FITCH RATES SEATTLE, WA'S $15MM ULTGOS AND $89.1 MM LTGOS 'AAA'; AFFIRMS OUTSTANDING

Fitch Ratings-San Francisco-02 May 2017: Fitch Ratings has assigned a 'AAA' rating to the following city of Seattle, WA (the city) general obligation (GO) bonds:

--$80.930 million limited tax GO (LTGO) improvement and refunding bonds, 2017A;
--$8.15 million LTGO improvement bonds, 2017B (taxable);
--$15.01 million unlimited tax (ULT) GO refunding bonds, 2017.

In addition, Fitch has affirmed the following ratings at 'AAA':
--$309.2 million outstanding ULTGO bonds,
--$710.6 million outstanding LTGO bonds, and
--Issuer Default Rating (IDR).

The Rating Outlook is Stable.

The LTGO proceeds will be used to finance various capital projects and to refund outstanding bonds issued by a city public development authority. The unlimited tax GO bond proceeds will be used to refund outstanding ULTGO bonds for savings.

SECURITY

ULTGO bonds are payable from an unlimited ad valorem property tax and LTGOs are payable from an ad valorem property tax pledge subject to statutory limits.

KEY RATING DRIVERS

Seattle's 'AAA' IDR is supported by strong economic and revenue growth, which are expected to continue, due to the educated workforce and the dynamic software and aerospace markets that dominate the economy. The somewhat weak revenue raising ability is offset by moderate expenditure flexibility and solid reserves relative to expected revenue fluctuations. Long term liabilities are low. Fitch expects Seattle to maintain solid reserves 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 heavily influenced by Boeing and Microsoft. 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.

Revenue Framework: 'aa' factor assessment
Revenue growth has been and is expected to remain largely above GDP given the high educational attainment levels and healthy dominant sectors of aerospace and software. Offsetting this strength, the city's ability to raise its property tax levy is limited to 1% annually.

Expenditure Framework: 'aa' factor assessment
Over time, expenditure growth is expected to be roughly in line with revenue growth as salaries and benefits pressure revenues. Carrying costs for debt service, pensions and OPEB are moderately low.

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

Operating Performance: 'aaa' factor assessment
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, regular pay as you go capital spending, and regular funding of retiree benefits.

RATING SENSITIVITIES

BALANCED OPERATIONS; SOLID RESERVES: Material deviation from Fitch's expectation of solid reserves 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 robust construction industry. Seattle's tax structure captures this economic growth through property, business, sales and utility taxes and real estate excise taxes. While the city's transition towards a more broadly diversified economic base is viewed positively, Fitch notes that Boeing and Microsoft and increasingly Amazon, the most significant employers in the region, remain driving forces for the regional economy. The performance of those companies and their plans for the area 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; city residents have over two times the national rate of advanced degrees.

The city's assessed value (AV) rose almost 60% between 2013 and 2017 as increased employment, a growing population, and the significant development plans 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 on-going and planned development projects are completed.

Revenue Framework
Revenues are diversified among property taxes (25% of general fund revenues), sales taxes (21%), business taxes (21%), utility taxes (18%) and other revenues. This structure has provided a steady source of revenue growth, despite a statutory limit of 1% annual levy increases, due to ongoing additions to the tax base from new construction and economic growth benefitting other sources.

Revenue growth has outpaced inflation and GDP by large margins. Ongoing economic growth appears likely to provide similarly paced revenue gains.

The city's property tax levy can increase by no more than 1% annually up to a rate cap, plus levies upon new construction. Increases to taxes (beyond the 1% increase to the property tax levy) require voter approval. The city has the ability to adjust charges for services, permit fees and fines but the combination makes up only 10% of general fund revenues.

Expenditure Framework

Public safety comprises the bulk of city general fund spending, 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 moderately above expected revenue growth (on average).

The city's fixed cost burden is low, with carrying costs for debt, pensions and OPEB equaling 11% of governmental expenditures. The collective bargaining framework in Washington State offers moderate flexibility to make adjustments to personnel spending as needed.

The city and 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 city's forecast for pension contributions shows the its contribution rate at about 15.3% of payroll in 2017-2019 before increasing to 15.8% in 2020 and 16% in 2021 and 2022. . The OPEB portion of carrying costs is very small as the city only provides an implicit rate subsidy for retirees.

Long-Term Liability Burden

The combination of the city's bonded debt and its unfunded pension liability results in a low and affordable burden relative to the city's resources.

The city's debt issuance is exclusively for capital projects, with some use of paygo for smaller projects. Given the 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's has its own pension system for miscellaneous employees (SCERS) and participates in the state-sponsored system for public safety workers (LEOFF). LEOFF is well funded and the annual pension payment consistently meets the ARC and actuarial assumptions are standard. SCERS has a weak funding ratio, with estimated assets equal to a low 61% of liabilities using Fitch's more conservative 7% return assumption.

The city enacted changes to its pension funding 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 prior to that.

Operating Performance

The combination of the city's expenditure flexibility and sizeable reserves are expected to sustain its exceptional financial flexibility throughout economic downturns.

The city has demonstrated a strong commitment to financial flexibility through efforts to control costs, improve pension funding, maintenance of reserves, and extensive and conservative financial forecasting. In addition, the city has a track record of moving expenditure responsibilities outside of the general fund through voter-approved increases to property tax levy limits for specific purposes (levy lid lifts) for services such as public housing, library, transportation and families and education, among others. During this extended economic recovery, the city has pro-actively built up its reserves, increasing unrestricted fund balance to an unaudited $268 million in 2016 from a low of $104 million in 2010. In addition, the pension reforms noted above demonstrate commitment to financial flexibility.

The restriction of the city's real estate excise tax to capital spending reduces the city's exposure to financial operations from a volatile revenue source and provides an important source of paygo capital throughout the economic cycle.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478