State Of Washington Series 2026ABT GO Bonds Assigned 'AA+' Rating; Outlook Is Positive

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Overview

- S&P Global Ratings assigned its 'AA+' rating to the State of Washington's series 2026A various-purpose general obligation (GO) bonds, series 2026B motor vehicle fuel tax and vehicle-related fees GO bonds, and series 2026T (taxable) GO bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the State of Washington's GO and motor vehicle fuel tax and vehicle-related fees GO bonds outstanding, as well as its 'AA' rating on the state's appropriation-backed debt outstanding.
- The outlook on all ratings is positive.

Rationale

Security

Our rating on the state's GO bonds reflects Washington's full faith, credit, and taxing powers. The motor vehicle fuel tax and vehicle related fees GO bonds are further secured and expected to be paid by motor vehicle fuel tax and vehicle related fees.

We rate the state's appropriation-backed debt obligations one notch lower than our rating on Washington to reflect the lease payments appropriated by the state legislature for these bonds.

The series 2026A and 2026T (taxable) GO bonds are being issued for various capital purposes, and the series 2026B motor vehicle fuel tax and vehicle related fees GO bonds are being issued for transportation capital projects.

Credit highlights

After several years of steady financial and economic momentum, Washington forecast sizable revenue and expenditure gaps as it solidified the current biennium's budget. While the state closed its forecast budget gap with a mix largely composed of recurring measures, the budget also spent down combined reserve levels to a level notably lower than expected in the previous biennium. The state's active management practices and forecasting have historically benefited it in tracking potential budgetary pressures, including this most recent stress, and we view its statutory mechanisms for ensuring budgetary balance in outyears as prudent. We expect that debt levels will remain stable for the foreseeable future, but historically strong pension funding leads us to believe that collective liabilities should remain manageable. Should the state continue to successfully manage its budgetary pressures, including the potential effects of evolving federal policies, priorities, and economic conditions, while maintaining its commitment to growing its formal reserves, there could be upward pressure at the current rating level.

The state enacted its 2025-27 biennial budget in May 2025, which, based on current law, had estimated a $16 billion budget gap across four years at the beginning of legislative session. The expenditure gap was primarily a result of growing program costs (including Medicaid and kindergarten-through-grade 12 [K-12] education), driven by inflation, demand for services, and workforce compensation. In addition, the state has routinely used a revenue assumption totaling 4.5% growth, even when the state’s Economic and Revenue Forecast Council (ERFC) forecasts lower growth figures, which has led to differences between budgeted expectations and actual receipts. In order to balance the budget, the state enhanced revenue by $8.7 billion over four years, along with making reductions and finding savings totaling $4 billion. Over the course of the biennium, the state projects spending down its near general fund-state (NGF-S) ending balance, ultimately to below the previous combined reserve target (10% of NGF-S revenue), but continues its commitment to rebuilding its formal budget stabilization account (BSA). The enacted 2025-27 biennial operating budget increased by 7% compared with the final 2023-25 supplemental operating budget. In our view, the state effectively resolved its projected deficits, but we still calculate ongoing deficits in fiscal years 2026 and 2027 when excluding the state’s beginning balances, signaling some structural pressures are still present. Given the state’s strong forecasting practices and effective history at resolving ongoing cost pressures, we expect it will continue to make decisions toward ensuring structural balance.

The state expects to end fiscal 2025 with a general fund balance of $2.3 billion and a BSA balance of $1.3 billion (3.6% of NGF-S revenue), for a combined 10.4% of NGF-S revenue. The state is budgeting for its NGF-S ending balance to be $834 million at fiscal 2026 year-end and for its BSA to increase to $1.6 billion (4.7% of NGF-S revenue), which would result in a total 7.1% of NGF-S revenue. While the state is not meeting its informal target at biennium-end based on its current forecast, we believe it will be preserving an adequate level of combined reserves to help navigate unexpected pressures, although at levels lower than those of higher-rated peers.

The shifting policy mix is altering the U.S. economic outlook, with our assumptions reflected in a likely downshift in GDP growth in 2025, based on S&P Global Economics' "Economic Outlook U.S. Q3 2025: Policy Uncertainty Limits Growth,” June 24, 2025. We forecast annual average U.S. real GDP growth rate will slow to 1.7% in 2025 and 1.6% in 2026; although still positive, this is a deceleration from the 2.8% growth seen in 2024. We expect weaker near-term growth to further soften the labor market in the next 12 months, and although our base-case scenario projects the U.S. will avoid a recession in the near term, we still believe there is elevated downturn risk at 30%-35% in our subjective assessment because of uncertainty around trade, deregulation, fiscal policy, geopolitics, and immigration. The state’s June economic forecast incorporated weaker job growth expectations for the near term, and personal income growth trailed the nation in the first quarter of 2025. Overall, the state’s economy has still continued to expand, though at a slower rate than it has in recent history. S&P Global Market Intelligence forecasts the state’s gross state product (GSP) growth for 2025 will be below the nation’s, at 0.85% (vs. 1.4%), in line with the nation’s in 2026 at 2.0%, and slightly surpassing the nation’s in 2027 (1.7% vs. 1.6%).

Based on the state's most recent monthly economic and revenue update produced by the Economic and Revenue Forecast Council in July 2025, major general fund-state (GF-S) collections were 3.7% higher than forecast, while revenue act collections were 5.2% higher than forecast. The state’s labor force participation continued to trend down, and its unemployment claims continue to trend slightly up when compared with a year ago.

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 those of 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 high debt profile, which we consider manageable and which we expect will remain steady over the medium term; and
- Institutional framework, which 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.

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,” 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 the state's strong budgetary management will effectively navigate pressures and ensure the state maintains its structural balance on an ongoing basis by balancing expenditure growth with available resources in future budgets, and that it will continue its commitment to rebuilding its formal reserves over the course of the biennium.

Downside scenario

We could revise our outlook back to stable if, in the face of budgetary pressure, the state relies extensively on one-time solutions to remediate potential gaps or delays taking corrective action. We could also lower the rating if the state opts to use its available reserves, namely its BSA, to address structural pressures and fails to replenish balances in a timely manner.

Upside scenario

Should the state demonstrate strong budgetary performance through balancing its expenditure growth with available revenues, while continuing to grow reserves and maintain strong pension funding, we could raise the rating.

Credit Opinion

Institutional framework

Washington's statutory requirement to adopt a balanced budget and forecast balanced budgets in outyears, coupled with its financial management policies, encourages ongoing fiscal solvency and supports the state's predictability. Washington's voter initiative environment complicates its predictability, as we view the voter initiatives as somewhat limiting the state's fiscal flexibility. However, the legislature's willingness and ability to set aside provisions of voter-approved initiatives when fiscal conditions warrant has proven beneficial to the state's credit quality, in our view. Initiatives may be amended with a two-thirds vote of the legislature within two years of passage and with a simple majority of the legislature thereafter. We have observed that the legislature has temporarily suspended initiatives regularly over the last decade.

The governor has the authority to make across-the-board reductions to spending allotments when a cash deficit in a particular fund is projected. However, the authority to impose disbursement reductions does not include allotments for basic education, pension benefits, or GO debt service. The state's Office of Financial Management monitors and makes recommendations about cash management activities to the governor. In addition, the state constitution allows Washington to raise taxes with a majority vote of the legislature but restricts it from levying an individual income tax. Finally, we believe the state's strong transparency is demonstrated through its timely annual audits, as well as its regular, comprehensive economic and revenue forecasting and monthly revenue collections tracking.

Management

We consider Washington's budget practices, long-term planning, and management policies to be comprehensive, well-defined in most areas, and institutionalized. The state's ERFC, which is made up of representatives appointed by the governor's office, both chambers of the legislature, and both major political parties, as well as the state treasurer, produces an analytical report on economic and revenue performance each month and, by statute, presents quarterly revenue forecasts covering the current and upcoming biennium. The state uses the council's forecasts to set revenue parameters at biennial budget adoption. Washington has a record of making budget adjustments within the biennium when the forecast council materially changes its projections. Beginning with the fiscal 2013-15 biennium, state law requires the legislature to balance not just the biennial budget, but also the spending and revenues anticipated for the subsequent two-year period. In addition, three times a year the state convenes a Caseload Forecast Council, which forecasts service requirements in areas such as public assistance, state corrections, medical assistance, and K-12 education. The executive and legislative branches use these forecasts, along with historical expenditures, to formulate budget proposals and mid-biennium revisions.

Further guiding budget decisions is a rolling, four-year general fund forecast maintained by the state's ERFC. Washington uses these forecasts to quantify the timing and scope of potential deficits in the subsequent biennium and, in some cases, to begin addressing imbalances before the next budget cycle begins. The state also budgets for capital spending on a biennial schedule, but plans on a rolling, 10-year basis and includes funding sources.

Washington's constitution requires the state to set aside 1% of most unrestricted state revenues in each fiscal year into a BSA in the form of a rainy day fund. That fund can be tapped under a provision allowing the state to draw on the fund when employment growth falls below 1%, in the event of a catastrophic emergency, or by a 60% supermajority vote of the legislature. When the fund reaches 10% of estimated general state revenues in that fiscal year, the state can also draw excess funds for education capital projects. In November 2011, voters approved a measure requiring that three-quarters of extraordinary revenue growth (defined as the amount by which the growth in general state revenues for that fiscal biennium exceeds by one-third the average biennial percentage growth in general state revenues over the previous five biennia) be transferred to the BSA. A formal investment management policy covers eligible investments, maximum maturities (10 years), allocations of nongovernment securities, and internal and external controls. Washington's constitution currently limits maximum annual debt service (MADS) costs on its various-purpose GO bonds to 8.25% of an historical average of general state revenue; this limit falls to 8% on July 1, 2034. The treasurer releases an annual debt and credit analysis that describes issuance trends and effective constraints on debt issuances, using demographic and financial indicators as well as peer analysis to inform the legislature on the state's debt obligations. The state uses a model to estimate debt capacity assuming 25-year amortization and level debt service.

Economy

We view Washington's economy as a notable credit strength, given its resilience and its real economic output, which often exceeds the nation's. Washington has experienced strong population growth over the last decade, contributing to its strong economic momentum and steady growth in both its incomes and GSP on a per capita basis. We believe these figures are illustrative of the state's strong economic profile, as well as its diverse employment base. The state's economic activity is largely driven by the information sector; trade, transportation, and utilities; financial activities; and professional and business services. While Washington’s real GSP growth has tended to surpass the nation’s, S&P Global Market Intelligence forecasts it will be below that of the nation in 2025, return to being in line with it in 2026, and expected to surpass it in 2027.

The state's quarterly June economic and revenue forecast included some downward revisions, overall reflecting a slight cooling in its economic expectations. The state's economy has been affected by recent national trends, including weaker economic output, shifting trade and fiscal policy, and uncertainty affecting consumer confidence. The state’s economy has continued to grow in 2025, although at a slower rate. In addition, state unemployment slightly increased in May while its labor force participation declined to its lowest level since 1976. The updated forecast included weaker near-term job growth expectations than the March forecast, including slower growth expected in 2025 and slightly lower average job growth through 2029.

While export trade, particularly within and between Asia and North America, has been an economic strength, it can expose the state's economy to adverse effects of changes in trade policy, fluctuations in global economic performance, and demand dynamics in a strong dollar environment. Nevertheless, trade helps diversify Washington's prospects for growth through domestic economic cycles. The state has incorporated the federal policy proposals regarding tariffs as well as federal job cuts. Most recently, the state's exports increased 3.9% from the first quarter of 2024 to the first quarter of 2025.

Financial performance, reserves, and liquidity

Across different gubernatorial administrations, when confronted with projected budget gaps the state's political leadership has demonstrated a willingness to consider difficult fiscal adjustments, including both expenditure and revenue measures. When deficits have emerged midcycle, the state has generally responded with timely corrective actions. In addition, revenue projections are apolitical and are developed according to Washington's independent revenue forecasts. Retail sales tax and business and occupation taxes together account for a combined 63% of general fund tax revenues in the current biennium and typically afford Washington with more revenue stability than other states, many of which rely on personal income tax revenues. Spending priorities are regularly evaluated through the state's "priorities of government" approach to zero-based budgeting.

The state's lack of a formal minimum budget reserve policy has allowed low balances to persist through protracted periods of economic and revenue softness. However, during expansionary phases of the economic cycle, the state consistently returns operating surpluses and good budgetary reserve positions. Washington requires a three-fifths vote of the legislature to appropriate funds from its BSA, or a simple majority if the employment growth forecast for any fiscal year is estimated to be less than 1%.

Similar to that of many other states, significant spending areas in Washington's budget are largely nondiscretionary. We estimate that as much as two-thirds of spending is for education and health care. The 2012 McCleary decision, for example, pressured state spending by requiring higher state funding for K-12 school districts. However, in our opinion, this enhanced funding requirement has become a predictable aspect of the budgeting process after being incorporated into the state's budget over the last decade.

In our view, Washington has a very strong liquidity profile that has persisted throughout the pandemic and in the state's recovery. General fund cash flows generally fluctuate throughout the year based on the timing of receipts. When general fund cash is negative, the state has access to cash for liquidity in its treasury and treasury trust funds, the former of which is subject to legislative appropriation. This cash is held in the custody of the state treasurer, who invests it on a commingled basis, and balances have grown notably, from over $6 billion in 2014 to roughly $16.5 billion in 2024. Overall, we view the state's internal liquidity sources as a strong additional support available for general fund budget operations, if needed. State authority to defer payments and to issue cash flow notes, if needed, also serve as contingency liquidity measures.

Debt and liabilities

Washington has a somewhat higher debt burden than that of most state peers. However, we estimate that 31% of the state's GO-backed debt is supported first by pledged transportation revenues, including motor vehicle fuel taxes, vehicle-related fees, and tolls. Legal protections for Washington's GO debt include a specific constitutional requirement that the legislature make appropriations in the budget for the interest and principal installment payments on state debt. Although neither state statute nor the state constitution provides that debt service be a priority relative to other state payment obligations, no other payment obligation enjoys a specific requirement that an appropriation be made. In our view, this has the practical effect of providing debt service with a strong legal position among Washington's various payment obligations.

Offsetting a somewhat higher debt profile, Washington maintains well-funded pension systems, reflecting its strong funding practices. However, to address its projected budget gap over the next four years, the state has raised its expected rate of return from 7.0% to 7.25% and delayed additional funding to certain plans for four years. We believe it could absorb this temporary action for budget relief, but we will continue to monitor whether the state makes ongoing actions to its plans that could be considered aggressive and negatively affect its funding progress, altering our view of its strong pension profile. When determining the state's liabilities, we consider in aggregate Washington's proportionate share of liabilities in its eight defined-benefit retirement systems administered by the Department of Retirement Systems (DRS), with five of the eight plans overfunded.

The plan representing the largest portion of the state's net pension liability (NPL) includes:

- Public Employees Retirement System 1 (PERS 1): 84% funded, with the state's NPL of $758 million.

While statutes require the Office of the State Actuary (OSA) to calculate an actuarially determined contribution (ADC), actual contribution levels across plans might not always meet it. With its biennial budget process, the state legislature appropriates pension contributions every two years. Although contributions have historically been set to equal the contractually required contribution, they have fallen short of the ADC because they are not adjusted after the budget is adopted. Adopted contribution levels for most plans have been different than the OSA's calculated ADC due to legislative actions, such as the 2014 legislature's adoption of contribution levels for several pension plans, which phased in increases over a relatively lengthy six-year period to incorporate certain changes to mortality assumptions.

Washington, through a state authority, administers a single-employer other postemployment benefits (OPEB) plan that is funded on a pay-as-you-go basis, with somewhat moderate liabilities, in our view. However, plan benefit limitations should help insulate the state from some volatility in health care costs. The state provides coverage through both an explicit and implicit subsidy. Retirees may purchase health insurance in the same pool as current employees at a subsidized rate. Specifically, the explicit benefit subsidizes retired members' monthly premiums up to $183 per member per month for enrollment in Medicare Parts A and B. In our view, this coverage limitation reduces Washington's exposure to rising and volatile health care costs. The plan's net OPEB liability (NOL) was $4.4 billion in fiscal 2024, or $549 per capita.

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

Washington--Key credit metrics

	2025e	2024a	2023a	2022a
Economy				
State population ('000s)		7,968	7,870	7,801
Real GSP per capita ($)		88,108	86,051	82,559
Real GSP per capita % of U.S.		129	129	126
State PCPI ($)		83,835	80,341	75,509
State PCPI % of U.S.		116	116	114
State unemployment rate (%)		4.5	4.2	4.0
Financial performance--S&P Global Ratings adjusted				
Operating fund revenues (mil. $)	39,350	38,031	38,066	35,378
Operating fund expenditures (mil. $)	37,731	33,877	33,563	29,374
Operating result (mil. $)	1,619	4,154	4,503	6,004
Operating result % of revenues	4.1	10.9	11.8	17.0
Reserves and liquidity--S&P Global Ratings adjusted				
Available reserves (mil. $)*	3,594	5,936	7,256	7,316
Available reserves % of operating revenues	10.4**	15.6	19.1	20.7
Debt and liabilities				
Net direct debt cost % of revenues	--	3.4	3.2	3.5
Pension and OPEB cost % of revenues	--	0.8	0.9	0.8
Total current cost % of total government revenues	--	4.3	4.1	4.3
Net direct debt (mil. $)	--	21,514	20,833	20,602
Net direct debt per capita ($)	--	2,700	2,647	2,641
Direct debt 10-year amortization (%)	--	56	58	58
Combined NPLs (mil. $)	--	819	1,038	1,251
NPLs per capita ($)	--	103	132	160
Combined pension plan funded ratio (%)	--	103.6	104.8	104.0

Financial data may reflect analytical adjustments and are 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. Local population is sourced from Claritas. Claritas estimates are point-in-time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities. e--estimated. a--actual.

*Includes combined reserve balances, including $1,250 million in BSA and $2,344 in NGF-S ending balance for fiscal year 2025. ** Calculated using only NGF-S revenue.

Ratings List	
New Issue Ratings	
US$152,835,000 State of Washington, General Obligation Bonds (Taxable), Series 2026T, dated: Date of delivery, due: August 01, 2031	
Long Term Rating	AA+/Positive
US$1,026,090,000 State of Washington, Various Purpose General Obligation Bonds, Series 2026A, dated: Date of delivery, due: August 01, 2050	
Long Term Rating	AA+/Positive
US$283,770,000 State of Washington, Motor Vehicle Fuel Tax And Vehicle Related Fees General Obligation Bonds, Series 2026B, dated: Date of delivery, due: June 01, 2050	

Ratings List	
Long Term Rating	AA+/Positive
Ratings Affirmed	
Pooled	
Washington, WA General Obligation and Washington State Toll Facilities, WA Third Tier Toll Revenues SR 520 Corridor	AA+/Positive
States	
State of Washington, WA Appropriation Contract	AA/Positive
State of Washington, WA General Obligation	AA+/Positive
State of Washington, WA Motor Vehicle and Special Fuels Tax and General Obligation	AA+/Positive

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.