S&P Global Ratings

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Summary:

State of Washington; Appropriations; General Obligation

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Credit Profile		
US$726.21 mil various purp GO bnds ser 2022C due 08/01/2047		
Long Term Rating	AA+/Stable	New
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
FYI Properties, Washington		
State of Washington, Washington		
FYI Properties (Washington) APPROP		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the State of Washington's $726.2 million series 2022C various-purpose general obligation (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. 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.

The outlook on all ratings is stable.

Our rating on the state's series 2022C GO bonds reflects Washington's full faith, credit, and taxing powers.

Credit overview

Washington's credit profile is characterized by strong fiscal management practices, including strong forecasting, a history of making budget adjustments based on material changes to forecasts, and demonstrated commitment to rebuilding reserves following withdrawals in economic downturns. While we anticipate the state's debt profile will remain relatively high, we believe it is manageable, given the state's comparatively low pension and other postemployment benefit (OPEB) liabilities.

The governor proposed a supplemental budget for the ongoing 2021-2023 biennium that totals $61.8 billion, including nearly $4.2 billion (6.8%) in additional spending over the state's maintenance level base budget. Key spending priorities that include initiatives related to homelessness, poverty, and environmental issues in addition to further education spending related to the COVID-19 pandemic. The governor's budget is supported by Washington's most recent revenue forecast, totaling $60.2 billion, which we believe incorporates significant 10.7% revenue growth compared with the March 2021 forecast factored into the enacted budget. We calculate that the revenue forecast alone is 2.4% short of covering total expenditures. The proposal utilizes a portion of the $4.2 billion beginning fund balance to balance the budget; however, we believe the projected ending balance of $1.3 billion (2.1% of expenditures, or about 4.2% of annual near general fund expenditures) preserves some budgetary cushion.

Washington's budget stabilization account (BSA) began the fiscal year essentially empty following a withdrawal in fiscal 2021 made to help manage the state's budget. However, the state maintained a strong ending near general fund (general fund, education legacy trust account, opportunity pathways account, and workforce education investment account) balance of $4.2 billion, which we view as a strong 14.3% of annual near general fund expenditures that offsets the lowered BSA balance. 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. During expansionary phases of the economic cycle, however, Washington consistently returns operating surpluses and good budgetary reserve positions. In line with this history, the governor's supplemental budget proposal for the 2021-2023 biennium anticipates $1.178 billion in deposits to the BSA by the end of the biennium. We consider the projected $1.197 billion balance to be low at 1.9% of near general fund biennial expenditures (but stronger at 3.9% of near general fund annual expenditures). However, on an annual basis, which we believe is more comparable to other states, reserves are stronger but still below average at 3.5% of near general fund annual expenditures. We view the state's commitment to rebuilding the reserve account as a positive credit factor.

The state's most recent revenue forecast, conducted by the Economic and Revenue Forecast Council (ERFC) in November 2021, raised general fund revenue projections by 1.5% for both the current fiscal 2021-2023 biennium and next fiscal 2023-2025 biennium. Officials note that elevated revenues supported by federal stimulus and pent-up demand in the Spring had not diminished to the extent expected, partly contributing to the forecasted revenue growth. The forecast includes newly imposed capital gains taxes in the education legacy trust account, which the state considers to be a near general fund. We understand the ongoing litigation regarding this new tax could potentially halt collections at some point in the future. If this scenario were to occur, we believe it could somewhat affect Washington's structural balance, given the inclusion of capital gains revenue in current forecasting. However, we believe the forecast capital gains revenues are minimal, at 0.4% and 1.5% of projected near general fund revenues in the fiscal 2021-2023 biennium and the fiscal 2023-2025 biennium, respectively. Additionally, we expect the state's history of strong fiscal management will likely insulate Washington's credit profile from this budgetary pressure, based on current forecasting, should it arise.

Washington's general fund revenue collections are running ahead of the council's November 2021 forecast, through Jan. 10, 2022, on a monthly and fiscal-year-to-date basis. General fund revenue collections are running ahead of the council's November 2021 forecast on a fiscal-year-to-date basis by $349.8 million, or 6.4%. On a monthly basis, general fund revenue collections are $260.9 million, or 12.7%, ahead of the council's November 2021 forecast. Officials report these collections correspond primarily to November 2021 economic activity, which included higher-than-normal November holiday spending in anticipation of December supply chain disruptions. Therefore, it's possible next month's collections, which will capture December 2021 economic activity, could be lower than forecast.

The ratings reflect our view of Washington's:

- Sales tax-based revenue structure, which has demonstrated less sensitivity to economic cycles than income tax-reliant states;
- 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, which is key, given increasing expenditure pressures;
- High cost of housing, especially in key economic centers that could impede long-term growth prospects; and
- Moderately high debt burden across several measures, but low unfunded retirement liabilities.

The stable outlook reflects our view that the state's strong budgetary management and forecasting practices help insulate the Washington rating from its budgetary pressures. The state's legal requirements to enact budgets that are balanced--not only for the current biennium, but subsequent biennia--help provide a sustainable framework to facilitate structural balance throughout economic cycles. While we expect that significant upward pressure on spending originating in legal- and voter-approved mandates over time will remain a soft point in the state's credit profile, we believe Washington's ability to enact budgets that are balanced--not only for the current biennium, but also project balance through the following biennium--helps facilitate a structural approach.

Based on the analytic factors we evaluate for states, we assigned a composite score for Washington of '1.7' on a four-point scale, whereby '1.0' is the strongest and '4.0' is the weakest.

Environmental, social, and governance

In our opinion, Washington's environmental risks are neutral to our overall credit analysis. Although the state faces a combination of exposures from rising sea levels along the state's vast coastline and risk of wildfires in its expansive forests, we believe these risks are mitigated by Washington's planning and practices. The state, which has more than 3,000 miles of coastline, derives much of its economic activity from the Puget Sound region, which includes Seattle, Olympia, Tacoma, and Bremerton. Specifically, IHS Markit estimates half of the state's population and jobs are based in the area. Other areas of the state have experienced drought conditions for at least part of the year over the past decade, and officials expect dry conditions in summer months will likely persist in the decades ahead, contributing to wildfire risk. Washington reports it has begun preparing for a changing climate by integrating consideration of such changes into decision-making; multiple state agencies have been tasked with studying the impacts of climate change on their areas of focus, and the Economic and Revenue Forecast Council prepares a climate study on an annual basis. The state's legislature has passed several bills in recent years addressing climate change, including approving programs to reduce energy emissions.

We view Washington's social and governance risks as in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We could lower our rating on Washington if, in the face of budgetary pressure, lawmakers delay taking corrective action in addressing revenue shortfalls or rely extensively on one-time solutions to remediate budget gaps. In our view, budgetary pressure could arise from the newly enacted capital gains tax's legal challenges or inherent cyclicality, job losses in the state's aviation industry, or diminished flexibility stemming from maintenance of various voter-approved spending initiatives or court actions (such as increases to education funding following the resolution of the McCleary decision), among others. State policymakers' response--whether timely or structurally oriented--will likely dictate any effect on our rating on Washington. We could also lower the rating if Washington fails to replenish its budget stabilization account in a timely manner, or if we feel the state lacks a realistic plan to rebuild its reserve profile.

Upside scenario

Although unexpected during our outlook horizon, we could raise the rating if growth in Washington's debt levels were to moderate, alongside sustainable growth in revenue that keeps pace with both the state's underlying economic growth rates and mandated costs originating from voter-approved initiatives that, to a degree, limit the state's budgetary flexibility.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of January 25, 2022)		
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
State of Washington var purp GO rfdg bnds ser R-2021C due 08/01/2036		
Long Term Rating	AA+/Stable	Affirmed
State of Washington MVFT/VRF GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of January 25, 2022) (cont.)		
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
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Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
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Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of January 25, 2022) (cont.)		
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of January 25, 2022) (cont.)		
Washington GO (AMBAC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (MBIA)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (SYNCORA GTY)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
State of Washington, Washington		
State of Washington, Washington		
Washington St Toll Facilities, Washington		
Washington GO		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.