RatingsDirect®

Washington; Appropriations; General Obligation

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US$460.2 mil var purp GO rfdg bnds ser R-2015E due 07/01/2033		
Long Term Rating	AA+/Stable	New
US$282.3 mil var purp GO bnds ser 2015B due 02/01/2040		
Long Term Rating	AA+/Stable	New
US$200.6 mil motor vehicle fuel tax GO bnds ser 2015C due 02/01/2040		
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US$58.205 mil GO bnds ser 2015T-2 due 02/01/2022		
Long Term Rating	AA+/Stable	New
Washington GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to the state of Washington's:

- $282.3 million various purpose general obligation (GO) bonds, series 2015B;
- $200.6 million motor vehicle fuel tax (MVFT) GO bonds, series 2015C;
- $58.2 million GO bonds, series 2015T-2 (taxable); and
- $460.2 million various purpose GO refunding bonds, series R-2015E.

At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the state's existing GO and MVFT GO debt. We also affirmed our 'AA' rating on the state's appropriation-backed debt. The outlook on all long-term ratings is stable.

The ratings reflect our view of the state's:

- Relatively well-educated workforce and good income indicators;
- Sales tax-based revenue structure that, although somewhat less sensitive to economic cycles than income tax-reliant states, is following a decades-long stagnating trajectory, as a share of total personal income;
- Good internal access to sources of liquidity;
- Strong financial policies and practices, including statutory provisions requiring that the state's biennial budget and projected subsequent two fiscal years' spending plans be balanced; and
- Moderately high per capita debt burden but well-funded pension plans.

The state's full faith, credit, and taxing powers secure the state's GO bonds. The state's MVFT GO bonds are first payable from state excise taxes on motor vehicle and special fuels. The refunding GO bonds are being issued to refinance some of the state's existing debt.

The state will have a total of $18.9 billion of GO bonds outstanding after the current offering. Of this, $7.45 billion of the state's GO debt is payable first from excise taxes on motor vehicle and special fuels or toll revenue. The state also has $1.02 billion of certificates of participation and other appropriation-backed debt outstanding. Of this, $77.88 million is GO debt of various local agencies within the state and is a contingent obligation of the state government in the event of nonpayment by a local government agency.

Governor Jay Inslee's budget proposal for the 2015-2017 budget biennium addresses a large projected gap between state resources and its spending needs. A significant portion the funding shortfall stems from extraordinary -- mostly noneconomic -- expenditure pressure. In particular, a 2012 State Supreme Court ruling adds an estimated $1.2 billion in education spending during the 2015-2017 biennium with another $2 billion from a 2014 voter initiative to reduce classes. Were it not for the court ruling and voter initiative, we estimate that the state's projected baseline revenue growth of $2.8 billion (8.6% for the biennium) would be nearly sufficient to keep pace with the increase in its underlying expenditures ($3.0 billion). But once the court and voter mandates are funded and certain pressing policy needs (health treatment for the mentally ill and collective bargaining allotments for employee pay) are accounted for, the state's projected budget gap grows to $4.45 billion.

In December, the governor responded to the situation by proposing to collapse elements of the education-related spending mandates into a large—but not additive—$2.3 billion increase in funding. He would pay for the additional education spending—and the other non-education expenditure increases—through a mix of cuts ($423 million), fund transfers ($217 million), use of reserves ($450 million), and tax increases ($1.4 billion). The state is no stranger to a rancorous budget negotiation process. It required two special legislative sessions to close a projected $2.5 billion budget gap prior to enacting its 2013-2015 biennial budget. We anticipate that several of the governor's spending and revenue proposals could face political opposition in the legislature and result in protracted budget negotiations.

On the spending side, the governor's plan would fully fund basic education reforms in fiscal 2017, putting the state somewhat ahead of the legislatively adopted schedule, which requires that it do so by 2018. On the other hand, although the governor funds reduced class sizes for kindergarten through third grade, it does not do so for other grades as required by Initiative 1351. And, for the next two years amendment of the initiative will require agreement by two-thirds of the state legislature. As for the governor's revenue proposals, while they won't require more than a majority of legislative agreement, we anticipate a vigorous debate. In particular, the governor's proposal to impose an excise tax on capital gains could run into political opposition; therefore, it represents a source of risk to the budget since it accounts for over half of the revenue proposals. Although they would only weigh in on the matter indirectly through their elected legislators, voters in Washington have previously rejected initiatives to levy an income tax. This included a proposal to target the state's highest income earners, as the capital gains tax proposal would do.

That being said, we recognize that revenues under Washington's existing tax structure have stagnated relative to personal income growth in the state. General fund revenues have slid to about 5% of state personal income today from 7% in 1990. Washington does not levy a personal income tax, making its retail sales and use tax the largest single source of general fund revenue (estimated at 48% of general fund revenue in fiscal 2015). But the goods and services subject to the state's retail sales and use tax has not evolved along with its economy, which has gradually become more service oriented. However, while the governor's proposal to tax certain capital gains income would likely offset some of the revenue slide (relative to personal income), it could cause the state's revenues to be more volatile. We have observed that capital gains-related tax revenues are among the most cyclical and difficult to forecast revenues in numerous other states.

Overall, the governor's package tilts toward relying on recurring solutions. The governor's proposed spending cuts and maximization of federal funding, a majority of the fund transfers, and most of the revenue measures all primarily comprise recurring budget adjustments. The most significant nonrecurring gap-closing solution is the governor's proposal to utilize $450 million from the budget stabilization account (BSA). However, this is largely a matter of timing and reflects that the full amount of revenue from the tax increases would not be realized until the 2017-2019 biennium. Furthermore, under the governor's budget proposal, despite making a withdrawal, the state would continue its regularly scheduled BSA deposit of $372 million during the biennium. That would leave the state with a $910.8 million balance at the end of fiscal 2017 versus the $1.1 billion anticipated for the end of fiscal 2015.

Although we would consider the state's budget reserves, at 4.6% of annualized spending at the end of fiscal 2017 as good, it presumes continued steady economic growth.

In 2013, real state GDP expanded at an estimated 2.7% rate, well ahead of the national growth rate of 2.2%. However, the differential relative to the nation evaporated in 2014, and we now anticipate that national GDP growth in 2014, which we estimate will have been 2.3%, could be faster than Washington's (2.0%, per IHS Global Insight). State GDP growth could hover around 2.5% through 2017 whereas we now forecast national output to grow by approximately 2.9% to 3.1% per year. Among the factors contributing to the leveling off of the state's economic growth is its exposure to Boeing, which downsized its workforce by 2,300 in 2013 and recently announced plans to move 4,300 jobs out of the state. As the largest employer in the state (81,939 employees), Boeing's activities have an outsized effect due in part to its numerous suppliers. There are approximately 1,350 aerospace-related firms with more than 132,000 employees in the state. Boeing's workforce reductions have contributed to somewhat soft employment trends in the manufacturing sector, which has increased 1.1% (year-over-year through November). Overall employment gains have been considerably stronger, up 2.8%, considerably faster than the national 1.99% increase in payroll jobs. Sectors leading the job growth have been construction, natural resources, and mining (8.4%), trade, transportation, and utilities (3.3%), and leisure and hospitality (4.6%).

At this point, the state has recovered all of the jobs it lost during the Great Recession. From March 2008 through February 2010, the state lost 184,200 payroll jobs (6.1% of the total) but since then has added back 263,600 jobs, a 9.3% increase. Despite payroll jobs growing faster than the nation, the state's unemployment rate has edged up since July to 6.2% in November and it's now above the national jobless rate. The development reflects that workers have been reentering the state's labor force faster than jobs have been added.

Through the third quarter of 2014, housing starts came in below the state's forecast with multifamily starts making up for a portion of single-family starts' underperformance relative to the forecast. With a seasonally adjusted annual rate of 33,100 new housing permits issued during the third quarter, the state was slightly behind the 33,900 that had been forecast for the period. Starts fell slightly short of forecast during the first quarter as well, which the Economic Revenue and Forecast Council (ERFC) attributed at the time to a weaker-than-expected January. The bounce-back, which the ERFC suggested was possible, hasn't yet materialized, and fourth quarter starts are off-pace as well. In addition, according to the S&P/Case-Shiller Home Price Index (seasonally adjusted), home prices in the Seattle metro area increased 6.3% in the 12 months through October 2014, which was slightly higher than the 4.5% increase for the 20-city composite index. Prices are also 28% above the trough they reached in November 2011.

To the benefit of the state's credit quality, the legislature has taken a more structural approach to crafting fiscal policy in recent years, in our view. One reason is a 2012 statute requiring the state to enact a budget that it projects will remain balanced through four fiscal years although, for technical reasons, additional education-related expenses resulting from the McCleary decision and higher costs under I-1351 are excluded from general fund expenditure estimates for upcoming current biennium. In our view, excluding some of the state's more challenging funding obligations from its statutory requirement to project balanced budgets somewhat mutes the otherwise favorable credit implications of the law.

In general, Washington's approach to financial management is strong, in our view, as reflected in our Financial Management Assessment and budget management scores. Well-established economic and revenue forecasting and increasingly refined debt management practices and oversight served the state's credit quality well during the recession and its aftermath. Forward-looking state policies facilitate budget practices we view as prudent, including minimal reliance on payment deferrals or other one-time responses to anticipated budget gaps.

For December 2014, the state treasury and treasurer's trust fund's month-end cash balance was $4.59 billion, similar to the $4.7 billion at the same point in 2013. As with fiscal 2014, cash balances in fiscal 2015 are well above where they stood in the fiscal 2010 through 2012 timeframe. Investments are conservative, in our view, with an average of 68.1% of funds invested in U.S. Treasurys and agencies in November 2014. In addition to the state's investment guidelines, state policies require that collateral in repurchase agreements for U.S. Treasury, agency, and money market instruments be priced at 102% of market value. Mortgage-backed repurchase agreements of more than seven days are subject to a higher, 105% requirement.

As of the end of fiscal 2013, the state's direct tax-supported debt burden ($19.2 billion in GO and appropriation-backed bonds outstanding) was moderately high, in our opinion, at $2,784 per capita (based on the U.S. Census 2013 state population of 6.9 million), 5.9% of total personal income (2013), and 4.7% of state gross domestic product (2013).

Gross GO and lease appropriation-backed debt service is moderate, at 5.46% of expenditures from funds from which the state pays its debt service in fiscal year 2014 (audited). Portions of the state's debt are funded from self-supporting or reimbursable sources, however. Considering just the general fund, adjusted for these offsetting revenues, we estimate that debt service was 6.4% of expenditures, moderate in our view. We anticipate that continuing transportation needs, including two major urban highway projects, will likely translate into continuing GO issuance in the next two to three years. The state currently projects that it may issue approximately $891 million in GO and MVFT refunding bonds in February 2015. It tentatively anticipates issuing approximately $700 million in new GO and MVFT GO bonds in June or July 2015. Finally, the state estimates that it may issue around $30 million in certificates of participation in March 2015.

Long-term state liabilities include those related to the state's pension system and retiree health care. As measured, the state's pension liability profile has deteriorated somewhat as of its fiscal 2014 audited financial statements because of a change in the state actuary's mortality assumptions related to pension beneficiaries. In addition, the state has adjusted the discount rate applied to its liabilities to 7.8% from 7.9%. As of June 30, 2014, the actuarial accrued liability (AAL) of the defined-benefit portion of the state's 12 pension plans totaled $69.8 billion. Actuarial assets of $65.6 billion in aggregate accounted for 88.3% of the AAL.

Based on the most recent comprehensive annual financial report, in 2013 (reflecting actuarial data through fiscal 2012), the state's aggregated total unfunded actuarial accrued liability (UAAL) on a combined basis for its pension plans was $4.4 billion, equal to $626 per capita (using 2013 U.S. Census population figures), which we view as lower than average. Relative to total personal income, it is 1.3%, which is low in our view (which we score as "strong"). The state's contributions to the pension funds totaled $507 million in fiscal 2014 equaled a low 2.0% of general fund expenditures, (in practice, only about half of the annual pension contribution is paid from the state general fund). Although the state makes its required contributions to each plan as set forth in the plans' respective funding policies, contributions tend not to equal the annual required contributions (ARC). For fiscal year 2014, the total contributions from the state equaled 67% of the state's ARC.

Other postemployment benefits (OPEB) are funded on a pay-as-you-go basis. The state's OPEBs produce an implicit liability from allowing retired employees to purchase health, life, and vision insurance in the same pool as current employees at a subsidized rate.

Based on the analytic factors we evaluate for states, on a scale of 1 (strongest) to 4, we have assigned Washington a composite score of '1.8'.

Outlook

The outlook is stable, reflecting that the state begins 2015 in a strong position. But coming to agreement on a new two-year state budget during the upcoming legislative session may be challenging, in our view. According to the governor's budget proposal, the state faces a large operating shortfall for the next biennium. There is significant upward pressure on spending that originates in legal- and voter-approved mandates. While the governor proposes to sidestep some of what is required in a voter-approved class-size reduction measure, doing so would require consensus among at least two-thirds of the legislature. And to help pay for aggressively implementing court-ordered funding increases for education, the governor proposes a new capital gains tax. A vigorous debate in the legislature, which we expect will ensue, won't in itself result in negative rating pressure. But an inability of the legislature and governor to come to an agreement prior to the new fiscal year could. Likewise, if lawmakers resort to a heavy reliance on nonrecurring budget solutions, it could put negative pressure on the rating.

The projected budget shortfall, emerging at a time of economic growth, also means the state would have less margin for error in the event that economic -- and revenue -- trends unexpectedly slowed.

Nevertheless, the stable outlook reflects our view that the state's liquidity, financial trends, and strengthening economy have resulted in a strengthened financial position. Coupled with the state's strong financial management policies and institutions, we see the credit rating as stable through the outlook period. Although we see potential for the state's pace of economic expansion to level off a bit through 2014 and into 2015, we see the gains to date as having helped bolster the state's fiscal position. This offers some cushion heading into the latter part of the current biennium, which will encompass the budget development process for the 2015-2017 biennium.

In our view, the state has begun to approach what could be a difficult stretch but from a relatively strong position. Despite a contentious 2013-2015 budget development process, the state adhered to its automatic budget-stabilization fund deposits, which are likely to serve its credit quality well. The state could end the current biennium with an ending balance and budgetary reserve equal to more than 7% of expenditures. Having remained committed to its reserve-rebuilding efforts, it will enjoy some fiscal cushion as it transitions to a higher funding base for its K-12 education system.

Governmental Framework

The state's statutory requirement to adopt a balanced budget, when coupled with its financial management policies, encourages the state to manage toward ensuring its ongoing fiscal solvency. Legal protections for the state's GO debt include a specific constitutional requirement that the legislature make appropriations in the budget for the interest and principal installment payments on its debt. Although neither state statute nor the state constitution provide 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. This has the practical effect of providing debt service with a strong legal position among the state's various payment obligations, in our view.

The governor has authority to make across-the-board reductions to spending allotments when a cash deficit in a particular fund is projected. However, 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.

An active voter initiative environment complicates the state's governmental framework. We have viewed the active voter initiative environment as limiting the state's fiscal flexibility somewhat. However, the legislature's willingness and ability to set aside provisions of voter-approved initiatives when fiscal conditions warrant has proven beneficial to credit quality, in our view. (Initiatives may be amended with a two-thirds vote of the legislature within two years of passage and a simple majority of the legislature thereafter.) We noted, for instance, that during the 2011-2013 biennium and eight of the 14 preceding years to that biennium, the legislature temporarily suspended Initiatives 732 and 728 (for teacher cost-of-living salary increases and smaller class sizes, respectively). During the 2012 legislative session, the legislature repealed I-728 altogether. The legislature has also suspended I-732 again for the 2013-2015 biennium.

Similar to many other states, significant spending areas in the budget are largely nondiscretionary. The state approximates that as much as 66% of spending, primarily for K-12 education, Medicaid, foster care, debt service, and pensions, is effectively legally required by some combination of state constitution, statute, court decision, or federal mandate. In addition, Washington voters have, over the years, approved initiatives that have reduced the revenue and spending autonomy of the state.

During the 2011 legislative session, the legislature added a debt commission to the state's recently approved inaugural debt affordability study. The debt commission evaluated the state's use of debt and made policy or constitutional change recommendations, including creation of a new constitutional debt limit. Given that Washington's debt levels are somewhat higher than other states, we believe steps to contain the growth of its debt burden could have favorable implications for the state's credit quality.

In 2012, the legislature put on the ballot, and the voters subsequently approved, a constitutional amendment related to the prior state debt limit. The amendment lowers the limit on the state's annual debt service to 8% of a six-year moving average of general fund revenue from 9% of a three-year moving average. Finally, in 2012, the legislature approved reducing early retirement benefits for newly hired employees in three state pension plans and began phasing in a reduction of the assumed rate of return for its pensions.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.7' to Washington's governmental framework.

Financial Management

Financial management assessment (FMA): "strong"

We consider the state's financial management practices "strong" under our FMA methodology. An FMA of strong indicates our view that practices are strong, well embedded, and likely sustainable. The state ERFC, which is made up of representatives appointed by the governor's office, both houses 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, which are based on a modified IHS Global Insight model of the U.S. economy, to set revenue parameters at biennial budget adoption. The state has a record of making budget adjustments within the biennium when the forecast council materially changes its projections. Beginning with the fiscal 2013-2015 biennium, a new 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 per year, the state convenes a Caseload Forecast Council, which forecasts service requirements in such areas as public assistance, state corrections, medical assistance, and K-12 education. The executive branch uses these forecasts, along with historical expenditures, to formulate budget proposals and mid-biennium revisions.

Further guiding budgeting decisions is a rolling, four-year general fund forecast maintained by the state's Economic and Revenue Forecast Council. The state uses these forecasts to quantify the timing and scope of potential deficits in the subsequent biennium and, in some cases, to begin to address structural imbalances before the next budget cycle begins. Although the state does not have a minimum reserve policy, the state constitution requires the state to set aside 1% of most unrestricted state revenues in each fiscal year into a budget-stabilization fund, a form of "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. The state did not tap it in the 2011-2013 biennium. 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 addition, in November 2011, voters approved a measure requiring that any revenue growth that exceeds by one-third the average biennial growth in state revenues during the prior five biennia be transferred to the budget-stabilization account.

Other policies and practices include:

- Capital spending that the state budgets for on a biennial schedule but plans on a rolling, 10-year basis and includes funding sources;
- A formal investment management policy that covers eligible investments, maximum maturities (10 years),

allocations of nongovernment securities, and internal and external controls; and

- Debt management under an issuance policy that, among other elements, addresses refunding savings thresholds.

Budget management framework

Washington adheres to budget management practices we consider generally strong. 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. In addition, when deficits emerge mid-cycle, the state has generally responded with timely corrective actions. Revenue projections are apolitical and developed according to the state's independent revenue forecasts. When deficits do emerge, however, the state tends to include nonrecurring measures among its solutions, and its updates to actual fiscal performance that include both revenue and spending trends are not regularly available at intra-year intervals.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.5' to Washington's financial management.

Economy

Washington's economy enjoys several fundamental strengths, including an above-average education level among its populace (30% of whom have bachelor's degree or higher). Other positive features of the state's economy are its consistently strong population growth trends (4.4% faster than that of the U.S.), relatively low age-dependency ratio (55.6), good per capita gross state product (110% of the nation), and good per capita incomes (105% of the U.S.). For 2013, unemployment stood at 8.2% in Washington, only slightly above the national jobless rate of 8.1%. During 2013, the state's unemployment rate has fallen faster than the nation's and, as of November, stood at 6.8% versus the nation's 7.0%.

Economic development prospects remain good in our view. Boeing, the state's largest employer, is benefitting from the global recovery in passenger and cargo air traffic increases. The firm currently has an approximately seven-year backlog of orders for aircraft. However, the firm has nevertheless proceeded with workforce reductions due to increased operational efficiencies.

Washington continues to be a leading export state in the nation. The state's exports grew 9.2% in the third quarter of 2014 compared with the prior year. Transportation-related exports (airliners in particular) have strengthened recently and were up 15% year-over-year.

High-paying jobs with both of the state's largest employers, Microsoft and Boeing, support the state's forecasts for a personal income growth rate in excess of that of the U.S. through the forecast's timeframe of 2015 despite a similar overall job growth rate. State-projected 4.8% and 5.3% rates of nominal personal income growth in 2015 and 2016 (calendar), respectively, exceeded the state's forecast of fiscal year 2015 and 2016 cumulative general fund revenue growth of 4.3%. The divergence in the growth rates indicates relatively stronger economic activity among the higher value sectors in the state and partly reflects the fact that the state does not levy a personal income tax.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.4' to Washington's economy.

Budgetary Performance

Liquidity

Washington's liquidity has strengthened markedly. And although it is common that, in some months, the state's general fund cash balances fall into negative territory, they have done this much less so in recent months. For example, in December 2014, the state's general fund cash balance was $143 million, up from a cash deficit of $182 million in December 2013 (and up significantly from large cash deficit positions of over $500 million during the aftermath of the Great Recession). 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 comingled basis. As a result of its good access to internal liquidity, the state does not rely on external borrowing for cash flow management. As such, we continue to view the state's internal liquidity sources as sufficient to support its general fund budget operations -- which we anticipate will continue to track an improving trajectory along with state revenues and the economy more broadly.

Audited financial performance

The state has a strong track record of maintaining good reserves, but the recession took its toll. As of June 30, 2010, the state's general fund unreserved fund balance on a Generally Accepted Accounting Principle basis stood at just $302 million, or 1.2% of expenditures. But as of the end of fiscal 2014, the state's general fund assigned and unassigned fund balance (under a Governmental Accounting Standard Board Statement 54 presentation) was much stronger, at $1.2 billion or 4.65% of expenditures. During expansionary phases of the economic cycle, the state consistently returns operating surpluses and good reserve positions. State authority to defer payments, borrow from the treasury and treasurer trust funds, and issue cash flow notes, if needed, all serve as contingency liquidity measures, but the state managed through the Great Recession without taking these steps. The absence of a formal policy for the state's minimum budget reserve level allows for low balances to persist through protracted periods of economic and revenue softness.

The state's reliance on retail sales and business and occupation (gross receipts) taxes for a combined 64% of general fund tax revenues (on a budgetary basis) typically affords more revenue stability than other states enjoy because many of them rely on personal income tax revenues. Spending priorities are regularly evaluated through the state's "priorities of government" approach to zero-based budgeting. Independent and formal revenue and caseload forecasts inform budget decisions, and political leaders have demonstrated a willingness to make difficult adjustments when necessary.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.8' to Washington's budget performance.

Debt And Liability Profile

As noted, Washington's debt is moderately high by several of our measures. Debt pay down is average, in our view, with 44% of outstanding principal amortized over 10 years. Gross GO and lease appropriation-backed debt service is moderate, at 5.46% of the funds' expenditures from which it pays debt service. Portions of the state's debt are funded from self-supporting or reimbursable sources, however. Considering just the general fund, adjusted for these offsetting revenues, we estimate that debt service was 6.4%, moderate in our view. We anticipate that continuing transportation needs, including two major urban highway projects, will likely translate into continuing GO issuance in the next two to three years. The state currently projects that it may issue approximately $824 million in new GO and MVFT GO bonds in July 2014. The state also estimates that it may issue around $50 million in certificates of participation in 2014.

Pension plans are well funded

Long-term state liabilities include those related to the state's pension system and retiree health care. As of June 30, 2012, the actuarial accrued liability (AAL) of the defined-benefit portion of the state's 12 pension plans totaled $66.3 billion. Actuarial assets of $63.1 billion in aggregate accounted for 95.2%. of the AAL. The funded ratio improved after changes to the plan 1 (Public Employee Retirement System -- PERS -- and Teacher Retirement System -- TRS). During its 2011 session, the legislature rescinded automatic cost of living adjustments (COLAs) to the PERS plan 1 and the TRS plan 1. Elimination of the UCOLA reduces the plan 1 UAAL to $5.73 billion (estimated as of June 30, 2012) from $6.88 billion (estimated in 2010).

Based on the most recent comprehensive annual financial report, in 2013 (reflecting actuarial data through fiscal 2012), the state's total UAAL for its pension plans was $4.1 billion, equal to $472 per capita (using 2012 U.S. Census population figures), which we view as lower than average. Relative to total personal income, it is 1.0%, which is low in our view (which we score as "strong"). The state's contributions to the pension funds equaled $398 million in fiscal 2013, equal to a low 1.67% of general fund expenditures. Although the state makes its required contributions to each plan as set forth in the plans' respective funding policies, contributions tend not to equal the annual required contributions ARC. For fiscal year 2013, the total contributions from the state and other plan participants equaled 75% of the ARC.

OPEB is funded on a pay-as-you-go basis

OPEBs are funded on a pay-as-you-go basis. The state's OPEBs produce an implicit liability from allowing retired employees to purchase health, life, and vision insurance in the same pool as current employees at a subsidized rate. The explicit benefit subsidizes retired members' monthly premiums for enrollment in Medicare Parts A and B. On an actuarial basis, the state's portion of the AAL made up $3.71 billion of the total, and the annual OPEB cost was $358.4 million in fiscal year 2014, according to the state's fiscal 2014 audited financial statements. The state contributed $77.7 million for current pay-as-you-go expenses for retiree benefits, equal to less than 1% of annual general fund expenditures that same year. We understand that the state does not plan to fully fund the ARC for the foreseeable future.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of 2.4 to Washington's debt and liability profile.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014

Ratings Detail (As Of January 12, 2015)		
Washington certs of part (Washington St Dept of Gen Admin Tacoma Co-Location Proj) dtd 12/01/1996		
Long Term Rating	AA/Stable	Affirmed
Washington motor veh fuel tax GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington motor veh fuel tax GO rfdg bnds ser R-2013B		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax go bnds ser 2004C dtd 08/06/2003 due 06/01/2009-2030		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington mtr veh fuel tax GO bnds ser 2013B-1&2 due 08/01/2042		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax GO bnds ser 2014E due 02/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp gen oblig bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp GO rfdg bnds ser R-2014A due 07/01/2020		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp GO rfdg bnds ser R-2015C due 07/01/2031		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds ser 2014D due 02/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds ser 2015A-1 due 08/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO bnds ser 2015A-2 due 08/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO rfdg bnds ser R-2013C		
Long Term Rating	AA+/Stable	Affirmed
Washington var purp GO rfdg bnds ser R-2015A due 07/01/2026		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO bnds		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO bnds ser 2013T due 08/01/2018		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of January 12, 2015) (cont.)		
Washington GO Mtr Veh Fuel Tx		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO & mtr veh fuel tax (MBIA/National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (wrap of insured) (AMBAC) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (Motor Vehicle Fuel Tax)		
Long Term Rating	AA+/Stable	Affirmed
Washington certs of part rfdg (Dept of Ecology St Office Bldg Proj) ser RE-2003-B		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Aberdeen, Washington		
Washington		
Aberdeen (Washington) spl rfdg rev bnds (Stafford Creek Corrections Ctr) ser 2009		
Long Term Rating	AA/Stable	Affirmed
FYI Properties, Washington		
Washington		
FYI Properties (Washington) Lease rev bnds (State Of Washington Dis Proj) ser 2009		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.