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Summary:

Seattle, Washington; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$108.585 mil ltd tax GO imp and rfdg bnds ser 2016A due 04/01/2036		
Long Term Rating	AAA/Stable	New
US$38.205 mil unltd tax GO imp bnds ser 2016 due 12/01/2045		
Long Term Rating	AAA/Stable	New
US$6.04 mil ltd tax GO imp bnds ser 2016B due 04/01/2036		
Long Term Rating	AAA/Stable	New
Seattle GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Seattle's series 2016A limited-tax general obligation (GO) improvement and refunding bonds, 2016 unlimited-tax GO improvement bonds, and 2016B taxable limited-tax GO improvement bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the city's previously issued GO bonds and GO-equivalent obligations. The outlook is stable.

The city's full faith and credit, including the obligation to levy ad valorem property taxes without limitation as to rate or amount, secure the city's unlimited-tax GO bonds. The city's limited-tax GO bonds are subject to statutory limitations that include a limit on annual property tax revenue growth without a voter override and a limit on the city's levy rate of $3.60 per $1,000 of assessed value (AV). The city's 2016 levy rate is $2.60. The GO-equivalent obligations have a contingent limited-tax GO pledge of the city; this pledge has been invoked for a debt instruments representing $3.2 million in principal as of the end of 2015.

Our issue ratings are based on a view of the city's general creditworthiness that is above that of the U.S. sovereign rating. This reflects our view that the city would not default in a stress scenario likely to accompany a sovereign default given autonomy from sovereign intervention. We view the city as exhibiting relatively low funding interdependency with the federal government. For 2015 (unaudited), local taxes represented the vast majority of total governmental funds revenue and grants, some of which we understand were from the U.S. government, represented 9% of total governmental funds revenue. However, consistent with our view that U.S. state and local governments are moderately sensitive to country risk, should our view of the city's general creditworthiness deteriorate we would be unlikely to set GO issue ratings more than two notches above the U.S. sovereign rating.

The ratings reflect our assessment of the following factors for the city:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 54.8% of total governmental fund expenditures and 11.3x governmental debt service, and access to external liquidity we consider exceptional;
- Strong debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 60.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Adequate institutional framework score.

Very strong economy

We consider Seattle's economy very strong. The city, with an estimated population of 662,400, is located in King County in the Seattle-Tacoma-Bellevue MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 160% of the national level and per capita market value of $246,537. Overall, the city's market value grew by 13.0% over the past year to $163.3 billion in 2016. The county unemployment rate was 4.6% in 2014.

Seattle's economy is running from strength to strength. The center of an MSA with a population of 3.6 million, the city has benefited, in our view, from a deep reservoir of human capital and exposure to export markets, anchored by such major regional employers as Boeing and Microsoft. We anticipate that local economic performance will remain positive during the next two years, consistent with our expectation that growth in the Pacific states will exceed 2% through 2017.

We believe that the most influential single local employer in recent years has been Amazon.com, which has effectively expanded the city's downtown northward and continues to build space for a growing white-collar workforce within the city. Although the company's total space needs have not been disclosed publically, we understand that the online retailer owns or has committed to 8.3 million square feet and its campus is slated to grow to 4 million square feet in the coming years (some of which will likely represent transfers from leased space). The city also has attracted a regional relocation of Expedia.com headquarters and continues to be a locus of biotechnology employment.

Such employment growth has intensified a public debate about strains on the city's transportation infrastructure. Partly mitigating these concerns is progress in transit capacity, with the region's light rail operator, Sound Transit, opening the first two stations of its northern spur in March 2016 and continuing construction that is slated to extend the line to near the city's northern city limits by the end of the decade. SoundTransit plans to ask regional voters in November 2016 for authorization for construction of the next generation of rail and other infrastructure, which we believe would further support the city's regional accessibility. Although transit investments may not relieve traffic congestion that may represent a constraint on employment growth, city voters have supported infrastructure improvement in the form of a 10-year property tax increase that would total $930 million during the authorization period.

We believe that employment growth has also fueled robust single-family home price growth as measured by the Standard & Poor's/Case-Shiller Home Price Index. The city is accommodating a portion of rising housing demand by adding to its multifamily housing stock, with 16,800 building permits issued in 2015, but management anticipates that the pace of growth will slow in 2016. We understand that the city may also ask voters to authorize a renewal and expansion of an affordable housing levy to meet portions of the housing market that are largely underserved by current new construction.

Potentially modestly adding to the city's footprint is a proposed annexation of an unincorporated already built-upon area just southwest of the city limits. We understand that this would add a modest approximately 18,000 residents if proposed and approved by voters but is unlikely to have a material effect on the city's service demands.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Elements of the city's financial policies and practices include:

- What we view as a consistent approach to budgeting, with the use of detailed, empirically based revenue and expenditure forecasts to build budgets;
- Management's provision of budget-to-actual updates to the council in May, September and November and a practice of the council making quarterly expenditure amendments;
- The use of a detailed financial forecasting model covering the current and subsequent three years to consider the long-term effects of current-year budgeting decisions;
- An annually updated rolling six-year capital improvement plan with funding sources identified;
- Quarterly reporting on investment holdings and returns under an internally guided investment policy;
- Formal and well-embedded comprehensive debt management policy; and
- Compliance with automatic formula contributions to designated reserves, although the city does not set reserve policy minimums.

Adequate budgetary performance

Seattle's budgetary performance is adequate in our opinion. The city had surplus operating results in the general fund of 4.1% of expenditures, but a deficit result across all governmental funds of 4.6% in fiscal 2015.

The city's general fund operations have been balanced-to-positive in the context of strong economic growth and upward pressure on salaries and benefits. The city estimates that general fund tax revenue growth, at 6.9%, repeated 2014's strong results largely as a result of a second consecutive year of double-digit sales tax revenue growth. Although 2015 general fund results (unaudited) have been more positive than in prior years and overall performance will remain adequate, we believe compensation settlements applicable to 2015 that are under tentative agreement could render 2016 general fund results closer to the city's approximately balanced results during 2013-2014.

We understand that the city plans to continue a pattern of using core revenue, the revenue or rates of which are restricted under state law, for basic services and request voters to approve property tax increases for specific policy initiatives. Examples include a November 2015 approval for transportation capital improvements and a likely August 2016 proposal for affordable housing programs totaling $290 million over seven years.

Very strong budgetary flexibility

Seattle's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 25% of operating expenditures, or $293.2 million.

Our calculation of the city's budgetary flexibility includes analytic adjustments that treat recurring transfers-out as expenditures given their recurring nature. Based on the city's 2016 budget and projections through 2019, we anticipate that the city's financial flexibility will remain very strong although management anticipates that the 2016 balance could decline depending on the expenditure effects of tentative labor agreements.

Very strong liquidity

In our opinion, Seattle's liquidity is very strong, with total government available cash at 54.8% of total governmental fund expenditures and 11.3x governmental debt service in 2014. In our view, the city has exceptional access to external liquidity if necessary.

We believe the city has exceptionally strong access to external liquidity, with approximately annual issuances of GO bonds in recent years and frequent issuances of various security types during the past 15 years. We do not consider the city's investments to be aggressive, with U.S. agency, government-sponsored enterprise and U.S. treasury obligations making up 67% of the city's portfolio and repurchase agreements and commercial paper making up 15%.

The city has agreed to loan, on a contingent basis, sufficient and timely resources to enable three obligors to meet their debt service obligations. One loan, representing $440,000 in annual debt service, is not performing. Should the risk of the city making payments under the other contingent agreements become non-remote, we would consider the city's liquidity exposure to be modest, with $5 million in annual payments scheduled in 2017.

Strong debt and contingent liability profile

In our view, Seattle's debt and contingent liability profile is strong. Total governmental fund debt service is 4.8% of total governmental fund expenditures, and net direct debt is 60.8% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, which is in our view a positive credit factor.

Management reports that the city will use the proceeds of the series 2016 "new money" unlimited-tax GO bonds to fund upgrades to its seismically vulnerable seawall as part of the last issuance under a 2012 authorization. The 2016A limited-tax GO (LTGO) bond proceeds will fund a mix of 14 capital improvement projects and refund approximately $29 million certain GO debt outstanding for interest expense savings. Finally, the series 2016B taxable LTGO bond proceeds will fund improvements at the city's Pike Place Market and are being issued on behalf of an authority that governs the historic facility.

We anticipate that the city will continue a pattern of LTGO issuances in the spring in 2017, at approximately $50 million to $60 million for general projects, potentially supplemented by additional borrowing of less than $100 million to absorb the final costs of the seawall. We do not anticipate that the city's net direct debt will rise materially in the coming years, as the city continues to secure voter authorization for property tax increases for pay-as-you-go capital needs, including a November 2015 authorization for transportation improvements over a 10-year horizon. We are not aware of any recent credible proposals to bring in professional basketball and#?#or hockey franchises that would spur city exposure to capital costs associated with a new arena, as had appeared possible two years ago.

The city has agreed to loan, on a contingent basis, sufficient and timely resources to enable three obligors to meet their debt service obligations. The principal of these loans totaled $51 million at the end of 2015. One loan, with $3.2 million outstanding as of the end of 2015 is not performing. We anticipate that the other loans will continue to perform and have adjusted our calculation of the city's direct debt to exclude such obligations.

Seattle's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.9% of total governmental fund expenditures in 2014, with 5.7% representing required contributions to pension obligations and 1.2% OPEB payments. The city made 99% of its annual required pension contribution in 2014.

The city independently manages a defined benefit pension for most of its nonsworn employees (SCERS) and two small closed plans for public safety employees. Other public safety employees participate in the state-managed Law Enforcement Officers' and Firefighters' Retirement System. In 2012, the city shifted its valuation of its pension assets to a five-year smoothing approach and formally declared its intention to fund its actuarially calculated annually required contribution (ARC) for the city-managed pension system based on a 30-year amortization. It has consistently met the ARC under its definition, although its payments fall slightly below the ARC under Governmental Accounting Standards Board (GASB) guidelines because, as we understand, the GASB guidelines do not allow an entity to assume growth in the number of employees. The city's actuary has calculated the funded ratio of the city's SCERS plan at 66% as of the day after the end of 2014. In the long term a tentative agreement with the city's major bargaining units would provide for the creation of a second, lower-cost tier for SCERS-qualifying employees hired after 2016.

The city's OPEB liability consists of an implicit subsidy and, for certain public safety employees under a now closed plan, a direct subsidy.

Adequate institutional framework

The institutional framework score for Washington municipalities is adequate.

Outlook

The stable outlook reflects our view that Seattle's strong economic performance will likely continue during our two-year outlook horizon, consistent with our expectation of GDP growth in the region, and that financial performance is likely to remain adequate, with strongly positive 2015 unaudited general fund performance unlikely to repeat in 2016 in the absence of even stronger revenue performance and continuing negative total governmental funds performance. We view the chance of lowering the rating during the next two years as less than one in three.

Downside scenario

We do not anticipate lowering the rating during the outlook horizon unless the city experiences deterioration in multiple factors that we view as important to credit quality, such as a major economic reversal and rising costs that create a significant operating deficit that substantially erodes the city's liquidity position and available reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Washington Local Governments

Ratings Detail (As Of April 18, 2016)		
Seattle ltd tax GO bnds imp & rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle ltd tax GO imp and rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle unltd tax GO imp bnds ser 2013 dtd 06/04/2013 due 12/01/2014-2042		
Long Term Rating	AAA/Stable	Affirmed
Seattle unltd tax GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle GO Bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle Lmtd Tax GO Imp & rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle Ltd tx GO imp & rfdg bnds ser 2012 dtd 05/16/2012 due 09/01/2012-2032		
Long Term Rating	AAA/Stable	Affirmed
Seattle GO		
Long Term Rating	AAA/Stable	Affirmed
Seattle Chinatown Intl Dist Pres & Dev Auth, Washington		
Seattle, Washington		
Seattle Chinatown Intl Dist Pres & Dev Auth (Seattle) GO		
Long Term Rating	AAA/Stable	Affirmed
Seattle Chinatown Intl Dist Pres & Dev Auth (Seattle) GO		
Long Term Rating	AAA/Stable	Affirmed
Seattle Indian Svcs Comm, Washington		
Seattle, Washington		
Seattle Indian Svcs Comm (Seattle) GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of April 18, 2016) (cont.)		
Seattle Museum Dev Auth, Washington		
Seattle, Washington		
Seattle Museum Dev Auth (Seattle) spl obligation rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Washington St Hsg Fin Comm, Washington		
Seattle, Washington		
Washington St Hsg Fin Comm (Seattle) (Lowman Bldg)		
Long Term Rating	AAA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.