

Research Update:

Washington Various Purpose And Motor Vehicle Fuel Tax and Vehicle-Related Fees GO Refunding Bonds Assigned 'AA+' Rating

April 22, 2026

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of [Washington](#)'s series R-2026C various purpose general obligation (GO) refunding bonds and series R-2026D motor vehicle fuel tax and vehicle-related fees GO refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating and underlying rating on the state's GO and motor vehicle fuel tax and vehicle-related fees GO bonds outstanding, as well as its 'AA' long-term rating on the state's appropriation-backed debt outstanding.
- The outlook is stable.

Rationale

Security

The rating on the GO bonds and GO refunding bonds reflects our view of Washington's full faith, credit, and taxing powers. The motor vehicle fuel tax and vehicle-related fees GO bonds and motor vehicle fuel tax and vehicle-related fees GO refunding bonds are further secured and expected to be paid by motor vehicle fuel taxes 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 that the state legislature appropriates for these bonds.

The series R-2026C various purpose GO refunding bond proceeds will be used to refund all or a portion of the callable series 2017A various purpose GO bonds and series R-2017A various purpose GO refunding bonds. The series R-2026D motor vehicle fuel tax and vehicle-related fees GO refunding bond proceeds will be used to refund all or a portion of the callable series 2017B motor vehicle fuel tax GO bonds and the series R-2017B motor vehicle fuel tax GO refunding bonds.

Credit highlights

Washington has faced significant budget pressure this biennium and resolved the latest supplemental budget gap using a series of reserves and revenue diversions to ease structural

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pressures, which we believe limit the state's flexibility to navigate a potential downturn. However, the state's demonstrated ability to weather budgetary challenges, supported by its forward-looking management practices and long-term forecasting, still position it well to address future pressures and maintain credit stability. We believe the state's focus on resolving structural pressures is key to credit stability, and if the state does not prioritize its robust financial management practices to achieve balance, our view of its credit profile could weaken.

The 2026 supplemental budget uses \$880 million from its budget stabilization account (BSA) to help resolve its 3% budget gap. Given that this is a structural budget pressure, we believe that reducing resources that can be used during an economic downturn limits the state's flexibility. Absent any supplemental budget action, the state had still projected spending down its near general fund-state (NGF-S) ending balance to less than its previous combined reserve target (10% of NGF-S revenue), but remained committed to rebuilding its formal BSA. In addition, the state appropriated \$141 million directly from the BSA for fire costs in the supplemental budget. We estimate that the state will have 2.5% of total NGF-S revenue and resources in the BSA at fiscal year-end 2026 and that the share will increase slightly to 2.6% by fiscal year-end 2027 (or 2.6% in both years as a percentage of annual NGF-S revenue and other resources). In our view, this is a low level of reserves, ultimately weakening our assessment of reserves and liquidity in that we believe flexibility would be limited in the event of a near-term downturn. However, we believe the state's proactive approach will allow it to make changes to control expenditures, if needed, but if management significantly relies on one-time solutions to resolve future gaps, this could have negative credit implications.

To replenish formal reserves, the state enacted a restructuring of its Law Enforcement Officers and Firefighters 1 pension plan, which has been overfunded, and divert a portion of the surplus to a newly created Pension Surplus Holding Account. The state would then replenish its BSA and refund its Climate Commitment Act revenue in 2029 from the newly created account. Washington's repeated actions to use its well-funded pension plans for budget relief, specifically raising its rate of returns and delaying contributions, during this biennium is a departure from how the state has historically managed its pension funding. (For further information, see [our report from Jan. 29, 2026](#).) However, we expect that this latest action will require a series of external approvals, including from the IRS, and we will monitor if the state still plans to fully replenish formal reserves in the next biennium.

The legislature also enacted a 9.9% income tax on individual incomes exceeding \$1 million, also known as the millionaires' tax, which would take effect in tax year 2028. The state estimates that this would generate roughly \$2.3 billion in fiscal 2029. However, the new tax faces litigation to determine if it is compliant with the state's constitution, given that a supreme court precedent restricts the state from levying an income tax. According to the legislative conference committee's four-year operating budget outlook, the state will be in structural balance by 2029 with annual revenue exceeding estimated expenditures excluding the new revenue. The state has already dedicated the new revenue toward a series of purposes, including programs and tax credits, but has built-in contingencies to pull back if the new tax does not go into effect. We will monitor the litigation, but view these prudent practices positively given that they demonstrate the state's focus on budgetary balance.

The Economic and Revenue Forecast Council's quarterly forecast in February highlighted stronger employment and higher personal income expectations when compared with its November forecast. The state slightly raised its revenue general fund-state expectations for this biennium, specifically by 0.9%, and for the ensuing biennium by 1.0%. Our latest U.S. economic outlook included slightly raised real GDP growth forecasts for 2026 and 2027, but we note that the escalation of geopolitical conflict could temper recent growth. (For more information, see

“[Economic Outlook U.S. Q2 2026: Curb Your Enthusiasm](#),” March 25, 2026). We forecast that annual average real GDP growth will remain relatively level for the next two fiscal years, but also raised our probability of a U.S. recession over the next 12 months to 30% from 20%. We note that labor conditions have softened but remain broadly consistent with trend growth. S&P Global Market Intelligence forecasts that Washington's gross state product growth will lag the national average in 2026 (1.8% vs. 2.1%) but align with that of the nation in 2027 at 2%.

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 income-tax-reliant revenue structures;
- 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 absent a draw on the BSA;
- Strong pension funding, leading to low unfunded retirement liabilities, although with recent actions we consider aggressive to resolve budget pressures;
- Somewhat high debt profile, which we consider manageable and which we expect will hold in 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.

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 this biennium. We expect strong budgetary management will monitor potential pressures and that the state will prioritize structural balance by balancing expenditure growth with available resources in future budgets.

Downside scenario

We could lower the rating if the state continues to experience structural pressures from expenditure growth or if it delays taking corrective actions in response to potential financial pressures that result in further use of available reserves, without a plan to replenish balances in a timely manner.

Upside scenario

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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)	1.85
Economy	1.0
Financial performance	2
Reserves and liquidity	3
Management	1.00
Debt and liabilities	2.25

Washington--key credit metrics

	2026*	2025	2024	2023
Economy				
State population (000s)		7,936	7,849	7,792
Real GSP per capita (\$)			88,487	85,483
Real GSP per capita as % of U.S.		130	128	126
State PCPI (\$)			85,425	81,171
State PCPI as % of U.S.		117	116	115
State unemployment rate (%)		4.5	4.2	4.0
Financial performance - S&P Global Ratings adjusted				
Operating fund revenues (mil. \$)§	37,832	35,378	33,848	33,299
Operating fund expenditures (mil. \$)	38,471	37,728	34,251	33,056
Operating result (mil. \$)	(639)	(2,350)	(403)	243
Operating result as % of revenue	(1.7)	(6.6)	(1.2)	0.7
Reserves and liquidity - S&P Global Ratings adjusted				
Available reserves (mil. \$)†	1,002	1,269	971	652
Available reserves as % of operating revenue	2.6	3.4	3.0	2.0
Debt and liabilities				
Net direct debt cost as % of revenue	--	3.3	3.4	3.2
Pension and OPEB cost as % of revenue	--	1.0	1.0	0.9
Total current cost as % of total government revenue	--	4.2	4.4	4.1
Net direct debt (mil. \$)	--	22,813	21,514	20,833
Net direct debt per capita (\$)	--	2,850	2,711	2,654
Direct debt 10-year amortization (%)	--	56	56	58
Combined NPLs (mil. \$)	--	562	835	1,038
NPLs per capita (\$)	--	70	105	132
Combined pension plan funded ratio (%)	--	104.8	103.6	104.8

Washington--key credit metrics

	2026*	2025	2024	2023
*Edited. †Does not include NGF-S beginning balance. ‡Table updated to reflect only BSF balance since state will not meet its combined 10% informal target over outlook horizon. Note: Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other periodic disclosures. Economic data is sourced directly from S&P Global Market Intelligence and reported on a calendar year basis, while financial data is reported on a state fiscal year basis. Combined plan NPLs are calculated applying the respective state proportionate share of plan NPLs. GSP--Gross state product (real). NPLs--Net pension liabilities. OPEB--Other postemployment benefits. PCPI--Per capita personal income (nominal).				
Ratings List				
New Issue Ratings				
US\$240,315,000 Washington, Motor Vehicle Fuel Tax & Vehicle Related Fees General Obligation Refunding Bonds, Series R-2026D, dated: May 14, 2026, due: August 01, 2041				
Long Term Rating			AA+/Stable	
US\$545,930,000 Washington, Various Purpose General Obligation Refunding Bonds, Series R-2026C, dated: May 14, 2026, due: August 01, 2041				
Long Term Rating			AA+/Stable	
Ratings Affirmed				
Multiple Revenue Stream				
State of Washington, WA Motor Vehicle Fuel Tax General Obligation (SR 520 Corridor Program—Toll Revenue)			AA+/Stable	
States				
State of Washington, WA Appropriation Contract			AA+/Stable	
State of Washington, WA General Obligation			AA+/Stable	
State of Washington, WA Motor Vehicle and Special Fuels Tax and General Obligation			AA+/Stable	

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.

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