MOODY'S INVESTORS SERVICE

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New Issue

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City of Seattle, WA

New Issue - Moody's assigns Aaa ratings to Seattle, WA's GO bonds; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned Aaa ratings to the City of Seattle, Washington's $80.9 million Limited Tax General Obligation Improvement and Refunding Bonds, 2017A, $8.2 million Limited Tax General Obligation Improvement Bonds, 2017B (Taxable), and $15.0 million Unlimited Tax General Obligation Refunding Bonds, 2017. Moody's maintains Aaa ratings on the city's outstanding general obligation unlimited tax and limited tax bonds. The outlook is stable.

The Aaa ratings reflect the city's substantial and rapidly growing tax base that forms the economic center of the State of Washington; socioeconomic measures that are amongst the strongest in the country; solid finances that include healthy reserves and liquidity; a very strong management team with prudent institutionalized financial practices; a manageable debt profile that consists of fixed-rate debt; and moderate pension and OPEB liabilities.

The outlook is stable, reflecting our view that the city is well positioned financially and that the local economy will continue to be amongst the nation's strongest.

Credit Strengths

- » A large and rapidly growing tax base and economy that is the regional economic center
- » Strong socioeconomic measures, including high median family income, full value per capita, and low unemployment
- » Strong management team
- » Healthy financial position that includes ample reserves and available liquidity
- » Favorable debt profile that includes only fixed-rate debt and relatively rapid amortization

Credit Challenges

- » Modest exposure to economically sensitive revenues
- » Somewhat dependent upon a small number of high profile private-sector firms for growth

Rating Outlook

The outlook is stable, reflecting our view that the city is well positioned financially and that the local economy will continue to be amongst the nation's strongest.

Factors that Could Lead to an Upgrade

» Not applicable

Factors that Could Lead to a Downgrade

» Material weakening in the city's finances

» Prolonged deterioration in the economy and tax base

» Substantial growth in debt and/or pension liabilities

Key Indicators

Exhibit 1

Seattle (City of) WA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 119,424,061	$ 116,796,890	$ 116,995,513	$ 128,205,754	$ 144,513,932
Full Value Per Capita	$ 197,993	$ 190,559	$ 187,288	$ 200,997	$ 221,302
Median Family Income (% of US Median)	141.7%	144.5%	149.5%	152.2%	155.8%
Finances					
Operating Revenue ($000)	$ 1,040,555	$ 1,080,845	$ 1,138,767	$ 1,180,513	$ 1,257,992
Fund Balance as a % of Revenues	14.0%	18.7%	19.3%	19.7%	20.5%
Cash Balance as a % of Revenues	13.9%	19.0%	22.2%	19.7%	24.8%
Debt/Pensions					
Net Direct Debt ($000)	$ 882,956	$ 832,539	$ 897,025	$ 897,610	$ 1,040,474
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.8x	0.8x	0.8x
Net Direct Debt / Full Value (%)	0.7%	0.7%	0.8%	0.7%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.9x	2.1x	2.4x	2.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.8%	2.1%	2.2%	2.3%

Source: Moody's Investors Service

Recent Developments

The city's credit profile continued to strengthen since our April 2016 review. The city's tax base grew 13.7% to $185.6 billion, driven by strong underlying economic fundamentals. Despite a sizeable one-time payment to employees, preliminary financial figures show General Fund reserves grew by approximately $37 million, driven by growth in each of the city's major revenues sources, including property, B&O, and sales taxes.

Detailed Rating Considerations

Economy and Tax Base

The City of Seattle is the commercial and tourist hub of the Puget Sound region and the economic center of the State of Washington. Software development and aircraft manufacturing are key components of the local economy, and the area serves as the headquarters of or major operating base to some of the world's most well-known international corporations, including Amazon, Boeing, Microsoft, and Starbucks. At just 3.4% as of January 2017 (according to data from the Bureau of Labor Statistics), the city's unemployment rate continues to outpace the state and the nation, even as the local labor force grew by 4.1%. Demand for Boeing aircraft remains high, with a sizeable order backlog that is estimated to take several years to fulfill. Online retailer Amazon continues to expand its footprint in Seattle, acquiring and developing substantial downtown office space to house its growing workforce. Median family income in the city is amongst the highest among large urban areas in the United States at 155.8% of the national average. Full value per capita, a proxy measure of wealth, is robust at $284,259. Price appreciation and new construction are continuing to drive the city's assessed value higher. In 2017, assessed value hit a new high of $185.6 billion, up 13.7% from 2016. Median home prices are up 8.9% year-over-year, and commercial office vacancy rates continues to decline. The city is forecasting continue economic growth into 2018, albeit at slower rates than in recent years.

Financial Operations and Reserves

The city's finances are healthy and a credit strength, driven by strong growth amongst the city's diversified revenue streams. The city's General Fund is the city's principal operating fund, and is comprised principally of property taxes (21.7% in 2015), business taxes (22.1%), retail sales and use taxes (17.6%), and utility taxes (11.4%). Preliminary figures for 2016 indicate overall tax revenue growth of 5.1%. The city's property tax rate is subject to a $3.60 per $1,000 cap, not including the rate for voted bonds; the city's current rate subject to the rate limit is $2.46. Outside of new growth and voter-approved levy lid lifts, operating property tax revenues are limited to 1% annual growth. The city's more economically sensitive revenues were up strongly in 2016, with preliminary numbers showing sales tax revenues up 7.6% and business tax receipts up 7.9%. The city has forecasted sales tax and business tax growth of 2.9% and 7.5%, respectively, for 2017. The city updates its revenue projections three times a year.

The city's largest expense in 2015 was for public safety (44.3% of general fund revenues in 2015), followed by transfers out (24.3%) (principally for nonmajor special revenues funds including Park and Recreation and Human Services), and general government (17.0%). The city's 2017 budget continues to focus on public safety (including the addition of police officers), homelessness, and information technology. State law requires that the city balance its budget, and the city uses a quarterly supplemental budget process to consistently deliver structurally balanced financial operations.

Since 2011, the city's general fund revenues have exceeded its expenditures, allowing the city to build up its total fund balance from $204.8 million (20% of general fund revenues) in 2011 to $383.9 million (30.5%) in 2015; available reserves (those not designated as nonspendable or restricted) increased from $145.3 million (14.2%) to $246.8 million (19.6%). Preliminary 2016 figures show total general fund reserves growing to $421 million, despite significant retroactive payments to employees under recent labor union contracts for cost of living adjustments. City officials are projecting small increases in reserve levels in 2017, though Moody's notes that city projections have been conservative in recent years, with revenues outpacing expectations during the current portion of the economic cycle.

LIQUIDITY

The city's liquidity position is healthy. The city's general fund cash and equity in pooled investments at the end of 2015 was $300.6 million, or 23.9% of general fund revenues. Functionally, however, the city pools its cash and investments across funds. This consolidated pool held $1.76 billion at the end of 2015 and an estimated $1.8 billion at the end of 2016. City funds may withdraw cash out of the pool without prior notice or penalty.

Debt and Pensions

The city maintains a very moderate level of debt that amortizes quickly. Net direct debt is just 0.6% of full value and 0.9 times general fund revenues. The ten-year amortization rate of the city's debt is average at 62.9%, with 77% of the city's limited tax general obligation bonds being retired within ten years. Potential future bond issuances include additional money for low income housing ($29 million), an arena ($150 million), continued improvements along the city's waterfront (up to $200 million), as well as annual bond issuances of $50-$60 million annually for general government projects.

DEBT STRUCTURE

With the current issuances, the city's general government debt will consist of $309.2 million in fixed-rate unlimited tax and $799.7 million in limited tax general obligation bonds. Peak debt service on the city's LTGO bonds is $100.0 million in 2018, or 7.9% of 2015 general fund revenues. Officials estimate 32% of the city's 2017 LTGO debt service will be paid for from dedicated revenues outside the general fund, including commercial parking taxes and real estate excise taxes. As noted previously, 77% of the city's LTGO debt amortizes within ten years.

DEBT-RELATED DERIVATIVES

The city has no debt-related derivatives.

PENSIONS AND OPEB

The city manages a single-employer defined benefit public employee retirement plan (Seattle City Employees' Retirement System), the Firefighter's Pension Fund, and the Police Relief and Pension Fund. The city's three-year adjusted net pension liability (ANPL) is moderate at 1.71% of full value and 2.4 times operating revenues. ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. Additionally, the city may, under state law, levy a $0.225 per $1,000 property tax levy to cover the Firefighter's fund. On January 1, 2017, the city closed SCERS to new entrants, with new employees participating in a new system (SCERS 2). SCERS 2 has decreased benefit levels, increases the minimum retirement age, and defers retirement eligibility by increasing the age-plus-years-of-service requirement for retirement with full benefits. 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.

Moody's views the city's management team as strong. The strength of the management team is buttressed by codified practices that enhance the city's financial profile. Until 2017, the city appropriated sufficient money into the Emergency Subfund to the maximum amount allowed by state law ($0.375 per $1,000), but is now adding funds at a rate tied to inflation. Additionally, 0.5% of forecasted tax revenues are automatically contributed to the city's “Rainy Day Fund,” also known as the Revenue Stabilization Account, as are 50% of any unanticipated excess General Subfund balances at year end. These contributions are suspended when forecasted nominal tax growth rate is negative or when the Rainy Day Fund exceeds 5% of total tax revenues.

Legal Security

The unlimited tax general obligation bonds are secured by the city's full faith, credit and resources and unlimited property tax pledge, while the limited tax general obligation bonds are secured by the city's full faith, credit, and resources and pledge to levy taxes annually within the constitutional and statutory tax limitation provided by law without a vote of the people.

Use of Proceeds

The limited tax general obligation bonds will be used to finance various capital capital improvements as well as to refund debt issued by one of the city's preservation and development authorities, while the unlimited tax general obligation bonds will be used to refund for savings certain maturities of the city's outstanding voter-approved general obligation bonds.

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 and Everett.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Seattle (City of) WA

Issue	Rating
Limited Tax General Obligation Improvement and Refunding Bonds, 2017A	Aaa
Rating Type	Underlying LT
Sale Amount	$80,930,000
Expected Sale Date	05/17/2017
Rating Description	General Obligation Limited Tax
Limited Tax General Obligation Improvement Bonds, 2017B (Taxable)	Aaa
Rating Type	Underlying LT
Sale Amount	$8,150,000
Expected Sale Date	05/17/2017
Rating Description	General Obligation Limited Tax
Unlimited Tax General Obligation Refunding Bonds, 2017	Aaa
Rating Type	Underlying LT
Sale Amount	$15,010,000
Expected Sale Date	05/17/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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