Seattle, Washington

New Issue Report

Ratings

Long Term Issuer Default Rating	AAA

New Issues

$36,400,000 General Obligation Limited Tax Improvement Bonds, Series 2019A	AAA
$11,095,000 General Obligation Limited Tax Improvement Bonds, (Taxable) Series 2019B	AAA

Outstanding Debt

General Obligation Limited Tax Improvement & Refunding Bonds	AAA
General Obligation Limited Tax Improvement & Refunding Bonds (Taxable)	AAA
General Obligation Limited Tax Improvement Bonds	AAA
General Obligation Limited Tax Improvement Bonds (Taxable Build America Bonds-Direct Payment)	AAA
General Obligation Limited Tax Improvement Bonds (Taxable)	AAA
General Obligation Unlimited Tax Improvement Bonds	AAA
General Obligation Unlimited Tax Refunding Bonds	AAA

Rating Outlook

Stable

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New Issue Summary

Sale Date: July 25, 2019

Series: LTGO series 2019A, LTGO series 2019B (taxable)

Purpose: Various capital projects, including Alaska Way Corridor projects and other waterfront projects

Security: Ad valorem property tax pledge subject to statutory limits

Analytical Conclusion

Seattle's 'AAA' IDR and GO ratings are supported by strong economic and revenue growth, sustained by the educated workforce and dynamic software and aerospace industries that dominate the regional economy. Long-term liabilities are low. The city's somewhat weak revenue raising ability is offset by moderate expenditure flexibility and solid reserves relative to moderate expected revenue fluctuations. Fitch expects the city to maintain the highest level of gap closing capacity throughout the economic cycle.

Economic Resource Base: Seattle is the largest city in the Pacific Northwest and the cultural and business center of Puget Sound. The regional economy is still influenced by Boeing and Microsoft, though the city in particular is experiencing robust economic growth as Amazon and other technology companies expand in downtown, fostering complementary multiuse development. The workforce is highly educated, helping to sustain above average economic and revenue growth.

Key Rating Drivers

Revenue Framework: 'aa'
Revenue growth has been and is expected to remain largely above GDP growth given the size of the healthy aerospace and growing software sectors. Offsetting some of this strength, the city's ability to independently raise its property tax levy is limited to 1% annually.

Expenditure Framework: 'aa'
Over time, expenditure growth is expected to be roughly in line with revenue growth as employee salaries and benefits track closely with increases in the city's ad valorem and economically sensitive taxes. Carrying costs for debt service, pensions and OPEB are moderately low.

Long-Term Liability Burden: 'aaa'
Seattle's long-term liability burden is equally divided between bonded debt and adjusted net pension liabilities and is low relative to its resource base.

Operating Performance: 'aaa'
Seattle has exceptional gap-closing ability and is expected to manage through a downturn while retaining a high level of financial flexibility. Seattle's strong budget management and conservative policies result in rapid rebuilding of reserves while funding pay as you go capital and actuarial funding of pension benefits.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	7/18/19
AAA	Affirmed	Stable	4/15/04
AAA	Assigned		2/12/99

Related Research

Fitch Rates Seattle, WA's $47.5MM LTGOs 'AAA'; Affirms Outstanding (July 2019)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

Rating Sensitivities

Balanced Operations; Solid Reserves: Material deviation from Fitch's expectation of the highest gap closing capacity through the economic cycle, while unexpected, would result in downward rating pressure.

Credit Profile

Seattle continues to experience very strong economic growth, benefitting from Amazon's recent and rapid growth, increasing employment by other technology companies, and a strong construction industry. Seattle's tax structure captures this economic growth through property, business, sales, utility and real estate excise (transaction) taxes. While Fitch views the city's transition toward a more broadly diversified economic base as a positive credit factor, Boeing and Microsoft and increasingly Amazon, the most significant employers in the region, remain driving forces for the regional economy. As Amazon and Microsoft and other information technology companies have grown, the information sector now generates over three times the national average share of the regional employment and personal income. The performance of this industry is expected to continue to have an outsized impact on the economic fortunes of the city and region. The city's socioeconomic measures remain strong. Income levels are well above national averages as are educational attainment levels; 61% of residents have bachelor's degree, almost twice the average national rate of 31%.

The city's assessed value (AV) rose by double digits annually between 2015 and 2018 as increased employment, a growing population, and the significant development by Amazon and other companies led to a more active and higher priced real estate market. Fitch expects additional growth, though likely at a slower pace, over the next few years as ongoing and planned development projects are completed.

Revenue Framework

Revenues are diversified among property taxes (about 25% of 2019 budgeted general fund revenues), sales taxes (22%), business taxes (22%), utility taxes (17%) and other revenues. Sales and business taxes tend to be more volatile and responsive to changes in the economy while property and utility taxes tend to be very stable with more limited growth potential. The restriction of the city's real estate excise tax to capital spending reduces the exposure of financial operations to a volatile revenue source and provides an important source of pay-go capital throughout the economic cycle.

The city's revenue structure has provided a steady source of revenue growth despite a statutory limit of 1% annual property tax levy increases, due to ongoing additions to the tax base from new construction (which is excluded from the 1% limit) and economic growth benefitting other sources. As demonstrated in the Great Recession, the limitation on levy growth provides solid downside risk in the event of AV declines as the levy automatically increases by 1% annually.

Revenue growth has outpaced the rate of inflation and GDP by large margins. Ongoing economic growth appears likely to provide revenue growth in excess of GDP, supported by residential development downtown of over $4 billion in construction projects in 2017 and 2018, as well as several large office projects currently underway.

Increases to property taxes beyond the levy limit require voter approval, which the city regularly seeks and receives in the form of temporary levy lid lifts for specific uses. The city has the ability to adjust charges for services, permit fees and fines but the combination makes up less than 10% of general fund revenues.

Expenditure Framework

Public safety comprises the bulk of city general fund spending at about 44%, followed by general government, culture and recreation and capital.

Given the nature of Seattle's revenue system and spending responsibilities, Fitch believes that growth in major spending areas is likely to be in line with to marginally above expected revenue growth (on average).

The city's fixed cost burden is low, with carrying costs for debt, pensions and OPEB equaling about 11% of 2017 governmental expenditures. Pension costs represent over half of the total but are overstated since a significant portion of those pension costs are attributable to and paid by various city utilities, including the power and water enterprises.

The collective bargaining framework in Washington State offers moderate flexibility to make adjustments to personnel spending as needed. Most of the city's labor agreements expired in December 2018, and the city is currently negotiating 25 new contracts, including for firefighters and the coalition of city unions. The city settled with the police union in November 2018, replacing the contract that had expired in December 2014. In connection with the new contract, the city made a roughly $65 million payment for back pay with the police union.

The city and its miscellaneous (non-public safety) unions agreed to create a new pension tier effective Jan. 1, 2017, which has a lower benefit and expected lower contribution rate for the city and should slow the pace of growth of pension costs over time. The OPEB portion of carrying costs is very small.

Long-Term Liability Burden

The combination of the city's direct and overlapping bonded debt and its direct unfunded pension liability totals about 6.4% of personal income, which Fitch considers a low burden on the city's resources. Bonded debt makes up about 40% of the total liability and the Fitch adjusted net pension liability the remainder.

The city's debt issuance is exclusively for capital projects, with some use of pay-go for smaller projects. Given the city's practice of moderate, regular debt issuance, above-average pace of debt amortization and strong income growth, Fitch expects the city's debt burden to remain low relative to personal income. The city has its own pension system for miscellaneous employees (SCERS) and participates in the state-sponsored system for public safety workers (LEOFF). LEOFF is currently funded in excess of the liability while SCERS has an unfunded liability the city will fully pay off by 2042.

Operating Performance

The combination of the city's solid expenditure flexibility and sizeable reserves is expected to sustain its exceptional financial flexibility throughout economic downturns. For details, see Scenario Analysis, page 5.

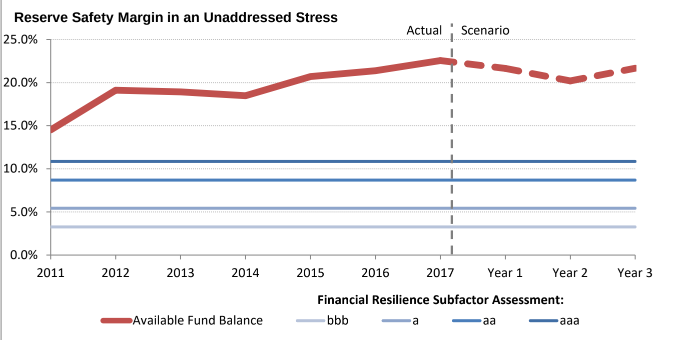
The city has demonstrated a strong commitment to financial flexibility through efforts to control costs, improve pension funding, maintain reserves, and utilize extensive and conservative financial forecasting. In addition, the city has a track record of funding key services such as public housing, library, transportation and families and education through voter-approved increases to property tax levy limits for specific purposes (levy lid lifts). During this extended economic recovery, the city has proactively built up its reserves, increasing unrestricted fund balance to an unaudited $294 million in 2018 from a low of $104 million in 2010. In addition, the pension reforms noted above demonstrate commitment to financial flexibility.

2018 Operating Performance and 2019 Budget

The city estimates its revenues increased almost 10% in 2018, although a portion of this is due to a new tax on sweetened beverages as well as an accounting change. Natural tax revenue growth is estimated at about 8% while expenditures (prior to the one-time retroactive $65 million payment related to the settlement of police contracts) increased by about 10%. The $1.3 billion 2019 general fund budget appears largely balanced with ongoing revenues matching ongoing expenditures.

Seattle (WA)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The combination of the city's solid expenditure flexibility and sizeable reserves are expected to sustain its exceptional financial flexibility throughout economic downturns. The city estimates it ended 2018 with about $294 million in unrestricted (assigned, unassigned and committed) fund balance, equal to about 19% of spending.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(2.2%)	1.4%	5.0%
Inherent Budget Flexibility		Midrange	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	1,000,344	1,061,261	1,098,175	1,160,753	1,218,733	1,330,045	1,404,724	1,374,213	1,393,590	1,463,144
% Change in Revenues	-	6.1%	3.5%	5.7%	5.0%	9.1%	5.6%	(2.2%)	1.4%	5.0%
Total Expenditures	775,224	772,904	855,584	897,493	902,662	1,021,753	1,083,903	1,105,581	1,127,693	1,150,247
% Change in Expenditures	-	(0.3%)	10.7%	4.9%	0.6%	13.2%	6.1%	2.0%	2.0%	2.0%
Transfers In and Other Sources	25,863	13,016	39,510	20,027	40,199	48,867	35,248	34,482	34,969	36,714
Transfers Out and Other Uses	225,649	231,156	248,133	275,112	289,603	318,299	303,516	309,586	315,778	322,094
Net Transfers	(199,786)	(218,140)	(208,623)	(255,085)	(249,404)	(269,432)	(268,268)	(275,104)	(280,809)	(285,380)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	25,334	70,217	33,968	8,175	66,667	38,860	52,553	(6,472)	(14,912)	27,518
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	2.5%	7.0%	3.1%	0.7%	5.6%	2.9%	3.8%	(0.5%)	(1.0%)	1.9%
Unrestricted/Unreserved Fund Balance (General Fund)	145,286	191,917	208,926	216,670	246,826	286,457	312,781	306,309	291,397	318,915
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	145,286	191,917	208,926	216,670	246,826	286,457	312,781	306,309	291,397	318,915
Combined Available Fund Bal. (% of Expend. and Transfers Out)	14.5%	19.1%	18.9%	18.5%	20.7%	21.4%	22.5%	21.6%	20.2%	21.7%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	34.8%	17.4%	10.9%	6.5%	4.3%
Reserve Safety Margin (aa)	26.1%	13.0%	8.7%	5.4%	3.3%
Reserve Safety Margin (a)	17.4%	8.7%	5.4%	3.3%	2.2%
Reserve Safety Margin (bbb)	6.5%	4.3%	3.3%	2.2%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.