

RatingsDirect®

Summary:

Washington (State of); Appropriations; General Obligation

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Summary:

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Credit Profile

| | | |
|---|------------|----------|
| US\$822.905 mil various purp GO rfdg bnds ser R-2023A due 08/01/2038 | | |
| <i>Long Term Rating</i> | AA+/Stable | New |
| US\$509.68 mil motor veh fuel tax and vehicle related fee GO rfdg bnds ser R-2023B due 07/01/2038 | | |
| <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 R-2023A various-purpose general obligation (GO) refunding bonds and series R-2023B motor vehicle fuel tax and vehicle-related fees GO refunding 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 refund outstanding debt for debt service savings.

Credit overview

Supported in part by prudent financial management and a resilient economy, Washington transitioned into the 2023 legislative session 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 governor's budget proposal for the next biennium (2023-2025) totals approximately \$70 billion, up just shy of 12% from the preceding biennium, supported by \$71.3 billion in total resources (as presented). Policy changes account for about 65% of the proposal's expenditure growth which will ultimately be decided during the current legislative session.

Of note, the proposal exhausts the \$2.1 billion balance in the Washington Rescue Transition Account (WRPTA) for biennial operating needs and initiatives, or about 3% of total resources. The state created the WRPTA in 2021 to enhance support for education, human services, health care, and the economy, following pandemic-induced pressures.

Favorably, the governor's proposal preserves and further builds the state's budget stabilization account (BSA) up to approximately \$1.35 billion (biennium-end) or 3.8% of total annualized expenditures as proposed. The BSA began fiscal 2022 essentially empty, following a withdrawal in fiscal 2021 to help balance Washington's budget. Separately, by biennium-end 2025, the state's ending near general fund (general fund and education legacy trust, opportunity pathways, and workforce education investment accounts) balance is estimated to total \$1.3 billion. On a combined basis, the balances represent approximately 7.6% of total annualized expenditures as proposed. Though we consider these levels good, relative to estimates for biennium-end 2023 of 14.4% of expenditures, they represent a considerable decline. The house and senate have developed their respective budgets both of which maintain reserves (BSA) near the governor's executive budget proposal.

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 phases of the economic cycle. We view the state's commitment to rebuilding reserves as a positive credit factor. Its ability to align forecasted revenue growth with ongoing operational needs will remain an important consideration in Washington's credit profile.

As the legislature irones out the details on the state's next budget, the economic backdrop as presented by the Economic and Revenue Forecast Council, is one of slowing economic momentum for 2023, followed by a modest acceleration in 2024 and 2025. Revisions in its latest economic and revenue update (March 2023) were marginal with the biennium ending fiscal year 2024 up 0.3% and fiscal 2025 down 0.73%. S&P Global Economics' baseline forecast U.S. GDP projects more subdued 0.7% (annual) growth in 2023, albeit above the forecasted contraction of 0.1% in its November forecast. With increasing pressure from the Fed's interest rate hikes to tame persistent high inflation, S&P Global Ratings economists forecast a shallow recession with a 0.3% decline in GDP from peak to trough (Q1-Q3). By 2024, GDP is forecast to expand 1.2%. (For additional information see "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March. 27, 2023, on Ratings Direct.) Though inflationary pressures and housing construction add friction to the state's economic landscape, ERFC forecasts continued employment and personal income growth in the near term.

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's Supreme Court's 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 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 effects of climate change on their areas of focus, and the Washington State Economic and Revenue Forecast Council prepares a climate study on an annual basis. The state has adopted legislation in recent years addressing climate change, including approving 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 strong budgetary management and forecasting practices will help guide its next budget toward structural balance even as the broader national economic environment slows.

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 well 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 April 13, 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 |

| Ratings Detail (As Of April 13, 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 |
| 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 |
| 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 |
| 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 April 13, 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 |
| 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 |
| Washington GO | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Washington GO | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |

| Ratings Detail (As Of April 13, 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 |
| 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 (State of), Washington | | |
| FYI Properties (Washington) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Washington (State of), Washington | | |
| Washington (State of), 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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