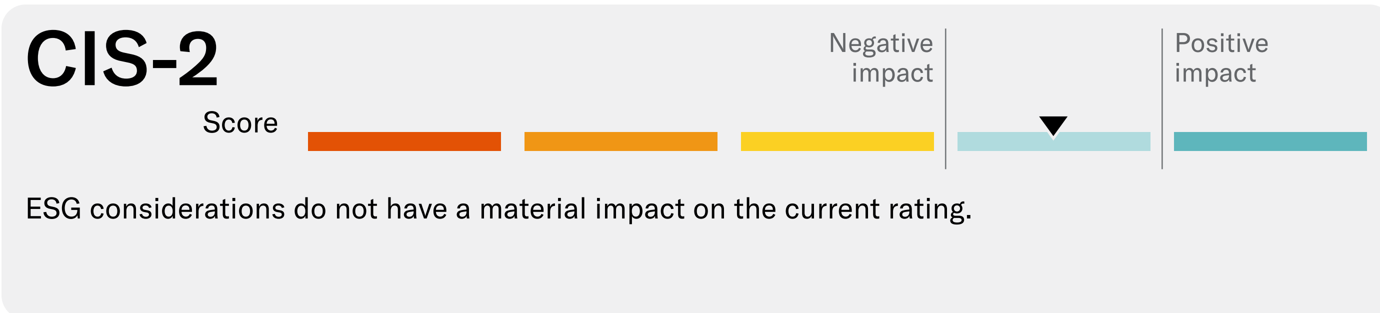
However, to address the state's recent budget gap, legislation passed in 2025 increased the state's investment return assumption to 7.25% from 7.00% for most pension funds, effective July 1, 2025, to reduce near-term contributions. While this creates budget savings, we view it credit negative to increase investment rate assumptions because it can lead to larger funding gaps if the investment return assumption is not met. Currently, US states' pension funds have a median investment return assumption rate of 7.0% and less than a third of pension funds have an assumption rate at or above 7.25%.

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

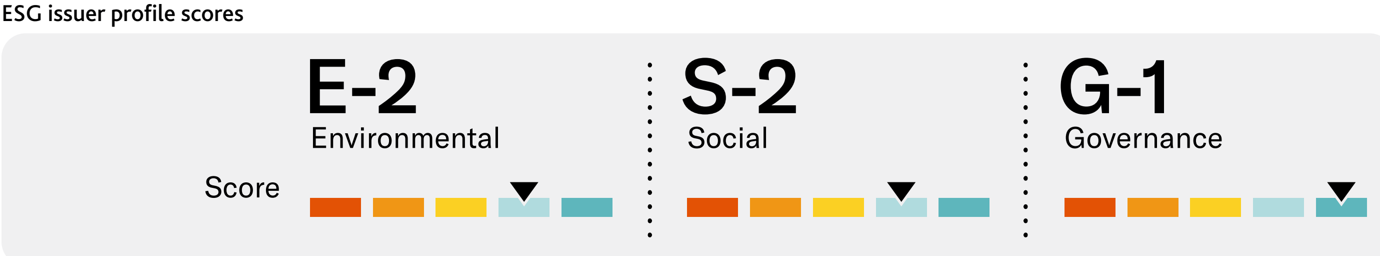
Exhibit 8
ESG credit impact score



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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