S&P Global
Ratings

RatingsDirect®

Summary:

Washington; General Obligation

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Credit Profile		
US$296.695 mil var purp GO rfdg bnds ser R-2024A due 02/01/2039		
Long Term Rating	AA+/Stable	New
US$186.34 mil motor vehicle fuel tax and vehicle related fees GO rfdg bnds ser R-2024B due 06/01/2039		
Long Term Rating	AA+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Washington's series R-2024A various-purpose general obligation (GO) refunding bonds and series R-2024B motor vehicle fuel tax and vehicle-related fees GO refunding bonds.
- The outlook on the 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.

Depending on market conditions, the series R-2024A bonds are being issued to refund all or a portion of the callable series 2014D various-purpose GO bonds, and the series R-2024B bonds are being issued to refund all or a portion of the callable series 2014E motor vehicle fuel tax GO bonds.

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 the state's 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. Another highlight is 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 $3.7 billion, or 10.7% of annualized appropriations, at biennium-end 2025. On a combined basis, the balances represent a strong 14.6% 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 September 2023 Economic and Revenue Forecast projects slowing momentum in the near term as the U.S. economy slows. However, the changes compared with the June forecast were overall positive, including stronger revenue collections for second-quarter 2023 and higher state personal income expectations. General fund revenue projections were revised up by $616 million, or nearly 1%, for the 2023-2025 biennium, primarily spurred by sales tax and business and occupation (B&O) tax revenues. 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 to uphold the constitutionality of the tax. Before 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 this was a positive development on the revenue front, it remains credit neutral, in our view.

S&P Global Economics believes that the U.S. economy will slip below current trends for an extended period, and expects it will be considerably weaker in 2024 and inflation will be closer to target in the second half of next year. Although the U.S. economy is expected to expand by 2.3% this year, growth is likely to slow to 1.3% in 2024 and 1.4% in 2025. S&P Global Economics also expects that the unemployment rate will rise to 4.8% in 2025, higher than the longer-run steady state of 4.0%-4.5% (see "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25, 2023, on Ratings Direct). S&P Global Market Intelligence forecasts that Washington's real gross state product growth will be 3.1% in 2023, 1.6% in 2024, and 1.7% in 2025.

Under our state ratings methodology, S&P Global Ratings assigned Washington a score of '1.7' on a four-point scale, with '1.0' being the strongest and '4.0' being the weakest, resulting in an indicative 'AA+' rating.

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

Environmental, social, and governance

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. In recent years, the state has adopted legislation 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 Washington'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 lower the rating 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. However, it would, 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