FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Seattle, WA's $77.5MM 2025 LTGO Improvement & Refunding Bonds 'AAA; Outlook Stable
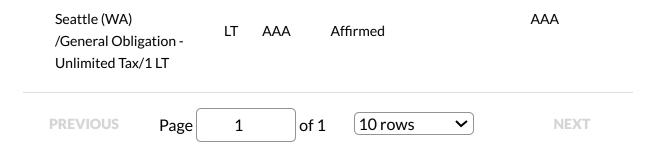
Thu 29 May, 2025 - 4:28 PM ET

Fitch Ratings - San Francisco - 29 May 2025: Fitch Ratings has assigned a 'AAA' rating to Seattle, WA's $77.5 million series 2025 limited tax general obligation (LTGO) improvement and refunding bonds. Fitch has also affirmed the city's Issuer Default Rating (IDR) and outstanding unlimited general obligation (ULTGO) and LTGO bonds at 'AAA'.

The new bonds are expected to be sold the week of June 9, 2025, with proceeds to fund several municipal projects and refund outstanding LTGO bonds for debt service savings.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ⇕	RATING ⇕			PRIOR ⇕
Seattle (WA) [General Government]	LT IDR	AAA	Affirmed	AAA
Seattle (WA) /General Obligation - Limited Tax/1 LT	LT	AAA	Affirmed	AAA

Seattle (WA) /General Obligation - Unlimited Tax/1 LT	LT	AAA	Affirmed	AAA

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VIEW ADDITIONAL RATING DETAILS

The 'AAA' GO and IDR incorporate the city's 'aaa' financial resilience assessment, which reflects a midrange level of budgetary flexibility and Fitch's expectation that available reserves will be maintained at or above 15% of spending (compared to the current 48.8%). The rating also considers the city's strong long-term liability burden composite (80th percentile of the Fitch rated local government rating portfolio), and strongest population trend (94th percentile) and strong demographic level metrics (composite 73% percentile).

The rating further reflects the application of two positive Additional Analytical Factors notches. The first recognizes the city's role as the economic center of an important and growing Seattle-Tacoma-Bellevue MSA with a vital role in the regional and national economy. The second Additional Analytical Factor reflects the city's high market value per capita and greater capacity to tap into revenues as evidenced by a record of voter approved revenue initiatives.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Failure to implement expenditure reductions to maintain available reserves at or above 15% of spending resulting in a financial resilience assessment below 'aaa';

--A material erosion of the city's demographic and economic metrics.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Not applicable given the 'AAA' rating and Stable Outlook.

SECURITY

The ULTGO bonds are a general obligation of the city payable from its full faith and credit and ad valorem property tax pledge subject to statutory limits, the LTGO are general obligation bonds subject to statutory limits.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the Issuer Default Rating except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Seattle Model Implied Rating: 'AAA' (Numerical Value: 12.82)

-- Metric Profile: 'AAA' (Numerical Value: 10.82)

-- Net Additional Analytical Factor Notching: +2.0

Individual Additional Analytical Notching Factors:

-- Revenue Capacity: +1.0

-- Economic and Institutional Strength: +1.0

Seattle's Model Implied Rating is 'AAA'. The associated numerical value of 12.82 is at the upper end of the range for a 'AAA' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

Seattle's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

-- Revenue control assessment: High

-- Expenditure control assessment: Midrange

-- Budgetary flexibility assessment: High Midrange

-- Minimum fund balance for current financial resilience assessment: >=10.0%

-- Current year fund balance to expenditure ratio: 48.8% (2023)

-- Lowest fund balance to expenditure ratio for the fiscal-year period 2019-2023: 15.1% (2020)

Revenue Volatility - 'Strong'

Seattle's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 0.5% decrease for the three-year period ending fiscal 2010

-- Median issuer decline: -4.5% (2023)

Financial Profile Additional Analytical Factors and Notching: +1.0 notch (for Revenue Capacity)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Strongest'

Based on the median of 10-year annual percentage change in population, Seattle's population trend is assessed as 'Strongest'.

Population trend: 2.5% 2023 median of 10-year annual percentage change in population (92nd percentile)

Unemployment, Educational Attainment and MHI Level - 'Strong'

The overall strength of Seattle's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Strong' on a composite basis, performing at the 73rd percentile of Fitch's local government rating portfolio. This is due to very high education attainment levels and high median-issuer indexed adjusted MHI offsetting midrange unemployment rate.

-- Unemployment rate as a percentage of national rate: 102.8% 2023 (43rd percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 66.6% (2022) (97th percentile)

-- MHI as a percent of the portfolio median: 134.2% (2022) (80th percentile)

Economic Concentration and Population Size - 'Strongest'

Seattle's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 751,454 (2023) (above the 15th percentile)

-- Economic concentration: 42.7% (2023) (above the 15th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Strong'

Seattle's long-term liability metrics remain moderately strong across each of the three dimensions: liabilities to personal income, liabilities to governmental revenue, and carrying costs to governmental expenditures. The long-term liability composite metric in 2023 is at the 80th percentile, indicating a somewhat lower liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 3.4% Analyst Input (72nd percentile) (vs. 3.3% 2023 Actual)

-- Liabilities to governmental revenue: 105.3% Analyst Input (83rd percentile) (vs. 104.0% 2023 Actual)

-- Carrying costs to governmental expenditures: 9.3% Analyst Input (85th percentile) (vs. 9.3% 2023 Actual)

Analyst Inputs to the Model

The analyst for long term liability burden metric includes the par amount of new money debt to be sold and associated debt service.

PROFILE

Seattle is the largest city in the Pacific Northwest and the cultural and business center of the Puget Sound. Boeing had long been the largest regional employer but has reduced its Washington-based workforce. Meanwhile, Amazon has been expanding and is currently the largest regional employer followed by Boeing and Microsoft. Through the decade ending 2020, the city experienced robust economic growth as Amazon and other technology companies expanded in downtown, fostering complementary multiuse development.

The workforce is highly educated, helping to sustain above average economic and revenue growth. The recessionary impact on the economy due to the pandemic is fairly modest at this point and concentrated in the hospitality and entertainment sector. Both revenue per hotel room and diners at restaurants have trailed the national rates since the onset of the pandemic, and employment recovery, particularly in leisure and hospitality, remains weak.

Fitch's U.S. Labor Market Tracker estimates that the Seattle-Tacoma-Bellevue MSA added back about 84% of the 12% of jobs lost at the start of the pandemic, which is modestly better than the 81% median among MSAs. Seattle's March 2023 unemployment rate was 2.5%, significantly below the state and national rates.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

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APPLICABLE CRITERIA

U.S. Public Finance Local Government Rating Criteria (pub. 02 Apr 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Seattle (WA)   EU Endorsed, UK Endorsed

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