

Research Update:

Washington GO Rating Outlook Revised To Stable From Positive On Budgetary Environment; \$766.9 Million Bonds Rated 'AA+'

October 17, 2025

Overview

- S&P Global Ratings revised the outlook to stable from positive and affirmed its 'AA+' rating on the State of [Washington](#)'s general obligation (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.
- At the same time, S&P Global Ratings assigned its 'AA+' rating on the state's \$540.1 million series R-2026A various purpose GO refunding bonds and \$226.8 million series R-2026B motor vehicle fuel tax and vehicle-related fees GO refunding bonds.
- The outlook revision reflects our view that the state's budget balancing efforts are expected to be more challenging given the softened revenue outlook driven by an expected deceleration in economic growth and ongoing cost pressures. In our view, this will likely result in operating pressure necessitating the use of available reserves at a time when we had expected sustained reserve preservation.

Rationale

Security

Washington's full faith, credit, and taxing powers secure the GO bonds. 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 R-2026A bonds are being issued to refund all or a portion of the callable series R-2016B various purpose GO refunding bonds and the series 2016C various purpose GO bonds. The

Primary Contact

Savannah Gilmore
Englewood
1-303-721-4132
savannah.gilmore2
@spglobal.com

Secondary Contact

Oscar Padilla
Dallas
1-214-871-1405
oscar.padilla
@spglobal.com

series R-2026B bonds are being issued to refund all or a portion of the callable series R-2016C motor vehicle fuel tax GO refunding bonds and series 2016D motor vehicle fuel tax GO bonds.

Credit highlights

Despite resolving sizable revenue and expenditure gaps in the current biennial budget, Washington's latest forecast highlights a downward revision in revenue expectations over the current and next biennia, resulting in an expected deficit absent meaningful legislative action. Given that the state passed revenue enhancements to resolve its budgetary gaps in the legislative session earlier this year, we expect that resolving these forecast gaps will be more financially difficult and that there could be fewer options available for resolving them, resulting in operating pressure being more sustained over the near term. However, the state is required to project balanced operating results for the current and upcoming two fiscal years, so we expect it will work to resolve these forecast deficits in its legislative session in 2026.

The state's active management practices and forecasting have historically benefited it in tracking potential budgetary pressures, including its most recent stresses, and we view its statutory mechanisms for ensuring budgetary balances in out-years as prudent. Despite the state's buildup of combined reserves in recent years, its planned spend-down of larger beginning balances over the past few fiscal years has led to less flexibility as it navigates these pressures, in our view. We expect that debt will remain stable for the foreseeable future, but historically strong pension funding leads us to believe that collective liabilities should remain manageable. Overall, we believe that the state's sophisticated management will allow it to continue navigating these budgetary pressures amid a moderating economic environment, but that its limited reserves set it apart from higher-rated peers given the expectation for its combined reserves to continue being spent down absent legislative action.

After resolution of an estimated \$16 billion budget gap across four years during the 2025-27 biennial budget process, the state's Economic and Revenue Forecast Council's September forecast highlighted slowing economic figures and lowered revenue expectations by \$889 million over the next two biennia, or 0.6% lower in 2025-2027 and 0.6% lower in 2027-2029. The lowered revenue forecast is primarily a result of weaker sales tax collections, lower state agency revenue, and a reduction in expected real estate excise tax returns. Washington's Economic and Revenue Forecast Council also projects lower housing permits and construction employment as well as slightly lower personal income, all of which are expected to lower revenue, according to the forecast. While the state is projecting a 2% surplus in fiscal 2026 with incorporation of the updated revenue forecast, it now expects a 1% deficit in fiscal 2027. We calculate ongoing deficits in fiscal years 2026 and 2027 with exclusion of the state's beginning balances, signaling some remaining structural pressures. In addition, the federal reconciliation package was passed after the state's biennial budget, and while the tax changes would have a minimal impact on the state given that it has no income tax, the Medicaid and SNAP changes will have a more pronounced effect on the budget in the future given how much expenditures have grown in recent years, in our view. We understand that the state is still analyzing the exact financial effects of the law, but we expect Washington will make adjustments as effective dates for the varying changes approach. In addition, the state faces two lawsuits related to its recent efforts to expand sales tax to select services. While both lawsuits are in the early stages, this could add pressure in the future if the state's law is not upheld, as it is expected to generate meaningful revenue in the current biennium.

Over the course of the biennium, the state projects spending down its NGF-S ending balance, ultimately to less than the previous combined reserve target (10% of NGF-S revenue), but remains committed to rebuilding its formal budget stabilization account (BSA). The state is

budgeting for its NGF-S ending balance to be \$751 million at fiscal year-end 2026 and for its BSA to increase to \$1.6 billion (4.3% of total NGF-S revenue and resources), which would result in a combined 6.2% of total NGF-S revenue and resources. By biennium end, the state's current forecast projects the state's BSA will reach \$2 billion, or 5.3% of total NGF-S revenue and resources, while its ending balance will be negative given the projected deficit at 1.1% of total NGF-S revenue and resources--assuming no changes to the budget. We believe the state is preserving adequate combined reserves, although at levels lower than those of higher-rated peers, and we will monitor if the state returns to its informal reserve target in the future, but understand that it does not have plans to do so over the course of this biennium.

The shifting federal policy mix is altering the U.S. economic outlook, with our assumptions reflected in a likely downshift in GDP growth in 2025 relative to 2024, based on S&P Global Economics' "[Economic Outlook U.S. Q4 2025: Below-Trend Growth Persists Amid A Swirl Of Policy Shifts](#)," Sept. 23, 2025. We forecast the annual average U.S. real GDP growth rate will slow to 1.9% in 2025 and 1.8% in 2026--still positive but a deceleration from the 2.8% growth seen in 2024. Both of these projections are slightly up from previous forecasts but still below trend, and we see a 30% chance that the U.S. will fall into a recession in the next 12 months. Real disposable income growth has been slowing, consumers remain pessimistic, and businesses remain in flux with trade policy shifting.

S&P Global Market Intelligence forecasts Washington's gross state product (GSP) growth to be below national GDP growth in 2025 and 2026 and slightly surpass it in 2027 and 2028. While the state has historically surpassed the nation, we view its moderating economy as manageable, given our view of its already strong GSP and income levels on a per capita basis. The September Revenue and Economic Forecast highlighted the state's overall mixed conditions so far in 2025. The updated forecast expects slightly weaker job growth in the near term, primarily as a result of falling aerospace and software employment, and somewhat lower construction employment over the past year, although such employment is expected to grow steadily.

The GO rating reflects our view of Washington's:

- Resilient and diverse economic base, with comparatively strong gross state product and income figures;
- Sales-tax-based revenue structure, which has demonstrated less sensitivity to economic cycles than that 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 hold over the medium term; and
- Institutional framework, which supports the predictability of budgeting and operations and demonstrates fiscal transparency through regular reporting of key financial information.

Environmental, social, and governance

While the state is exposed to both rising sea levels along its vast coastline and 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 are overall neutral in our credit analysis.

For more information on the state, please see [our July 24, 2025](#), report.

Outlook

The stable outlook reflects our expectation that the state will continue to take corrective budgetary action to align expenditures with revenue over the course of the biennium. We expect strong budgetary management will monitor potential pressures and that the state will maintain structural balance by balancing expenditure growth with available resources in future budgets.

Downside scenario

We could lower the rating if the state experiences sustained deficits resulting from structural pressures, or delays taking corrective action in response to potential financial pressures. 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 expenditure growth with available revenue, while continuing to increase reserves to levels commensurate with those of higher-rated peers, and maintain strong pension funding, we could raise the rating.

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

	2025*	2024	2023	2022
Economy				
State population (000s)		7,968	7,870	7,801
Real GSP per capita (\$)		88,106	86,051	82,559
Real GSP per capita as % of U.S.		129	129	126
State PCPI (\$)		83,931	80,341	75,509
State PCPI as % of U.S.		116	116	114
State unemployment rate (%)		4.5	4.2	4.0
Financial performance - S&P Global Ratings adjusted				
Operating fund revenue (mil. \$)	39,336	38,031	38,066	35,378
Operating fund expenditures (mil. \$)	37,731	33,877	33,563	29,374

Washington--key credit metrics

	2025*	2024	2023	2022
Operating result (mil. \$)	1,605	4,154	4,503	6,004
Operating result as % of revenue	4.1	10.9	11.8	17.0
Reserves and liquidity - S&P Global Ratings adjusted				
Available reserves (mil. \$)§	3,581	6,653	8,039	7,316
Available reserves as % of operating revenue§	9.1	17.5	21.1	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	--	1.0	0.9	0.8
Total current cost as % of total government revenue	--	4.4	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	1,026	1,251
NPLs per capita (\$)	--	103	130	160
Combined pension plan funded ratio (%)	--	103.6	104.8	104.0

*Estimated. §Includes combined reserve balances, including \$1,254 million in BSA and \$2,327 in NGF-S ending balance for fiscal 2025. 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. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. EBI--Effective buying income. GCP--Gross county product. OPEB--Other postemployment benefits. NPL--Net pension liability. PCPI--Per capita personal income.

Ratings List

New Issue Ratings

US\$226.8 mil motor veh fuel tax & veh related fees GO rfdg bonds ser R-2026B due 01/01/2040

Long Term Rating AA+/Stable

US\$540.1 mil various purp GO rfdg bonds ser R-2026A due 01/01/2040

Long Term Rating AA+/Stable

Outlook Action

	To	From
Pooled		
Washington, WA General Obligation and Washington State Toll Facilities, WA Third Tier Toll Revenues SR 520 Corridor	AA+/Stable	AA+/Positive
States		
State of Washington, WA Appropriation Contract	AA/Stable	AA/Positive
State of Washington, WA General Obligation	AA+/Stable	AA+/Positive
State of Washington, WA Motor Vehicle and Special Fuels Tax and General Obligation	AA+/Stable	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

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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.

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