

RatingsDirect®

Summary:

Washington (State of); Appropriations; General Obligation

Primary Credit Analyst:

Oscar Padilla, Dallas + 1 (214) 871 1405; oscar.padilla@spglobal.com

Secondary Contact:

Savannah Gilmore, Englewood + 1 (303) 721 4132; savannah.gilmore2@spglobal.com

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Credit Profile

US\$688.02 mil various purp GO bnds ser 2024A due 08/01/2048		
<i>Long Term Rating</i>	AA+/Stable	New
US\$379.26 mil motor veh fuel tax & veh related fees GO bnds ser 2024B due 06/01/2048		
<i>Long Term Rating</i>	AA+/Stable	New
US\$55.21 mil GO bnds (Taxable) ser 2024T due 08/01/2027		
<i>Long Term Rating</i>	AA+/Stable	New
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Washington's series 2024A various-purpose general obligation (GO) bonds, series 2024B motor vehicle fuel tax and vehicle-related fees GO bonds, and series 2024T (taxable) GO bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term and underlying ratings on Washington's GO and motor vehicle fuel tax debt outstanding, and its 'AA' rating on the state's appropriation-backed debt outstanding.
- The outlook on all ratings is stable.

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 service contract and lease payments appropriated by the state legislature for the bonds.

Bond proceeds will be used to finance and reimburse the state for various capital projects.

Credit overview

Supported in part by prudent financial management and a resilient economy, Washington transitioned into its new biennium (2023-2025) from a position of strength, in our view. While we anticipate its debt profile will remain relatively high, we believe its collective liabilities will remain manageable and not present meaningful budgetary pressure in the medium term.

The adopted biennial budget totals \$69.3 billion, which represents an approximately 11% increase in expenditures when compared with the 2021-2023 biennium. Some highlights of the new budget's appropriations include funds for

kindergarten through grade 12 (K-12) salary inflation and health benefits, increased funding for special education, and increased rates for home care providers. It also includes a significant transfer, of approximately \$1.3 billion, from the Washington Rescue Transition Account (WRPTA) for operating expenditures in fiscal 2024. The state created the WRPTA in 2021 to enhance support for education, human services, health care, and the economy, following pandemic-induced pressures. Following the transfer, the state will have an estimated \$800 million remaining in the account.

The adopted 2023-2025 biennial budget includes increases to its budget stabilization account (BSA) over the next two years. Based on actual performance, the state expects to finish the 2021-2023 biennium with \$652 million in the BSA, or 2.1% of annualized appropriations, with an increase to \$1.3 billion, or 3.9% of annualized appropriations, by biennium-end 2025. Separately, the state's near-general fund ending balance and WRPTA are expected to be \$2.8 billion, or 8% of annualized appropriations, at biennium-end 2025. On a combined basis, the balances represent a strong 11.9% of annualized appropriations at biennium-end 2025.

Historically, the state's lack of a formal policy for its budget reserve level has allowed low balances to persist through protracted periods of economic and revenue softness. However, Washington has consistently rebuilt reserve positions during expansionary economic cycles. We view the state's commitment to rebuilding, and now preserving, reserves in the current biennium as a positive credit factor. Its ability to align forecast revenue growth with ongoing operational needs will remain an important consideration in Washington's credit profile.

The state's latest economic and revenue forecast, released in late June by the Economic and Revenue Forecast Council, was similar to its March forecast in projecting slowing momentum through 2024. Some of the changes compared with its March forecast include an expectation that state personal income will be marginally lower, and that building permits will be slightly higher. S&P Global Market Intelligence's forecast projects U.S. GDP growth to be modest for 2023 at 1.7%, although above the November forecast's 0.7% projection, and slow to 1.2% for 2024. In addition, S&P Global Ratings' baseline forecast no longer includes a recession, but instead includes a growth slowdown, driven by stubborn inflation pressures and the expectation that interest rates will be higher for longer. (For additional information, see "Economic Outlook U.S. Q3 2023: A Sticky Slowdown Means Higher For Longer," published June 26, 2023, on Ratings Direct.) Beginning with the February 2022 forecast, the imposition of certain individual capital gains taxes, to be deposited for the benefit of the education legacy trust account, was included, which the state considers near general fund revenue. While the constitutionality of the tax was subject to litigation, the state Supreme Court affirmatively ruled upholding the constitutionality of the tax. Prior to the decision, the Department of Revenue was allowed to proceed with the administrative steps and collection of taxes, beginning with tax year 2022, due in 2023. The tax represents less than 1% of projected revenues in the coming fiscal years, so while a positive development on the revenue front, it remains credit neutral, in our view.

For additional information on the state, see our full analysis on Washington, published Jan. 10, 2023, on RatingsDirect.

Environmental, social, and governance

ESG credit indicators: E-2, S-2, G-2

While the state faces a combination of exposures from rising sea levels along its vast coastline and risk of wildfires in its expansive forests, we believe physical risks are credit neutral and mitigated by Washington's 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, and the Washington State Economic and Revenue Forecast Council preparing an annual climate study. The state has adopted legislation in recent years addressing climate change, including programs to reduce energy emissions. We view Washington's social and governance risks as credit neutral.

Outlook

The outlook reflects our view that the state's positive economic trajectory will help support revenue collections in the current biennium, resulting in balanced operations. Given the state's strong budgetary management and forecasting practices, we anticipate the state has sufficient flexibility to address challenges should they arise.

Downside scenario

We could lower our rating if, in the face of budgetary pressure, lawmakers delay taking corrective action or rely extensively on one-time solutions to remediate potential gaps. We could also do so should the state opt to further use available reserves, namely its BSA, and fail to replenish balances in a timely manner.

Upside scenario

A moderation in debt levels, coupled with a faster amortization, could support upward rating potential. It would, however, need to be supported by a demonstrated commitment to further increase and maintain reserve levels above current estimates.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of July 18, 2023)		
Washington GO <i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington GO <i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington GO <i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO <i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO <i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO <i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO <i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of July 18, 2023) (cont.)

Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of July 18, 2023) (cont.)

Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of July 18, 2023) (cont.)		
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Washington GO (AMBAC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington GO (MBIA)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Washington GO (SYNCORA GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
FYI Properties, Washington		
Washington		
FYI Properties (Washington) APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Washington		
Washington		
Washington State Toll Facility, Washington		
Washington (Washington St Toll Facs) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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