

18 JUL 2023

Fitch Rates State of Washington's \$1.1B GOs 'AA+'; Outlook Stable

Fitch Ratings - San Francisco - 18 Jul 2023: Fitch Ratings has assigned a 'AA+' rating to the following state of Washington general obligation (GO) bonds:

--\$692.245 million Various Purpose GO Bonds Series 2024A;

--\$381.580 million Motor Vehicle Fuel Tax and Vehicle Related Fees General Obligation Bonds Series 2024B;

--\$55.220 million General Obligation Bonds Series 2024T (Taxable).

In addition, Fitch has affirmed the state's 'AA+' Issuer Default Rating (IDR), the 'AA+' rating on the state's outstanding GO bonds and Washington School District Credit Enhancement Program at 'AA+'.

The Rating Outlook is Stable.

The bonds are expected to sell competitively on or about July 25, 2023. Proceeds of the series 2024A and series 2024T bonds will be used for various capital projects. Proceeds of the series 2024B bonds will be used for construction of various state and local highway improvements. Par amounts are subject to change.

SECURITY

All GO bonds are general obligations of the state to which the state has irrevocably pledged its full faith, credit and taxing power. The series 2024B bonds are further secured by motor vehicle fuel tax and vehicle related fees.

ANALYTICAL CONCLUSION

Washington's 'AA+' Long-Term IDR and GO bond ratings reflect the state's broad and growing economy, with solid long-term revenue growth prospects, as well as the state's demonstrated commitment to fiscal balance and long-term liabilities that place a low burden on resources. The ratings also 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), which has led to the accumulation of solid reserves. Education poses continued spending pressure for the state given steady population growth and the state's role as the primary funding source for K-12 schools.

Washington's School District Credit Enhancement Program's 'AA+' ratings is on par with the state's 'AA+' IDR, reflecting the pledge of the state's full faith, credit, and taxing power, as well as sufficient administrative procedures and structural protections.

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 high educational attainment and income levels above the national average.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Revenue performance over time has exceeded US GDP growth, and Fitch expects this to continue to support strong 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 statutory commitments, 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.

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. Debt ratios incorporate the funding of substantial capital needs, particularly for transportation, but are offset by a moderate net pension liability and an expanding economic resource base.

Operating Performance: 'aa'

Washington maintains very strong gap-closing capacity and budget flexibility with solid reserves. The state has prudently built up its fiscal reserves in times of economic recovery and expansion, despite spending pressures linked to education and other pressing needs.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Ability to sustain formal reserves, other than those in ending general fund balance, to at least pre-pandemic levels;

--Long-term management of higher spending for education and other overall growth pressures.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Unanticipated shift in fiscal management that materially weakens fiscal resilience, such as sizable and continuing draws on reserves to support operations;

--A sustained increase in the long-term liability burden to 10% or more of personal income.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario

(defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

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% of its labor force losing their jobs between Feb. and April 2020 versus 15% nationally. The state's solid jobs recovery has outpaced the nation's, with Washington employment now 3.3% higher than it was pre-pandemic, above net national employment growth of 2.6%.

Washington's May 2023 headline unemployment of 4.1% was above the national 3.7% rate, which is consistent with the differential between the two rates just prior to the pandemic. Washington's labor force growth has also slightly exceeded national trends, reflecting the state's ongoing economic expansion. The state's employment to population ratio (EPOP, a measure of labor force utilization) as of May 2023 was 62.1%, nearing the February 2020 level of 62.8%. The national EPOP of 60.2% lags the February 2020 level of 61.2%.

Washington Fiscal Update

Conservative revenue forecasting practices have allowed the state to prudently navigate challenging yet ultimately favorable economic conditions over the past four years. The most recent update from the state's Economic and Revenue Forecast Council (ERFC) in June 2023 projected fiscal 2023-2025 biennium revenues 24% higher than those of the 2019-2021 biennium. State revenues have been propelled by unexpectedly high inflation, which has powered the state's price-driven sales taxes. The state's June 2023 economic forecast projects slow growth as real state GDP and employment growth continue while real personal income recovers from inflation-induced declines in 2022 and 2023.

In concert with its June forecast, the state enacted a 2023-2025 biennium budget that uses reserves to balance slow 1.6% overall near general fund (NGF) revenue growth with 5.6% appropriations growth. NGF is the designation for the state's primary operating funds. Budgeted increases to appropriations are broad-based across priority areas of health, education, transportation, and the environment.

The state has added over \$4 billion in reserves compared to pre-pandemic levels. The June 2023 revenue forecast projects fiscal 2023 ending combined reserves (ending balance plus BSA plus WRPTA) of \$7.3 billion (22% of projected near general fund revenues). This is a more than double the \$3.6 billion in reserves at the end of fiscal 2019.

In the current Four-Year Budget Outlook (a statutorily-required forecast that reflects the June 2023 revenue update), the state budgeted for \$3.6 billion in reserve drawdowns by the end of the 2025-2027 biennium. If realized, these draws would bring reserves to below pre-pandemic levels. Fitch anticipates that absent unknown revenue or expense shocks, the state will be able to significantly mitigate projected out-year funding gaps.

CREDIT PROFILE

Economic Resource Base Details

Boeing remains a large employer in Washington and an important contributor to its economy; however, the state's overall manufacturing sector is about the same proportion of GDP as the nation's manufacturing sector, while Washington's information technology sector generates over 2.5x the proportion of GDP as the nation. Microsoft and Amazon combined employ almost two times more individuals than Boeing, and several software and information companies continue to expand in the state. The workforce is highly educated, income levels are comparatively high and the state poverty rate is below the national average.

For additional information on the state of Washington's IDR, see "Fitch Rates State of Washington's \$1.026B Refunding GOs 'AA+'; Outlook Stable," published on April 6, 2023, available at <https://www.fitchratings.com/site/re/10231300>.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Washington, State of (WA) [General Government]	LT IDR	AA+	Affirmed	AA+
<ul style="list-style-type: none"> Washington School District Credit Enhancement Program (WA) /State School Bond Program Rating/1 LT 	LT	AA+	Affirmed	AA+
<ul style="list-style-type: none"> Washington, State of (WA) /General Obligation - Unlimited Tax/1 LT 	LT	AA+	Affirmed	AA+

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub.04 May 2021) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Washington School District Credit Enhancement Program (WA) EU Endorsed, UK Endorsed

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