Moody's assigns Aa1 to Washington State's COPs, Series 2022B; outlook stable

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New York, May 27, 2022 -- Moody's Investors Service has assigned a Aa1 rating to the State of Washington's $57.6 million Certificates of Participation, Series 2022B (State and Local Agency Real and Personal Property). Following the issuance of the 2022B COPs, the state will have approximately $938.1 million similarly-secured COPs outstanding, all rated Aa1. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on the Certificates of Participation (COPs), one notch below the state's Aaa Issuer Rating, 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.

State of Washington's Aaa Issuer Rating reflect its exceptionally strong economic fundamentals driven largely by the technology sector in the Seattle (Aaa stable) metro area, above-average wealth and income levels, sound financial position and strong fiscal governance practices. The state has been able to maintain strong reserves despite the coronavirus pandemic as a result of consistently strong economic and revenue performance, as well as the availability of federal relief funds. Given better-than-expected revenue growth, the state's 2022 supplemental budget for the 2021-2023 biennium increases appropriations sizably from the budget adopted in early 2021 to fund a mix of ongoing and one-time initiatives. The state's reserves are projected to decline by the end of the biennium from current levels, although the state has traditionally used conservative revenue projections and typically outperforms budgets.

While the state's debt levels are above average, they have been declining relative to the 50-state medians, and the state's total leverage (debt, pension and OPEB) and 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.

RATING OUTLOOK

Washington's outlook is stable, reflecting the positive underlying fundamentals of its economy and the state's strong governance practices which will continue to support sizable reserves. Long-term liabilities are expected to remain manageable.

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 2022B COPs are secured by and expected to be paid from payments made by participating state and local agencies including: (1) rent payments for real property projects, and (2) installment 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
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 2022B COPs will finance and/or refinance the costs of acquisition, construction, and/or remodeling of certain real and personal property for participating state and local agencies.

PROFILE
Washington is the thirteenth largest state by population, at 7.8 million. Its nominal gross domestic product (GDP) is the tenth largest, at $667.6 billion as of 2021. The five-year compound average growth rate of its real GDP was 4.4% through 2021, the strongest of all 50-states. The population is relatively wealthy, with per capita personal income equal to 105.1% of the US after adjusting for regional cost of living.

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 on https://ratings.moodys.com/rating-definitions.

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