

26 OCT 2023

Fitch Rates State of Washington's \$483 Million GOs 'AA+'; Outlook Stable

Fitch Ratings - San Francisco - 26 Oct 2023: Fitch Ratings has assigned a 'AA+' rating to the following state of Washington general obligation (GO) bonds:

--\$296.550 million Various Purpose GO Refunding Bonds, Series R-2024A;

--\$186.225 million Motor Vehicle Fuel Tax and Vehicle Related Fees General Obligation Refunding Bonds, Series R-2024B.

The Rating Outlook is Stable.

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.

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 R-2024B bonds are further secured by motor vehicle fuel tax and vehicle related fees.

KEY RATING DRIVERS

Revenue Framework - 'aaa'

Revenue performance over time has exceeded U.S. 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 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.

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.

PROFILE

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.

Date of Relevant Committee

17 July 2023

Sources of Information

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the

rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Washington, State of (WA) [General Government]			
<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, State of (WA) EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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