MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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New Issue

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City of Seattle, WA

New Issue- Moody's assigns Aaa to Seattle, WA's UTGO bonds; Aa1 assigned to LTGO bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the City of Seattle, Washington's $38.2 million Unlimited Tax General Obligation Improvement Bonds, 2016, as well as Aa1 ratings to the city's $108.6 million Limited Tax General Obligation Improvement and Refunding Bonds, 2016A and $6.0 million Limited Tax General Obligation Improvement Bonds, 2016B (Taxable). At this time, Moody's affirms the Aaa rating on the city's outstanding parity general obligation unlimited tax bonds, as well as the Aa1 rating on the city's outstanding parity general obligation limited tax bonds. The outlook is stable.

The Aaa rating reflects the city's substantial and rapidly growing tax base that forms the economic center of the State of Washington; socioeconomic measures that are amongst the strongest in the country; solid finances that include healthy reserves and liquidity; a very strong management team with prudent institutionalized financial practices; a manageable debt profile that consists of fixed-rate debt; and moderate pension and OPEB liabilities.

The Aa1 rating incorporates the city's general credit profile, but incorporates the weaker security of the city's limited tax pledge.

Credit Strengths

» A large and rapidly growing tax base and economy that is the regional economic center

» Strong socioeconomic measures, including high median family income, full value per capita, and low unemployment

» Strong management team

» Healthy financial position that includes ample reserves and available liquidity

» Favorable debt profile that includes only fixed-rate debt and relatively rapid amortization

Credit Challenges

» Exposure to economically sensitive revenues

» Somewhat dependent upon a small number of high profile private-sector firms for growth

Rating Outlook

The outlook is stable, reflecting our view that the city is well positioned financially and that the local economy will continue to be amongst the nation's strongest.

Factors that Could Lead to an Upgrade

» Not applicable

Factors that Could Lead to a Downgrade

» Material weakening in the city's finances

» Prolonged deterioration in the economy and tax base

» Substantial growth in debt and/or pension liabilities

Key Indicators

Seattle (City of) WA	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value ($000)	$ 123,051,680	$ 119,424,061	$ 116,796,890	$ 116,995,513	$ 128,205,754
Full Value Per Capita	$ 201,065	$ 195,105	$ 189,452	$ 186,715	$ 200,165
Median Family Income (% of US Median)	139.7%	139.7%	144.5%	144.5%	144.5%
Finances					
Operating Revenue ($000)	$ 993,462	$ 1,040,555	$ 1,080,845	$ 1,138,767	$ 1,180,513
Fund Balance as a % of Revenues	11.5%	14.0%	18.7%	19.3%	19.7%
Cash Balance as a % of Revenues	12.3%	13.9%	19.0%	22.2%	19.7%
Debt/Pensions					
Net Direct Debt ($000)	$ 863,788	$ 882,956	$ 832,539	$ 897,025	$ 897,610
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.8x	0.8x	0.8x
Net Direct Debt / Full Value (%)	0.7%	0.7%	0.7%	0.8%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	1.9x	2.1x	2.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	1.8%	2.1%	2.2%

Source: Moody's Investors Service

Recent Developments

Since our last review in April 2015, the city's credit profile continues to strengthen. Taxable assessed value grew from $144.5 billion in 2015 to $163.3 billion in 2016, an increase of 13%. Unemployment remains low at 4.2% as of December 2015, even as the total labor force grew by 6.6%. Despite recent reports that indicate Boeing intends to begin a round of substantial layoffs in the region, demand for the company's aircraft remains high. Online retailer Amazon continues to expand its footprint in Seattle, acquiring and developing substantial downtown office space to house its growing workforce. Preliminary figures suggest the city's total reserves grew to $384 million in 2015, driven by growth each of the city's major revenues sources, including property, B&O, and sales taxes.

Detailed Rating Considerations

Economy and Tax Base: Wealthy, Urban City in the Pacific Northwest

The City of Seattle is the commercial and tourist hub of the Puget Sound region and the economic center of the State of Washington. Software development and aircraft manufacturing are key components of the local economy, and the area serves as the headquarters of or major operating base to some of the world's most well-known international corporations, including Amazon, Boeing, Microsoft, and Starbucks. At just 4.2% as of December 2015 (according to data from the Bureau of Labor Statistics), the city's unemployment rate continues to outpace the state and the nation, even as the local labor force grew by 6.6%. Despite recent reports indicating Boeing will begin a round of layoffs in the region, demand for the company's aircraft remains high. Online retailer Amazon continues to expand its footprint in Seattle, acquiring and developing substantial downtown office space to house its growing workforce. Median family income in the city is amongst the highest among large urban areas in the United States at 152.2% of the national average. Full value per capita, a proxy measure of wealth, is robust at $256,000. Price appreciation and new construction are continuing to drive the city's assessed value higher. In 2016, assessed value hit a new high of $163.3 billion, up 13% from 2015. Median home prices are up 24% year-over-year, and commercial office vacancy rates continues to decline. The city is forecasting a slowing of growth in 2017 back to 2014 levels, though Moody's notes that total housing permits are still projected to grow by 7.2%.

Financial Operations and Reserves: Strong Revenue Growth

The city's finances are healthy and a credit strength, driven by strong growth amongst the city's diversified revenue streams. The city's general fund is the city's principal operating fund, and is comprised principally of property taxes (22.8% in 2014), business taxes (22.5%), retail sales and use taxes (16.9%), and utility taxes (11.0%). Preliminary figures for 2015 indicate overall tax revenue growth of 6.9%. The city's property tax rate is subject to a $3.60 per $1,000 cap, not including the rate for voted bonds; the city's current rate subject to the rate limit is $2.60. Outside of new growth and voter-approved levy lid lifts, operating property tax revenues are limited to 1% annual growth. The city's more economically sensitive revenues were up strongly in 2015, with preliminary numbers showing sales tax revenues up 11% and business tax receipts up 4.6%. The city has forecasted sales tax and business tax growth of 4.5% and 4.6%, respectively, for 2016. The city updates its revenue projections three times a year.

The city's largest expense is for public safety (44.3% of general fund revenues in 2014), followed by transfers out (23.5%) (principally for nonmajor special revenues funds including Park and Recreation and Human Services), and general government (16.7%). The city's 2016 budget includes 30 new police officers, as well as additional funding for homelessness and affordable housing. State law requires that the city balance its budget, and the city uses a quarterly supplemental budget process to consistently deliver structurally balanced financial operations.

Since 2011, the city's general fund revenues have exceeded its expenditures, allowing the city to build up its total fund balance from $204.8 million (20% of general fund revenues) in 2011 to $317.1 million (26.9%) in 2014; available reserves (those not designated as nonspendable or restricted) increased from $145.3 million (14.2%) to $216.7 million (18.3%). Preliminary 2015 figures show total general fund reserves growing to $384 million, although $34.5 million has been used in 2016 to provide retroactive payments to employees under recent labor union contracts for cost of living adjustments. Despite this sizeable draw, city officials expect reserves levels to be flat by the end of 2016, reflecting strong revenue growth and conservative budgeting.

LIQUIDITY

The city's liquidity position is healthy. The city's general fund cash and equity in pooled investments at the end of 2014 was $216.7 million, or 18.4% of general fund revenues. Functionally, however, the city pools its cash and investments across funds. This consolidated pool held $1.6 billion at the end of 2014 and an estimated $1.8 billion at the end of 2015. City funds may withdraw cash out of the pool without prior notice or penalty.

Debt and Pensions: Manageable Debt Profile; New Pension System to Open in 2017

The city maintains a very moderate level of debt that amortizes quickly. Net direct debt is just 0.7% of full value and 1.0 times general fund revenues. The ten-year amortization rate of the city's debt is average at 64.2%, with 80% of the city's limited tax general obligation bonds being retired within ten years. Potential future bond issuances include additional money (expected to be less than $200 million) for improvements along the city's waterfront as well as annual bond issuances of $50-$60 million annually for general government projects.

DEBT STRUCTURE

With the current issuances, the city's general government debt will consist of $327 million in fixed-rate unlimited tax and $800.1 million in limited tax general obligation bonds. Peak debt service on the city's LTGO bonds is $102.4 million in 2017, or 8.7% of 2014 general fund revenues. Officials estimate 37% of the city's 2016 LTGO debt service will be paid for from dedicated revenues outside the general fund, including commercial parking taxes and real estate excise taxes. As noted previously, 80% of the city's LTGO debt amortizes within ten years.

DEBT-RELATED DERIVATIVES
The city has no debt-related derivatives.

PENSIONS AND OPEB
The city manages a single-employer defined benefit public employee retirement plan (Seattle City Employees' Retirement System), the Firemen's Pension Fund, and the Police Relief and Pension Fund. The city's three-year adjusted net pension liability (ANPL) is moderate at 1.71% of full value and 2.4 times operating revenues. ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. Notably, a sizeable portion of this liability is attributable to the city's utilities. Additionally, the city may, under state law, levy a $0.225 per $1,000 property tax levy to cover the Firemen's fund. Beginning on January 1, 2017, SCERS will close to new entrants, and the city will open a new system (SCERS 2) to new employees. SCERS 2 will decrease benefit levels, increase the minimum retirement age, and defer retirement eligibility by increasing the age-plus-years-of-service requirement for retirement with full benefits. The city records an implicit subsidy for OPEB.

Management and Governance: Strong Management With Sound Institutionalized Practices
Washington cities have an institutional framework score of 'Aa', or strong. Despite some sales tax volatility, cities benefit from property tax levies whereby collections can be increased up to 1% of the prior year. Cities have both the ability and willingness to make mid-year budgetary reductions.

Moody's views the city's management team as strong. The strength of the management team is buttressed by codified practices that enhance the city's financial profile. As a matter of policy, the city appropriates sufficient money into the Emergency Subfund to the maximum amount allowed by state law ($0.375 per $1,000). Additionally, 0.5% of forecasted tax revenues are automatically contributed to the city's “Rainy Day Fund,” also known as the Revenue Stabilization Account, as are 50% of any unanticipated excess General Subfund balances at year end. These contributions are suspended when forecasted nominal tax growth rate is negative or when the Rainy Day Fund exceeds 5% of total tax revenues.

Legal Security
The unlimited tax general obligation bonds are secured by the city's full faith, credit and resources and unlimited property tax pledge, while the limited tax general obligation bonds are secured by the city's full faith, credit, and resources and pledge to levy taxes annually within the constitutional and statutory tax limitation provided by law without a vote of the people.

Use of Proceeds
The UTGO bonds will be used to finance a portion of the city's Seawall Project.

The 2016A bonds will be used for various capital improvements, as well as refund certain portions of the city's outstanding limited tax general obligation debt.

The 2016B bonds will be used to assist the Pike Place Market Preservation and Development Authority in undertaking various capital improvements.

Obligor Profile
Seattle is the economic center for the Pacific Northwest. The city is a full-service city, with a relatively affluent population of more than 625,000, a large and well-educated labor force, and ties to the broader metropolitan area including the cities of Bellevue and Everett.

Methodology
The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Seattle (City of) WA

Issue	Rating

Unlimited Tax General Obligation Improvement Bonds, 2016	Aaa
Rating Type	Underlying LT
Sale Amount	$38,205,000
Expected Sale Date	05/04/2016
Rating Description	General Obligation
Limited Tax General Obligation Improvement And Refunding Bonds, 2016A	Aa1
Rating Type	Underlying LT
Sale Amount	$108,585,000
Expected Sale Date	05/04/2016
Rating Description	General Obligation Limited Tax
Limited Tax General Obligation Improvement Bonds, 2016B	Aa1
Rating Type	Underlying LT
Sale Amount	$6,040,000
Expected Sale Date	05/04/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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