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INVESTORS SERVICE

CREDIT OPINION
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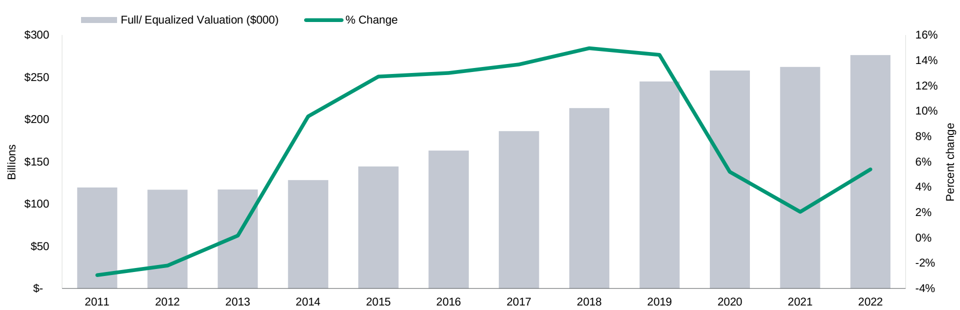
Seattle (City of) WA

Update to credit analysis

Summary

The City of Seattle (Aaa stable) has exceptional credit quality reflecting its very large and diverse tax base, which forms the economic center of the State of Washington (Aaa stable). The region includes some of the world's most well-known international corporations, including Amazon (A1 stable), Microsoft (Aaa stable), Boeing (Baa2 stable) and Starbucks (Baa1 stable). High property values are driven by income measures that are among the strongest in the country for a large city. While tax base growth overall has slowed recently, residential property values have continued to rise. Also, despite some revenue weakness caused by the pandemic, cash and fund balance levels are solid because of a new payroll expense tax and the city's prudent budget management. The city's debt profile is manageable, consisting entirely of fixed-rate obligations and pension and OPEB liabilities are moderate.

Exhibit 1
Seattle's tax base growth continued at a slower pace during the pandemic, picking up in 2022



Source: Moody's Investors Service

Credit strengths

» Strong management team

» City serves as the regional economic center of the Pacific Northwest

» Strong resident wealth and income metrics for an urban area

» 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 revenue

» Somewhat dependent upon a small number of high profile private-sector firms for growth

» New major revenue source under legal challenge

Rating outlook

The outlook is stable because the city's healthy finances, strong economic fundamentals and sophisticated management will help it weather the ongoing challenges associated with the pandemic.

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 2

Seattle (City of) WA	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value ($000)	$163,305,928	$186,325,343	$214,109,064	$244,938,709	$257,958,281
Population	668,849	688,245	708,823	724,305	741,251
Full Value Per Capita	$244,160	$270,725	$302,063	$338,171	$348,004
Median Family Income (% of US Median)	159.7%	162.9%	165.6%	169.1%	172.0%
Finances					
Operating Revenue ($000)	$1,749,022	$1,932,950	$2,160,109	$2,311,406	$2,260,241
Fund Balance ($000)	$316,907	$350,326	$301,709	$359,444	$285,927
Cash Balance ($000)	$616,475	$874,485	$988,475	$1,066,740	$1,052,243
Fund Balance as a % of Revenues	18.1%	18.1%	14.0%	15.6%	12.7%
Cash Balance as a % of Revenues	35.2%	45.2%	45.8%	46.2%	46.6%
Debt/Pensions					
Net Direct Debt ($000)	$1,027,503	$1,028,140	$990,550	$954,445	$906,962
3-Year Average of Moody's ANPL ($000)	$2,272,141	$2,422,195	$2,471,035	$2,648,183	$3,009,399
Net Direct Debt / Full Value (%)	0.6%	0.6%	0.5%	0.4%	0.4%
Net Direct Debt / Operating Revenues (x)	0.6x	0.5x	0.5x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.4%	1.3%	1.2%	1.1%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.3x	1.1x	1.1x	1.3x

Source: US Census Bureau, Seattle (City of) WA's financial statements and Moody's Investors Service

Profile

Seattle is the economic center for the Pacific Northwest. The city is a full-service city, with a relatively affluent population of nearly 747,300, a large and well-educated labor force and ties to the broader metropolitan area including the cities of Bellevue and Everett.

ESG considerations

Seattle (CITY OF) WA's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

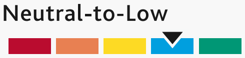
Source: Moody's Investors Service

Seattle's ESG Credit Impact Score is 2 (**CIS-2**), reflecting neutral-to-low exposure to environmental and social risks, and the city's strong governance.

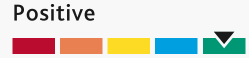
Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low

SOCIAL
S-2
Neutral-to-Low



GOVERNANCE
G-1
Positive



Source: Moody's Investors Service

Environmental

Seattle's overall E issuer profile score is neutral to low (**E-2**), reflecting relatively low exposure to environmental carbon transition, natural capital and waste and pollution risks. The city's exposure to physical climate risks is also low. The city's most pressing long-term environmental challenges are sea level rise and greater frequency of extreme rainfall, which increase the risk of severe flooding.

Social

We assess the S issuer profile score as neutral to low (**S-2**). Seattle's growing population, expanding labor force, improving income metrics and high educational attainment are positive to the credit. Increasingly unaffordable housing is a risk for the city, though the state and county are working along with the city to increase housing supply and support lower end wage earners.

Governance

Seattle's very strong governance profile supports its rating, as captured by a positive G issuer profile score (**G-1**). The score reflects both the city's strong institutional structure and demonstrated policy effectiveness. Seattle's solid transparency and disclosure as well as prudent budget management are also incorporated into the **G-1** issuer profile score.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. To view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Detailed credit considerations

Tax base and economy: strong underlying fundamentals will bolster the tax base

The city's tax base will remain the commercial and tourist hub of the Puget Sound region and the economic center of the State of Washington. The regional economy benefits from the presence of some of the world's most well-known international corporations. Amazon and other technology firms performed well during the pandemic and benefited from the shift to remote work. Leisure and hospitality providers and brick and mortar retailers have struggled, however. Both business and leisure travel to the region remain depressed and general economic activity remains below pre-pandemic levels, though conditions have improved significantly. Preliminary unemployment data for January 2022 show the rate declined to 3.1%, which is a little higher than the 2.1% in November 2019 before the pandemic but well below the April 2020 peak of 16.2%.

Socioeconomic measures for the city are a credit strength, supporting extremely high property values. The city has one of the highest educational attainment rates in the country, along with some of the strongest income levels among large urban areas in the US, with median family income at 165.5% of the US. Assessed values continue to climb, with the city's 2022 full value at $276 billion. While tax base growth slowed to about 2% in 2021, it rebounded to 5.4% in 2022 and annual growth has averaged 8.2% over the past five years. Residential real estate continues to climb in value, though commercial office space have been slower to recover.

Financial operations and reserves: strong finances bolstered by fiscal 2021 surplus, some of which will likely be used in fiscal 2022

The city's financial position is solid and while reserves will remain below the Aaa median for large cities on a percentage basis, this will continue to be offset by key strengths, including a large nominal fund balance, demonstrated history of effective budget control and sound prospects for revenue stability.

The city will likely use the surplus fund balance generated in fiscal 2021 (year-end December 31) by making certain expenditures in fiscal 2022 that were carried forward from the prior year. While management did not have an estimate of the total use of fund balance at this time, reserves will likely continue to be roughly in line with the prior five years.

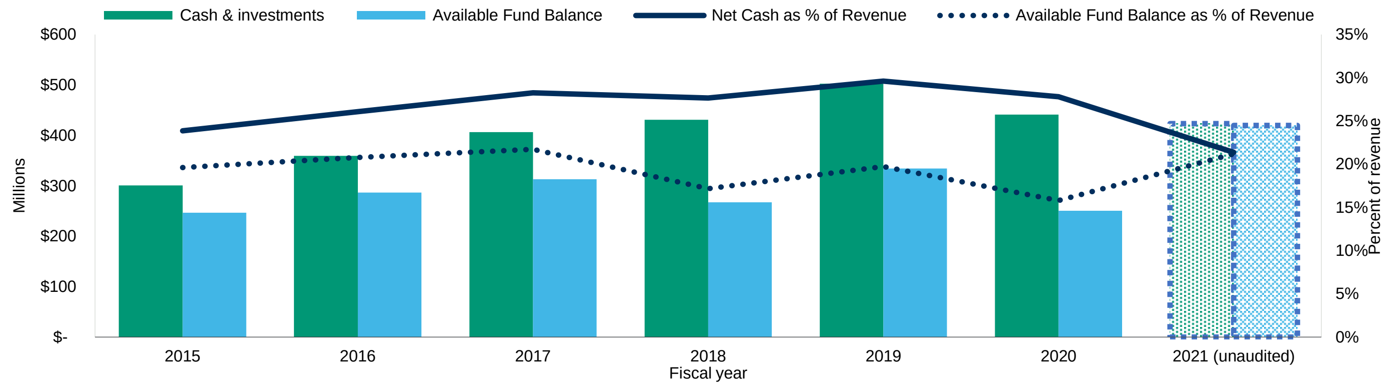
The fiscal 2022 budget is significantly bolstered by the city's new payroll expense tax that, in its second year of implementation, is now about 13% of budgeted revenue. The tax is under the threat of litigation. While the legal challenge was dismissed in June 2021 in King County Superior Court, that decision that is now under appeal. Although it is unclear if the appeal is likely be successful, if the city were to lose, it would be required to refund the collected revenue with interest.

Available general fund balance increased in fiscal 2021 (unaudited) by $169 million because of better-than-budgeted revenue performance and strong expenditure control. Revenues were up roughly 25% over fiscal 2020, led by the new payroll expense tax, which generated $248 million. The city also received $363 million in flexible federal stimulus funding over the past two years, which it has used for one-time revenue recovery and investments in initiatives like affordable housing and to help vulnerable populations within the city. While overall fund balance grew, the city also used the bulk of its emergency and revenue stabilization funds, which are dedicated subfunds within its general fund, in fiscal 2020 and 2021. It plans to rebuild those fund balances over the next several years.

Exhibit 5

The city's stable and healthy financial position provided a buffer to the effects of the pandemic

General fund cash and fund balance



Source: Moody's Investors Service

Liquidity

The city's liquidity position is healthy. The city's general fund cash and equity in pooled investments at the end of 2020 was $441.5 million or 28% of general fund revenue. On an operating funds basis, cash was even stronger at just under $1.1 billion or 46.6% of revenue.

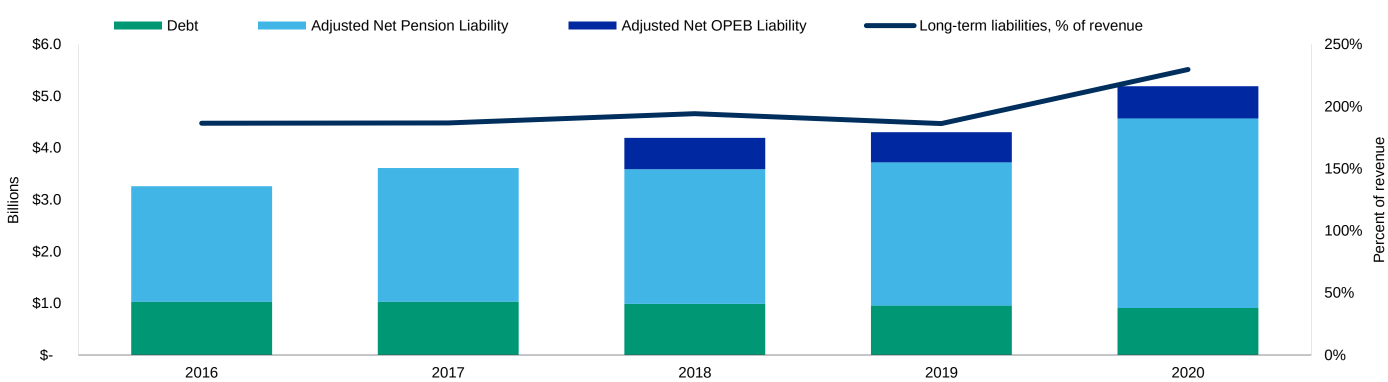
Functionally, however, the city pools its cash and investments across funds. This consolidated pool held $2.8 billion at the end of 2021.

Debt and pensions: moderate total liabilities, affordable fixed costs

The city's long-term liabilities will remain moderate and affordable. The city is currently issuing about $147.5 million of limited tax general obligation bonds to fund various capital projects, including the repair of the West Seattle Bridge and Waterfront projects like the rebuild of the Alaskan Way Main Corridor.

Exhibit 6

Financial leverage compared to revenue is very manageable



*Adj. NOL not available pre-GASB 75

Source: Moody's Investors Service

Legal security

The city's unlimited tax general obligation bonds are backed by the city's full faith, credit and resources and unlimited property tax pledge.

The city's limited tax general obligation bonds are backed 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.

Debt structure

The city's debt consists of fixed-rate obligations with a declining debt service structure. Final maturity of the city's outstanding bonds is in 2049, though most of the city's debt is retired by 2030.

Debt-related derivatives

The city has no debt-related derivatives.

Pensions and OPEB

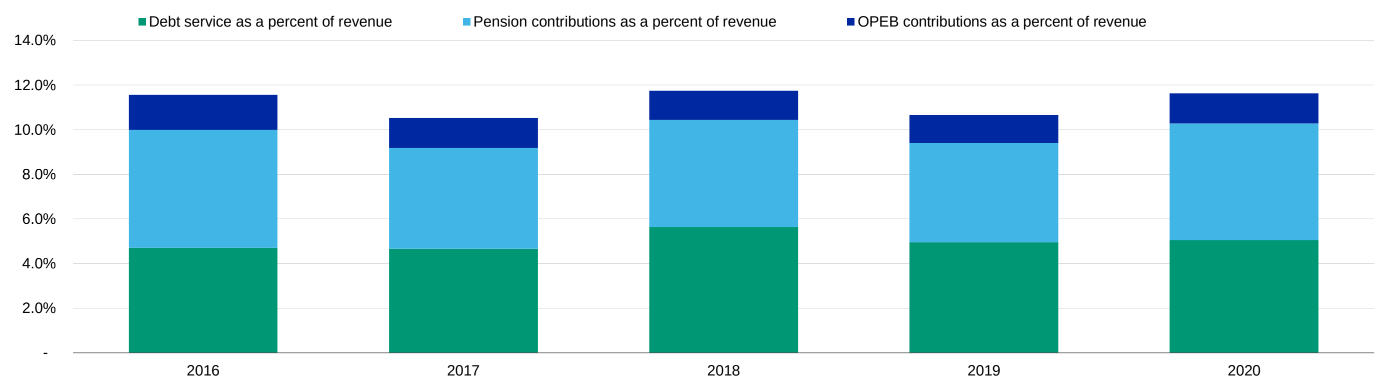
Pension and OPEB liabilities are manageable in comparison to the city's operating revenue and tax base. The city manages a single employer and defined-benefit public employee retirement plan (Seattle City Employees' Retirement System or SCERS), the Firefighter's Pension Fund, and the Police Relief and Pension Fund. The city's adjusted net pension liability (ANPL) based on a 3% discount rate is $3.7 billion in 2020, equal to a manageable at 1.4% of full value and 1.6x operating funds revenue.

Based on our calculations, the city's pension contributions in 2020 were above its “tread water” level; that is, contributions were sufficient to begin paying down the city's net pension liability under plan assumptions. We generally expect funding to improve given recently implemented pension reforms. 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. Additionally, the city may, under state law, levy a $0.225 per $1,000 property tax levy to cover the Firefighter's fund; the city does not levy this additional tax.

The city has three OPEB plans: the Health Care Blended Premium Subsidy, OPEB benefits under Firemen's Pension, and Police Relief and Pension. All OPEB plans are funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The city's adjusted net OPEB liability at the end of 2020 was $622 million, or 28% of revenue and 0.2% of full value.

Exhibit 7

Fixed costs are low



Source: Moody's Investors Service

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 8

Seattle (City of) WA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$276,293,453	Aaa
Full Value Per Capita	$372,739	Aaa
Median Family Income (% of US Median)	172.0%	Aaa
Notching Adjustments:[2]		
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	12.7%	A
5-Year Dollar Change in Fund Balance as % of Revenues	0.8%	A
Cash Balance as a % of Revenues	46.6%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	25.3%	Aaa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.4%	Aaa
Net Direct Debt / Operating Revenues (x)	0.4x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.1%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.3x	A
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: US Census Bureau, Seattle, WA's financial statements, Moody's Investors Service

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