Seattle, Washington

General Obligation Refunding Bonds

Full Rating Report

Ratings

New Issues

Unlimited Tax General Obligation Improvement Bonds, Series 2014	AAA
Limited Tax General Obligation Improvement Bonds, Series 2014	AA+

Outstanding Debt

Unlimited Tax General Obligation Bonds	AAA
Limited Tax General Obligation Bonds	AA+

Rating Outlook

Stable

Related Research

Fitch Rates Seattle (WA) $15.5MM ULTGOs 'AAA'; $62.7MM LTGOs 'AA+'; Outlook Stable (March 2014)

Analysts

Matthew Reilly
+1 415 732-7572
matthew.reilly@fitchratings.com

Karen Ribble
+1 415 732-5611
karen.ribble@fitchratings.com

Key Rating Drivers

Sale Information: $15,500,00 million Unlimited Tax General Obligation (ULTGO) Improvement Bonds, Series 2014, rated 'AAA'; $62,700,000 million Limited Tax General Obligation (LTGO) Improvement Bonds, Series 2014, rated 'AA+'. The bonds are scheduled to sell competitively the week of March 31.

Security: ULTGOs are secured by an unlimited ad valorem tax and LTGOs are secured by an ad valorem tax pledge subject to statutory limits.

Purpose: ULTGO bond proceeds will finance project costs related to the rebuilding of the Seawall. LTGO bonds will be used to fund various city projects and refund an outstanding obligation guaranteed by the city.

Final Maturity: ULTGO improvement bonds, series 2014 — May 1, 2043; LTGO improvement bonds, series 2014 — Dec. 1, 2034.

Key Rating Drivers

Positive Margins; Increased Reserves: Rebounding revenues following several years of expenditure reductions and cost containment resulted in positive financial operations in fiscal years 2012 and 2013, leading to significantly increased reserves.

Prudent Financial Practices: Financial management practices include economic forecasting, regular budgeting monitoring and adjustment and sound reserve and debt policies that are consistently followed.

Resilient but Concentrated Economy: The city serves as the economic center for the Pacific Northwest and benefits from high wealth and education levels, a relatively low unemployment rate, above-average job growth and a recovering housing market. However, despite ongoing diversification, the regional economy remains heavily influenced by Boeing and Microsoft.

Low Debt Burden: Overall debt levels for the city are expected to remain low given the city's limited debt issuance plans, pay-as-you-go financing of capital improvements through dedicated real estate excise tax (REET) revenues and rapid amortization of outstanding debt.

Sustainable Plan to Improve Pensions: Seattle's primary pension plan is poorly funded, but the city has taken prudent steps to improve its sustainability. Fitch Ratings believes carrying costs for debt service, pensions and other post-employment benefits (OPEB) will remain quite affordable despite pension payment increases and rapidly amortizing debt.

Rating Distinction: Fitch rates the LTGOs one notch lower than the ULTGOs because of the limited permitted increase to the tax levy securing the LTGOs.

Rating Sensitivities

The rating is sensitive to shifts in fundamental credit characteristics, including the city's solid financial profile. The Stable Rating Outlook reflects Fitch's expectation that such shifts are unlikely.

Rating History — ULTGO

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/20/14
AAA	Affirmed	Stable	4/9/13
AAA	Affirmed	Stable	4/16/12
AAA	Affirmed	Stable	2/16/11
AAA	Affirmed	Stable	3/4/10
AAA	Affirmed	Stable	3/5/09
AAA	Affirmed	Stable	6/6/08
AAA	Affirmed	Stable	3/30/07
AAA	Affirmed	Stable	3/24/06
AAA	Affirmed	Stable	3/2/05
AAA	Affirmed	Stable	4/15/04
AAA	Affirmed	—	1/28/03
AAA	Affirmed	—	9/4/02
AAA	Affirmed	—	12/31/01
AAA	Affirmed	—	7/30/01
AAA	Affirmed	—	5/23/00

Rating History — LTGO

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	3/20/14
AA+	Affirmed	Stable	4/9/13
AA+	Affirmed	Stable	4/16/12
AA+	Affirmed	Stable	2/16/11
AA+	Affirmed	Stable	3/4/10
AA+	Affirmed	Stable	3/5/09
AA+	Affirmed	Stable	6/6/08
AA+	Affirmed	Stable	3/30/07
AA+	Affirmed	Stable	3/24/06
AA+	Affirmed	Stable	3/2/05
AA+	Affirmed	Stable	4/15/04
AA+	Affirmed	—	1/28/03
AA+	Affirmed	—	9/4/02
AA+	Affirmed	—	12/31/01

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Credit Profile

Solid Financial Performance

Seattle's diverse revenue base recorded gains in most major categories the past two years. The ongoing economic recovery, which has been better than expected, resulted in strong revenue growth with increases of 11.26.1% in 2012 and 4.9% in 2013. Sales tax revenues saw the largest relative increase, rising 7.0% and 6.8% in 2012 and 2013, respectively, as both consumer spending and construction experienced renewed activity.

Business and occupation taxes (B&O) reached new all-time highs in the last two years, although property tax revenues (23% of general fund revenues) have grown at a slower rate. The relative stability in property tax revenues is due to legal restrictions that limit the city's levy to an annual increase of 1% plus new growth, thereby protecting the revenue stream from declines in assessed value (AV), but limiting the upside from AV gains as well. The city's operating performance in 2012 and 2013 (preliminary) was solid, recording operating surpluses (after transfers) of $70.2 million (7% of spending) and $35.4 million (3%), respectively.

The 2014 budget includes a modest use of reserves. However, Fitch expects some level of outperformance as revenues appear to be outpacing budgetary estimates.

Healthy, Increasing Reserves

The city's historically solid reserves decreased during the recession as the city sought to minimize expenditure reductions, but have since recovered to healthy levels. Unrestricted reserves increased by $46.6 million in 2012 to an ending balance of approximately $191.9 million, or 19.1%, of spending. Included in the total were the balances for the city's emergency fund ($42.1 million), which is maintained at the maximum amount allowed by state law, and the city's rainy day reserve fund ($21.5 million).

Reserves are expected to increase again in 2013. Preliminary financial reports show the unrestricted fund balance increasing to $227 million (19.4% of spending). The rainy day reserve is expected to grow to approximately $30 million in 2013, nearly reaching its previous high of $30.6 million recorded in 2008. Budgeted increases to the city's rainy day fund in 2014 should support at least modest increases in reserves.

Resilient but Concentrated Economy

The city has experienced above-average economic growth over the past year and socioeconomic indicators remain strong. Significant job gains have reduced the city's unemployment rate to 4.7% (November 2013), which compares favorably to state (6.4%) and national (6.6%) averages. Employment growth was widespread, but largely driven by Boeing and aerospace-related employers, Microsoft, Amazon.com and other retail employers. While employment sectors in the region appear to be diversifying to some degree, Boeing and Microsoft continue to play an outsized role in the area.

The city's housing market is picking up with management reporting median home price gains of 14% over the past year and declining commercial vacancy rates. As a result of the increased real estate activity and higher prices, the city's AV grew 9.6% in 2014 after nearly flat performance in 2013.

General Fund Financial Summary

($000, Audited Years Ended Dec. 31)

	2008	2009	2010	2011	2012
Property Tax Revenue	238,258	245,543	250,430	254,239	259,954
Sales Tax Revenue	171,917	150,515	146,970	158,582	169,681
Other Tax Revenue	335,280	360,851	363,770	378,145	416,376
Total Tax Revenue	**745,455**	**756,909**	**761,170**	**790,966**	**846,011**
License and Permits	18,269	19,333	20,401	18,817	20,672
Fines and Forfeits	22,110	28,519	30,936	33,992	34,243
Charges for Services	62,547	69,018	66,863	53,844	51,388
Intergovernmental Revenue	—	—	—	—	—
Other Revenue	66,282	68,629	74,654	102,725	108,947
General Fund Revenue	**914,663**	**942,408**	**954,024**	**1,000,34**	**1,061,261**
General Government	185,390	207,692	199,096	168,498	189,394
Public Safety Expenditures	415,201	424,794	437,716	445,170	458,957
Public Works Expenditures	—	—	—	—	—
Health and Social Services Expenditures	272	1262	0	0	0
Culture and Recreation Expenditures	5,545	10,798	26,398	58,098	59,712
Educational Expenditures					
Capital Outlay Expenditures	41,499	43,580	33,881	33,538	27,844
Debt Service Expenditures	0	6	0	5	5
Other Expenditures	66,990	49,472	40,611	69,915	36,992
General Fund Expenditures	**714,897**	**737,604**	**737,702**	**775,224**	**772,904**
General Fund Surplus	**199,766**	**204,804**	**216,322**	**178,800**	**288,357**
Extraordinary and Special Items	0	0	0	0	0
Transfers In	7,440	8,336	10,068	4,537	12,262
Other Sources	373	2,140	21,309	21,326	754
Transfers Out	263,197	289,244	278,109	225,649	231,156
Other Uses	0	0	0	0	0
Other Net Adjustments	0	0	0	0	0
Net Transfers and Other	**(255,384)**	**(278,768)**	**(246,732)**	**(199,786)**	**(218,140)**
Net Surplus/(Deficit)	**(55,618)**	**(73,964)**	**(30,410)**	**25,334**	**70,217**
Total Fund Balance	271,410	197,446	167,036	204,775	274,992
As % of Expenditures, Transfers Out, and Other Uses	27.7	19.2	16.4	20.5	27.4
Unreserved Fund Balance[a]	131,085	107,384	104,676	—	—
As % of Expenditures, Transfers Out, and Other Uses	13.4	10.5	10.3	—	—
Unrestricted Fund Balance[b]	—	—	—	145,286	191,917
As % of Expenditures, Transfers Out, and Other Uses	—	—	—	14.5	19.1

[a]Pre GASB54. [b]Reflects GASB 54 Classifications: Sum of committed, assigned and unassigned. Note: Numbers may not add due to rounding.

Favorable Debt Profile

Seattle maintains a conservative debt portfolio with no outstanding variable rate debt. Direct debt amortizes at a rapid rate with approximately 74% of outstanding ULTGO and LTGO principal retiring within 10 years.

The city's overall debt burden is low at 1.1% of 2014 AV and low to moderate at $2,260 per capita. Planned issuances would not materially impact Fitch's view of Seattle's overall debt burden given the rapid amortization of outstanding debt and the relatively limited debt plans. Preliminary plans for future debt issuance include the remaining $223 million in voter-authorized ULTGO bonds for the Alaskan Way Seawall project over the next three to five years and annual issuances of $50 million–$60 million to finance various city improvements.

The city finances a significant amount of capital projects through funds generated by the city's 0.5% REET. REET revenues are restricted for qualifying capital projects and the repayment of some general obligation debt. REET revenues equaled approximately $50 million in 2012 and are projected at $48 million in 2013. Fitch views the dedicated funding for capital projects positively.

Debt Statistics

($000)

This Issue	78,185
Outstanding Direct Debt — Net of Refunding	868,870
Self-Supporting	0
Total Net Direct Debt	**947,055**
Overlapping Debt	468,937
Total Overall Debt	**1,415,992**
Debt Ratios	
Net Direct Debt Per Capita ($)[a]	1,511
As % of Market Value[b]	0.7
Overall Debt Per Capita ($)[a]	2,260
As % of Market Value[b]	1.1

[a]Population: 626,600 (2013). [b]Market value: 128,205,754 (fiscal 2014). Note: Numbers may not add due to rounding.

Sustainable Plan to Improve Pensions

City employees and retirees participate in one of four defined benefit pension plans. The largest, Seattle City Employees' Retirement System (SCERS), which includes most miscellaneous employees, reports a weak funding ratio of 64% as of Jan. 1, 2013. Using Fitch's more conservative 7% investment return assumption, the system's funding ratio drops to a low 59%. The unfunded actuarial accrued liability was $1.1 billion, or 0.9%, of AV as of Jan. 1, 2013.

Concerns regarding the funding level are partially addressed by changes enacted in 2011. These changes included city legislation requiring full funding of the actuarially required contribution (ARC) and adoption of five-year smoothing rather than the annual mark-to-market approach used previously.

Carrying costs for debt service, pensions and OPEB are low at 12.4% of governmental spending in 2012. Fitch expects carrying costs to remain relatively low despite expected pension increases and rapid amortization of debt. Projections produced by the city show employer contributions increasing at a moderate rate in nominal terms from 2014 through 2017 to maintain full ARC funding.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.