

Rating Action: Moody's assigns Aa1 to Washington State COPs, Ser 2021B; outlook stable

18 May 2021

New York, May 18, 2021 -- Moody's Investors Service has assigned a Aa1 rating to the State of Washington's \$52 million Certificates of Participation, Series 2021B (State and Local Agency Real and Personal Property). Following the issuance of the 2021B COPs, the state will have approximately \$990 million similarly-secured COPs outstanding, all rated Aa1. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on the COPs, one notch below the Aaa rating on the state's general obligation bonds, reflects the essential nature of the property being financed and/or refinanced, the moderate legal structure and subject-to-appropriation nature of the state's payment obligations, active administration of the financing program by the state treasurer's office, and the state's established track record of making appropriation-backed payments under a variety of financing programs.

The Aaa rating on the state's general obligation bonds reflects its sizable financial reserves entering the current downturn, and the exceptional growth of the state's economy in recent years driven largely by the technology sector in the Seattle (Aaa stable) metro area. Additional strengths include above-average wealth and income levels, and strong fiscal governance practices. While the state's debt levels are above average, they have been declining relative to the 50-state medians, and the state's debt and pension liabilities combined, as well as its fixed costs, are comparable to medians. Frequent voter initiative activity adds budget challenges, but the legislature has broad authority to suspend voter-enacted statutes and a history of responding effectively to maintain budget balance.

Like all US states, Washington faced a significant shortfall in tax revenues in fiscal 2020 and 2021 as a result of the coronavirus pandemic. Revenues have overperformed initial projections, however, and the state now expects that it will end fiscal 2021 with reduced, but still sizable reserves.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the State of Washington at this time.

RATING OUTLOOK

Washington's outlook is stable, reflecting the positive underlying fundamentals of its economy, sizable reserves entering the current downturn, strong governance practices and manageable long-term liabilities. We expect that the state will continue to address budget gaps that emerge, as it has in the past.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Not applicable.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- A sustained or structural weakening of the state's economy.
- Protracted structural budget imbalance and/or a shift to reliance on one-time budget solutions.
- A significant deterioration of the state's cash position.

LEGAL SECURITY

The Series 2021B COPs are secured by and expected to be paid from payments made by participating state and local agencies including: (1) lease payments for real property projects, and (2) installment purchase payments for personal property.

Payments made by the state agencies are subject to appropriation by the legislature and executive order reduction by the governor. The state has never failed to make needed appropriations to meet the payment obligations for state agencies related to its COPs.

Payments made by the local agencies are secured by the full faith and credit of the local agencies, effectively general obligation, limited tax obligations. In the event any local agency fails to make its scheduled payment, the state treasurer is obligated to make the payment on behalf of the local agency using state funds; such state payments, if necessary, are subject to appropriation by the legislature and executive order reduction by the governor. The treasurer is further obligated to withhold an amount equal to the payment advance from the local agency's share of state aid, to the extent legally permissible. No local agency has ever failed to make a payment obligation related to state-issued COPs.

USE OF PROCEEDS

Proceeds of the Series 2021B COPs will be used to finance and/or refinance the cost of acquisition and construction of real and personal property for participating state and local agencies.

PROFILE

Washington is the thirteenth largest state by population, at 7.6 million. Its state gross domestic product is tenth largest, at \$599.6 billion. The population is relatively wealthy, with per capita personal income equal to 114.5% of the US level and a poverty rate in the bottom third among states.

METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in January 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1260202 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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