MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Seattle, WA's $163M UTGO bonds, Aa1 to $195M LTGO bonds; stable outlook

Global Credit Research - 28 Apr 2015

Affirms outstanding ratings on $133M of UTGO and $810M of LTGO bonds

SEATTLE (CITY OF) WA
Cities (including Towns, Villages and Townships)
WA

Moody's Rating

ISSUE		RATING
Limited Tax General Obligation Improvement Bonds, 2015B (Taxable)		Aa1
Sale Amount	$28,200,000	
Expected Sale Date	05/06/15	
Rating Description	General Obligation Limited Tax	
Limited Tax General Obligation Improvement and Refunding Bonds, 2015A		Aa1
Sale Amount	$167,335,000	
Expected Sale Date	05/06/15	
Rating Description	General Obligation Limited Tax	
Unlimited Tax General Obligation Improvement Bonds, 2015		Aaa
Sale Amount	$162,565,000	
Expected Sale Date	05/06/15	
Rating Description	General Obligation	

Moody's Outlook STA

NEW YORK, April 28, 2015 --Moody's Investors Service has assigned a rating of Aaa to Seattle, Washington's $162.6 million Unlimited Tax General Obligation Improvement Bonds, 2015, and ratings of Aa1 to the city's $167.3 million Limited Tax General Obligation Improvement and Refunding Bonds, 2015A, and $28.2 million Limited Tax General Obligation Improvement Bonds, 2015B (Taxable). Moody's has affirmed the Aaa ratings on approximately $133 million of outstanding UTGO bonds, and the Aa1 ratings on approximately $810 million of outstanding LTGO bonds. The rating outlook is stable.

SUMMARY RATING RATIONALE

The ratings reflect the city's broad economic base, which consists of an affluent, highly-educated population and is currently experiencing robust growth across all relevant indicators; stable financial performance in recent years, including a concerted and successful rebuilding of reserves, and healthy operating flexibility with diverse streams of revenues and expanding tax rate headroom; and a manageable debt profile with declining debt service over the intermediate term, relatively rapid pay out of principal, and moderate pension and OPEB liabilities.

OUTLOOK

The stable rating outlook is based upon our view that the city is well positioned to maintain reserves at current levels and manage near-term capital needs and economic fluctuations without material impact to the overall credit profile.

WHAT COULD MAKE THE RATING GO UP

-N/A

WHAT COULD MAKE THE RATING GO DOWN

-Significant deterioration of finances

-Prolonged weakness in the economy and tax base

-Material increase in debt and pension liabilities

STRENGTHS

-Tax base is a regional economic center with a diverse and high value-added employment base; relatively high resident incomes with ongoing strong growth in employment, wages and property values

-Strong management, healthy financial flexibility and improving balance sheet

-Favorable debt profile

CHALLENGES

-Exposure to economically sensitive revenues

-Debt levels may rise with near-term borrowings

RECENT DEVELOPMENTS

Since the time of our last review in March 2014, the city's economy has continued to outperform relative to virtually all other metropolitan areas in the US. Employment, incomes and home prices continue to grow, assessed value increased 12.7% in FY 2015 and is now above its pre-recession peak, and actual FY 2014 tax revenues exceeded the city's initial projections by more than 4%, growing 7% year-over-year. Financial performance remains stable, with an expected $8 million General Fund surplus for FY 2014.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: BROAD TAX BASE; ROBUST GROWTH ACROSS ALL RELEVANT INDICATORS

The City of Seattle is the commercial and tourist hub of the Puget Sound region, and the county seat for King County (Aaa stable). The software development and aircraft industries are key components of the diverse regional economy. Seattle's economy is experiencing strong performance driven by residential and commercial construction, and employment expansion. Job growth has maintained the strong pace evident throughout 2014, ahead of the prior year's pace and well ahead of the US average. The unemployment rate is lower than the US average, despite upward pressure from a growing labor force that is at a record high.

Rapid employment and income growth are bolstering the housing market, creating strong price appreciation and attracting new construction. Price appreciation remains nearly 10% over the year for single-family homes, according to CoreLogic, well ahead of the US pace. Single-family permit issuance turned up in Seattle well before it did in most other areas, and construction job growth is strong. Demand for workers remains supported by additional commercial construction and infrastructure projects such as the new tunnel that will replace the Alaskan Way Viaduct along Seattle's waterfront. With employment at 95,000 in the region, Boeing continues to lead the aerospace industry as the area's largest employer. A recent ten-year agreement with machinists securing jobs in the area enhances economic stability in the region, and Boeing has a large order book with a backlog of more than 5,740 planes. Development in the South Lake Union area has been spurred by Amazon's 3.3 million square foot expansion project and aggressive hiring.

The rate of tax base growth accelerated to 12.7% in FY 2015 from 9.6% in FY 2014, and assessed value (AV) surpassed its pre-recession peak. Building permits, home prices and taxable sales have continued on positive trajectories, suggesting further tax base growth is likely in the near term, especially as housing inventory is very tight, with 1.4 months of supply in December 2014. The city's FY 2015 assessed value (AV) is sizeable at $144.5 billion, or $230,630 per capita, levels that are very high by comparison with most major metropolitan cities. Income levels are also high for a large city, with 2012 estimated median family income at 144.5% of the US. Seattle's incomes have made consistent gains relative to the US over the last 40 years.

FINANCIAL OPERATIONS AND RESERVES: STABLE FINANCIAL PERFORMANCE CONTINUES; RESERVES HAVE BEEN RESTORED TO HEALTHY LEVELS

The city's tax revenues continue to improve given leverage to the strong local economy; overall growth in tax revenues in FY 2014 is expected to be 7% compared to 2.4% in FY 2013. B&O and retail sales taxes are now above their pre-recession peaks. The city has maintained a budget surplus in each of the last four years (FY 2011 to estimated FY 2014) after a series of deficits following the onset of the recession. B&O and utility taxes revenues have grown to represent a larger share of General Fund revenues over time, and city management anticipates that B&O revenue growth will remain stable in the near term. The increased diversity of revenues and reduced reliance on sales tax revenues has positioned the city to better weather economic cycles. The city has added a cumulative $138 million to reserves over the last four years, and fund balance now stands at nearly $317 million, or 30% of revenues. Within this total, the city's Revenue Stabilization Account (RSA) has continued to increase, from $10 million in FY 2011 to $41 million in FY 2014, and the Emergency Subfund is maintained at the legal limit of $49 million.

We expect city management will continue to conservatively budget and take the necessary mid-year actions to maintain fiscal balance and preserve its long-term credit strength. Management has demonstrated a history of budgeting conservatively, and a willingness to cut costs when needed, while simultaneously using accumulated reserves as revenue stabilization measures. Going forward, the budget focus is primarily on preservation of programs and enhancing reserves within the General Fund, although this emphasis may shift as the RSA reaches a satisfactory level. The FY 2015 budget is balanced.

Liquidity

Liquidity is healthy. The city ended FY 2013 with $237 million of cash in its General Fund and more than $1 billion in its cash pool. FY 2014 (unaudited) data show cash of $217 million in the General Fund and $1.6 billion in the cash pool.

DEBT AND PENSIONS: LOW DEBT BURDEN WITH POSITIVE AMORTIZATION PROFILE

The city continues to maintain a low overall debt burden of 1.1%, well below levels typical of larger cities. Despite additional borrowing plans, debt levels are expected to remain low going forward. The city's gross direct debt burden of 0.8% is also below levels typical of other large cities, and the city's effective net direct debt burden is even lower as nearly 40% of LTGO debt is paid from dedicated revenues outside of the General Fund.

The UTGO portion of the current sale represents the third installment payment for the city's Seawall project. The city will have $42 million of authorized but unissued UTGO bonding for the project that it expects to exercise over the next three years. The city has additionally identified upwards of $400 million of potential borrowing over the next five years, and several of the projects are discretionary in nature. The city's Mayor has proposed a $900 million, nine-year levy lid lift for streets and bridges to replace the transportation levy that expires in 2015. The passage of the proposed levy would support the largest general government component of the city's five-year capital plan.

Debt Structure

The city's debt structure is positive. The city's bonds (both unlimited and limited tax GO) amortize relatively rapidly, with 64% of principal retired in ten years (79% of LTGO principal retired in 10 years). Aggregate debt service is declining over the intermediate term.

Debt-Related Derivatives

All of the city's debt is fixed rate and the city has no debt-related derivatives.

Pensions and OPEB

The city of Seattle manages a single-employer defined-benefit public employee retirement plan (SCERS), the Firemen's plan, and Police plan. As of FY 2013, the three-year average of the city's gross adjusted net pension liability (ANPL) was $2.4 billion, or 2.14 times General Fund revenues. We note that nearly 40% of the liability is attributable to the city's utilities, whose self-supporting nature results in a materially lower net pension liability. The city records an implicit subsidy for OPEB.

MANAGEMENT AND GOVERNANCE

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.

KEY STATISTICS

-Fiscal 2015 Full Value: $144.5 billion

-Fiscal 2015 Full Value Per Capita: $230,630

-2012 Median Family Income as % of US: 144.5%

-General Fund Balance as % of Revenues: 27.2%

-Five Year Dollar Change in General Fund Balance as % of Revenues: 3.3%

-General Fund Cash Balance as % of Revenues: 20.9%

-Five Year Dollar Change in General Fund Cash Balance as % of Revenues: -0.2%

-Institutional Framework: "Aa"

-Operating History: 1.0x

-Net Direct Debt % of Full Value: 0.8%

-Net Direct Debt to Operating Revenues: 1.02x

-3-Year Average ANPL % of Full Value: 1.7%

-3-Year Average ANPL to Operating Revenues: 2.14x

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 (Aaa stable) and Everett.

LEGAL SECURITY

The UTGO bonds are secured by the city's unlimited property tax, GO pledge, while the LTGO bonds are secured by the city's limited tax, GO pledge.

USE OF PROCEEDS

Approximately $58 million of the LTGO bonds will provide new money to finance various capital projects including a mixed-use development of a site at the Pike Place Market, transportation infrastructure, fire facilities, parks facilities and information technology. The remainder of the LTGO series will refund existing LT maturities for savings, estimated at 10% of refunded par. The $163 million of UTGO bonds will finance the third installment of funding for the Seawall project.

PRINCIPAL METHODOLOGY

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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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