

# RatingsDirect®

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## Summary:

# Seattle, Washington; General Obligation; General Obligation Equivalent Security

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## Summary:

# Seattle, Washington; General Obligation; General Obligation Equivalent Security

### Credit Profile

US\$62.685 mil ltd tax GO bnds imp & rfdg bnds ser 2014 due 05/01/2034

*Long Term Rating*

AAA/Stable

New

US\$43.32 mil spl obligation rfdg bnds (Seattle) ser 2014 due 04/01/2031

*Long Term Rating*

AAA/Stable

New

US\$15.5 mil unlted tax GO bnds imp bnds ser 2014 due 12/01/2043

*Long Term Rating*

AAA/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Seattle, Wash.'s series 2014 limited-tax general obligation (GO) and refunding bonds and 2014 unlimited-tax GO improvement bonds. Standard & Poor's also assigned its 'AAA' long-term rating to the Museum Development Authority of Seattle's series 2014 special obligation refunding bonds, which we consider to be a GO-equivalent obligation of the city. Finally, 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 per \$1,000 of assessed value (AV).

The city's GO-equivalent obligations include its limited-tax GO pledge on a contingent basis. For the authority's series 2014 special obligation refunding bonds, the city has pledged its full faith, credit, and resources, which under state law includes the obligation to levy ad valorem property taxes within statutory limitations, to make timely loans to the authority sufficient to maintain compliance with a reserve requirement associated with a lease agreement between the authority and the Seattle Museum. The city may not terminate this obligation until the bonds are repaid or defeased. Under the lease agreement, the museum has agreed to make lease payments to the authority as lessor during the life of the bonds. City management anticipates that the bonds will be self-supporting given the museum's plan to use rental payments from a commercial tenant under a lease that expires after the maturity of the bonds.

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

- Very strong economy, which is the center of a large and diverse metropolitan region;
- Very strong budgetary flexibility, with strengthening economic conditions supporting a growing financial position;
- Very strong management, with strong financial policies and practices, including the maintenance of long-term operating forecasts and formal quarterly budget reviews with the city council;

- Adequate budgetary performance, with what we anticipate will be moderating performance after strongly positive performance in 2012;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures; and
- Very strong debt and contingent liability position, with a low overall net debt burden and rapid amortization of direct debt.

### **Very strong economy**

We consider Seattle's economy very strong. The center of a 4.2 million-resident region, 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. Its overlapping county has increased its count (year over year) in employed residents during the past 36 consecutive months, and the unemployment rate was 6.8% for 2012 and appears likely to have fallen to less than 6% for 2013. We project Seattle's per capita effective buying income at 146% of the U.S. level in 2017 and estimate its per capita market value at \$204,600 for 2014.

### **Very strong management**

We view the city's management conditions as very strong, with strong financial policies and practices and what we view as a consistent approach to budgeting. Among the city's tools are a quarterly budget amendment cycle that allows the city to adjust financial performance within the year, the use of a detailed three-year financial forecasting model to consider the long-term effects of current-year budgeting decisions, and a comprehensive debt management policy.

### **Very strong budgetary flexibility**

In our opinion, Seattle's budgetary flexibility is very strong, with a growing available general fund position. Inclusive of our analytic adjustments to include transfers-out in our calculation of expenditures because of their recurring nature, we calculate that the city's available general fund balance rose to 18.7% of expenditures, or \$218.5 million, for 2013 (unaudited) from 10.3% at the end of 2010, consistent with the city's goal to rebuild reserves after the Great Recession. We calculate, inclusive of our analytic adjustments, that the city's available general fund balance could reach 20% of expenditures for 2014. The city lacks significant taxing flexibility under state law but has a record of securing voter overrides for specific services or capital needs in recent years, and we believe that this political environment is likely to continue as a result of recent economic and property value growth.

### **Adequate budgetary performance**

The city's budgetary performance is adequate, in our view, with a surge in tax revenue contributing to a 2012 general fund surplus, inclusive of our analytic adjustments, of 6.9% of expenditures, but a slight deficit of 1.1% of total governmental funds expenditures. Preliminary 2013 actual results suggest that the general fund finished the year with a surplus of about 2%, and the city's adopted 2014 budget suggests a slight deficit for the general fund. But based on our prior experience, we anticipate that operations will be nearly balanced because of conservative revenue and expenditure assumptions.

### **Low federal funding interdependencies**

The city exhibits a relatively low level of funding interdependencies with the federal government. For 2012, capital and operating grants, less than half of which consisted of federal payments, represented 22% of total governmental expenses.

### **Very strong liquidity**

Supporting the city's finances is liquidity that we consider very strong, with 2012 ending total government available cash at 55% of total governmental fund expenditures. Seattle's cash and investments position at the end of 2012 stood at 11x total governmental funds debt service. 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.

### **Very strong debt and contingent liability profile**

In our opinion, the city's debt and contingent liability profile is very strong. Total governmental funds debt service was 5% of total governmental funds expenditures for 2012. Carrying charges associated with contingent liabilities, which the city has thus far not been required to support, would not significantly raise this ratio. Net direct debt stands at 63% of total governmental funds revenue, a ratio that we believe could decline during the next two years should recent new construction and economic growth generally contribute to strong tax revenue growth. Supporting credit quality, in our view, is the city's low overall net debt to market value, at 1.1%, and rapid amortization.

The city independently manages a defined benefit pension for most of its non-sworn employees 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, Seattle 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 for public safety employees. This contribution amount has risen in response to a decline in the funded ratio, which stood at 64% for Jan. 1, 2013, but we consider combined pension and other postemployment benefit (OPEB) contributions moderate at 7% of total governmental funds expenditures. 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**

We consider the Institutional Framework score for Washington cities adequate.

## **Outlook**

The stable outlook reflects our view of Seattle's positive economic momentum and pattern of positive general fund performance as the economy has improved. We do not anticipate lowering the rating in the next two years unless the city experiences deterioration in multiple factors that we view as important to credit quality, such as a combination of 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
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

## Related Research

- 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 March 25, 2014)

Seattle ltd tax go imp & rfdg bnds ser 2005

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Seattle ltd tax GO imp and rfdg bnds

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Seattle unltd tax GO rfdg bnds

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Seattle GO bnds

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Seattle GO Bnds

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Seattle Lmted Tax GO Imp & rfdg bnds

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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#### Pike Place Mkt Preservation & Dev Auth, Washington

Seattle, Washington

Pike Place Mkt Preservation & Dev Auth (Seattle) spl oblig rev rfdg bnds ser 2002

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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#### Seattle Chinatown Intl Dist Pres & Dev Auth, Washington

Seattle, Washington

Seattle Chinatown Intl Dist Pres & Dev Auth spl oblig bnds (Hsg Fac) ser 2002A&B

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Seattle Chinatown Intl Dist Pres & Dev Auth spl oblig rfdg bnds ser 2007

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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#### Seattle Indian Svcs Comm, Washington

Seattle, Washington

Seattle Indian Svcs Comm spl oblig rev rfdg bnds ser 2004

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Seattle Indian Svcs Comm (Seattle) spl oblig rev rfdg bnds ser 2002

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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#### Seattle Museum Dev Auth, Washington

Seattle, Washington

Seattle Museum Dev Auth GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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#### Washington St Hsg Fin Comm, Washington

Seattle, Washington

Washington St Hsg Fin Comm (Seattle) (Lowman Bldg)

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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