FITCH RATES SEATTLE, WA'S $153MM ULTGOS & LTGOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-San Francisco-26 April 2016: Fitch Ratings assigns an 'AAA' rating to the following city of Seattle, WA general obligation (GO) bonds:

--$108.585 million limited tax GO (LTGO) improvement and refunding bonds, 2016A;
--$38.205 million unlimited tax (ULT) GO improvement bonds, 2016;
--$6.04 million LTGO improvement bonds, 2016B (taxable).

The bonds are expected to sell May 3, 2016 via competitive sale. Proceeds of the limited tax GOs, series 2016A and 2016B will be used to fund various capital projects throughout the city. The unlimited tax GO bonds will be used to fund a portion of the costs of repairing and/or replacing the city's existing seawall.

In addition, Fitch affirms the following ratings at 'AAA':

--$289 million ULTGO bonds;
--$743 million LTGO bonds;
--The city's Issuer Default Rating (IDR).

The Rating Outlook is Stable.

SECURITY

ULTGO bonds are payable from an unlimited ad valorem property tax and LTGOs are payable from an ad valorem property tax pledge subject to statutory limits.

KEY RATING DRIVERS

Seattle's 'AAA' rating is supported by strong economic and revenue growth which is expected to continue due to the educated workforce and the dynamic software and aerospace markets which dominate the economy. Somewhat weak revenue raising ability is offset by expenditure flexibility and solid reserves relative to expected revenue fluctuations. Long-term liabilities are low. Fitch expects Seattle to maintain generally balanced operations and solid reserves throughout the economic cycle.

Economic Resource Base
Seattle is the largest city in the Pacific Northwest and the cultural and business center of Puget Sound. The regional economy is still heavily influenced by Boeing and Microsoft. Seattle in particular is experiencing robust economic growth as Amazon and other technology companies expand in downtown Seattle, fostering complementary multiuse development. The workforce is highly educated helping to sustain above average economic and revenue growth.

Revenue Framework: 'aa' factor assessment
Revenue growth has been and is expected to remain strong given the high educational attainment levels and healthy dominant sectors. Offsetting this strength, the city's ability to raise its non-voted property tax levy is limited to 1% annually.

Expenditure Framework: 'aa' factor assessment

Over time, expenditure growth is expected to be roughly in line with revenue growth as salaries and benefits create some spending pressure. The city has a solid ability to adjust expenditures as needed. Carrying costs for debt service, pensions and OPEB are moderately low.

Long-Term Liability Burden: 'aaa' factor assessment
Seattle's long-term liability burden is roughly equally divided between bonded debt and net pension liabilities and is low relative to its resource base.

Operating Performance: 'aaa' factor assessment
Seattle has exceptional gap-closing ability and is expected to manage through a downturn while retaining a high level of financial flexibility. Seattle's strong budget management and conservative policies result in rapid rebuilding of reserves, regular pay as you go capital spending, and regular funding of retiree benefits.

RATING SENSITIVITIES

BALANCED OPERATIONS; SOLID RESERVES: Material deviation from Fitch's expectation of largely balanced operations and solid reserves through the economic cycle, while unexpected, would result in downward rating pressure.

CREDIT PROFILE

Revenue Framework
Revenues are diversified among property taxes (about 25% of general fund revenues), sales taxes, business taxes, and utility taxes (each about 20%), and other revenues. This structure has provided a steady source of revenue growth, despite a statutory limit of 1% annual non-voted property tax levy increases, due to ongoing additions to the tax base from new construction and economic growth benefitting other sources.

Revenue growth has outpaced inflation and national GDP by large margins. Ongoing economic growth appears likely to provide similarly paced revenue gains going forward.

The statewide statutory cap on the city's non-voted property tax levy limits increases to no more than 1% annually up to a rate cap, plus levies upon new construction. Increases to taxes (beyond the 1% increase to the property tax levy) require voter approval. The city does have the ability to adjust charges for services, permit fees and fines, but the combination makes up only 10% of general fund revenues. The city's tax rate subject to the cap is currently well below the statutory limit of $3.60 per $1,000 of assessed valuation.

Expenditure Framework
Public safety is the largest component of spending. It comprises more than half of city general fund spending, followed by general government, culture and recreation, and capital.

Given the nature of Seattle's revenue system and spending responsibilities, Fitch believes that growth in major spending areas is likely to be in line with to moderately above expected revenue growth on average.

The city's fixed cost burden is low, with carrying costs for debt, pensions and OPEB equaling 12% of governmental expenditures. The collective bargaining framework in Washington State offers moderate flexibility to make adjustments to personnel spending as needed.

The city and unions agreed to create a new pension tier effective 2017 which has a lower contribution rate for the city and should slow the pace of growth of pension costs over time. The city's forecast for pension contributions shows the contribution rate peaking in 2015 at 15.7% of payroll. The OPEB portion of carrying costs is very small as the city only provides an implicit rate subsidy for retirees as well as a medical benefit to a closed public safety system.

Long-Term Liability Burden
The combination of the city's bonded debt and its unfunded pension liability results in a low and affordable burden relative to the city's resources as measured as the ratio of overall debt and pension liabilities to personal income.

The city's debt issuance is exclusively for capital projects, with some use of paygo for smaller projects. Given the above-average pace of debt amortization and low debt ratios, Fitch expects the city's debt burden to remain low.

The city has its own pension system for miscellaneous employees (SCERS) and participates in the state-sponsored system for public safety workers (LEOFF). LEOFF is well funded, the annual pension payment consistently meets the ARC and actuarial assumptions are standard. SCERS has a weak funded ratio, with estimated assets equal to a low 61% of liabilities using Fitch's more conservative 7% return assumption, but the related resource burden is modest.

Concerns regarding the funded level are partially addressed by changes enacted in 2011. These changes included city legislation requiring full funding of the ARC based on five-year smoothing rather than the annual mark-to-market approach used prior to that.

Operating Performance
The combination of the city's expenditure flexibility and sizeable reserves is expected to sustain its exceptional financial flexibility throughout economic downturns.

The city has demonstrated a strong commitment to financial flexibility through efforts to control costs and improve pension funding, maintenance of reserves, and extensive and conservative financial forecasting. In addition, the city has a track record of moving expenditure responsibilities outside of the general fund through voter-approved increases to property tax levy limits for specific purposes (levy lid lifts) for services such as public housing, library, transportation, and families and education, among others. During this extended economic recovery, the city has pro-actively built up its reserves, increasing unrestricted fund balance to $217 million (18.5% of general fund expenditures and transfers out) in 2014 from a low of $105 million in 2010. In addition, the pension reforms noted above demonstrate commitment to financial flexibility.

The restriction of the city's real estate excise tax to capital spending reduces the exposure of the city's financial operations to this volatile revenue source and provides an important source of paygo capital throughout the economic cycle. The city estimates finishing 2015 with another surplus, even after including expected retroactive pay increases. The 2016 budget continues to add back services, particularly in public safety and homeless services and IT.

Contact:

Primary Analyst
Karen Ribble
Senior Director
+1-415-732-5611
Fitch Ratings, Inc.
650 California Street, 4th Floor
San Francisco, CA 94108

Secondary Analyst
Matthew Reilly

Director
+1-415-732-7572

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478