

CREDIT OPINION

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Seattle (City of) WA Solid Waste Enterprise

Update to credit analysis following upgrade to Aa2

Summary

[Seattle \(City of\) WA Solid Waste Enterprise](#) (Aa2 positive) benefits from a large and wealthy service territory, multi-year rate setting, and the system's low capital requirements. Operating contracts are in place through 2028 for hauling and disposal and renewable through 2033 for collection. The city has a track record of multi-year rate setting to maintain strong financial operations and include all costs, including estimated environmental remediation. The system's financial metrics have improved significantly over the last five years, with very strong debt service coverage and liquidity and very modest leverage. The enterprise has an active debt defeasance program, which will contribute to the continued improvement in financial metrics.

Credit strengths

- » Demonstrated willingness and ability to raise rates
- » Large and wealthy service area comprising the City of Seattle
- » Low capital requirements following completion of rebuilding transfer stations

Credit challenges

- » Above average solid waste rates relative to peers, though total utility costs are affordable for Seattle residents
- » A long-term consent decree for clean up of the closed South Park Landfill

Rating outlook

The positive outlook reflects the expectation that the city will continue to defease debt, thereby reducing annual debt service, and will set rates sufficient to provide cost recovery while funding pay-go capital investments that further improve financial metrics. It also reflects the likelihood that the consent decree landfill cleanup project is on track for substantial completion consistent with its current schedule. In addition, the outlook incorporates the potential increase in operating contract costs as early as 2028.

Factors that could lead to an upgrade

- » Continued improvement of debt service coverage, liquidity and leverage metrics
- » Successful and timely completion of South Park landfill projects required under the consent decree

Factors that could lead to a downgrade

- » Deterioration of cash on hand to less than 150 days

- » Failure to adopt multi-year rate programs that fully incorporate all operating costs

Key indicators

Exhibit 1

Seattle (City of) WA Solid Waste Enterprise					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	14 years				
System Size - O&M (in \$000s)	\$221,660				
Service Area Wealth: MFI % of US median	187.5%				
Legal Provisions					
Rate Covenant (x)	1.25x				
Debt Service Reserve Requirement	DSRF funded at lesser of standard 3-prong test (Aa)				
Management					
Rate Management	Aa				
Regulatory Compliance and Capital Planning	A				
Financial Strength					
	2020	2021	2022	2023	2024
Operating Revenue (\$000)	\$224,052	\$238,261	\$256,808	\$267,905	\$285,323
System Size - O&M (\$000)	\$182,837	\$185,495	\$196,247	\$212,969	\$221,660
Net Revenues (\$000)	\$46,361	\$51,626	\$53,681	\$64,616	\$78,192
Net Funded Debt (\$000)	\$180,060	\$164,680	\$157,413	\$149,704	\$81,305
Annual Debt Service (\$000)	\$15,450	\$15,445	\$14,640	\$14,635	\$14,671
Annual Debt Service Coverage (x)	3.00x	3.34x	3.67x	4.42x	5.33x
Cash on Hand	196 days	248 days	295 days	340 days	314 days
Debt to Operating Revenues (x)	0.80x	0.69x	0.61x	0.56x	0.28x

Source: Audited financial statements, Moody's Ratings

Profile

Seattle's Solid Waste Enterprise is a component of Seattle Public Utilities (SPU), which was created in 1997 as a department of the City of Seattle and also includes the city's water, drainage, and sewer enterprises. The solid waste system includes recycling and solid waste collection by contractors, operation of two transfer stations, and a contract for rail-hauling and disposal of solid waste in a landfill in eastern Oregon.

Detailed credit considerations

Service area and system characteristics: large and wealthy service territory; essential service provided primarily by contractors

The solid waste enterprise will continue to benefit from its strong service area and a system that provides an essential, mandatory service to customers. Seattle's is the economic hub of the Puget Sound region. Major corporations such as Amazon, Boeing, Microsoft and Starbucks contribute to the city's economic strength, as evidenced by a high median family income and robust property values, both of which are rising. In 2025, the city's per capita assessed value (AV) reached about \$400,000 (more than doubling over fifteen years) and the median family income (MFI) equaled 187.5% of the US, up from 140% of US MFI in 2010.

The city has adapted its waste management strategies to maintain efficiency and sustainability amidst the rapid rise in urban density over the last two decades. SPU provides curbside waste collection for residential and commercial customers in Seattle through contracts with private haulers, though commercial customers are permitted to self-haul. In 2025, the enterprise had about 185,000

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customer accounts, with growth in residential accounts exceeding a small decline in commercial accounts. While the city's population has grown significantly over the last two decades, the number of accounts has stabilized, likely due to increased urban density and a shift towards multi-unit developments, which consolidate waste accounts. A decline in overall garbage tonnage also indicates a move towards more sustainable waste practices.

The enterprise will continue to benefit from SPU's demonstrated willingness to increase rates and strong collection mechanisms. SPU's practice is to adopt multi-year rate increases that incorporate all costs, which has resulted in strong revenues. Rates are currently set through 2028, though the need to negotiate new contracts in subsequent years is likely to pose cost pressures. Although SPU's composite bill is high relative to many of its regional peers, utility costs in the region are generally more affordable than other parts of the US. Solid waste customers are billed on SPU's combined utility statement, with partial payments applied first to solid waste, then wastewater, and lastly water. The city has the authority to shut off water to enforce collections, limiting delinquent or unpaid bills.

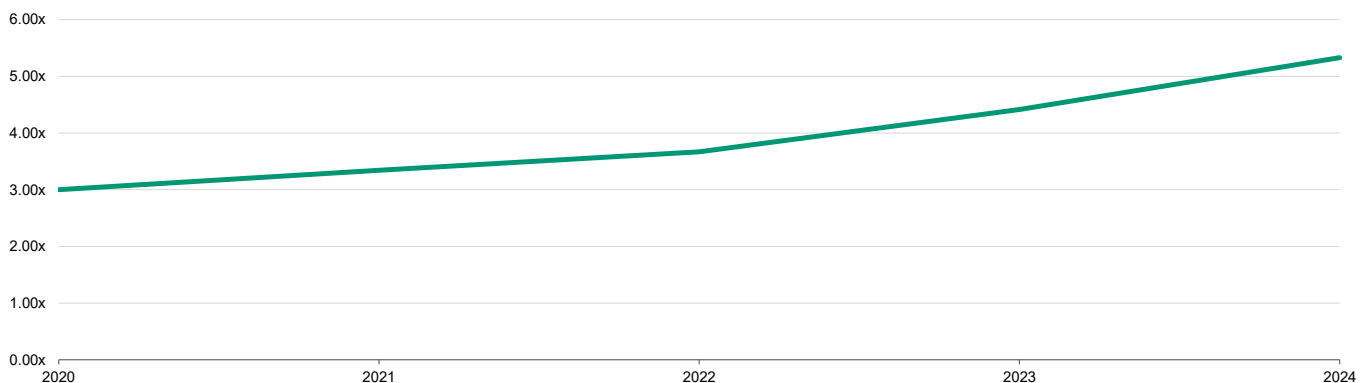
Because collection, processing, and disposal are contracted through private haulers, SPU has limited exposure to operational risks. The solid waste enterprise operates two transfer stations but zero active landfills. The largest contract is for collection services with Waste Management of Washington, Inc. and Recology of King County, Inc. These contracts expire in March 2029 with two city options to extend through March 2031 and 2033. SPU transports solid waste from its transfer stations to a railhead and then long-haul transportation by rail is provided by Waste Management of Washington to the Columbia Ridge landfill in Arlington, Oregon. The existing rail-haul and disposal contract expires in 2028. Provisions of the contract indemnify the city against future risks associated with this disposal.

Debt service coverage and liquidity: improving financial metrics

Financial metrics will continue to improve in the near term. Debt service coverage and days cash on hand have improved significantly over the last five audited years, driven by increases in both gross and net revenue. In fiscal 2024, debt service coverage reached 5.3 times, up from a recent low point of 3.0 times in fiscal 2020. Given the early defeasance of about \$60 million in outstanding bonds in fiscal 2024, debt service coverage significantly improved in fiscal 2025 (unaudited). Debt service due in 2025 was reduced to \$6.6 million from \$14.6 million, which based on estimated revenue and O&M for the year will result in coverage exceeding 10x. Given defeasance of \$26.3 million of additional debt early in fiscal 2025, coverage should improve again in fiscal 2025 and 2026. Note that Moody's calculation of coverage is lower than reported by SPU because the payment of city utility taxes is included in O&M, however, by ordinance is remitted to the city after the payment of debt service.

Exhibit 2

Debt service coverage is very strong and will strengthen again in 2025



Source: Audited financial statements, Moody's Ratings

Liquidity

As of fiscal 2024, the solid waste enterprise had \$190.7 million in unrestricted cash, or a very strong 314 days cash on hand (based on O&M including remittance of the city's utility tax). Liquidity is bolstered by SPU's ability to access the city's \$3.8 billion consolidated cash pool (as of fiscal 2024) for short-term liquidity (up to 90 days), with approval of the city's finance director. The solid waste enterprise generates healthy operating cash flow, and debt defeasance has been accomplished through use of cash on hand, which had minimal effect on available cash in fiscal 2024. We expect similar levels of liquidity to be reported for fiscal 2025.

Debt and pensions: leverage is very low and declining

Leverage will decline under the plan to defease debt and given the city has no plans to issue additional solid waste revenue bonds. As of fiscal 2024, the enterprise had about \$80 million in debt outstanding, which is very modest at just 0.3 times operating revenues. Following the defeasance in 2025, there were about \$51 million in solid waste revenue bonds outstanding. Liabilities for both environmental clean up and retirement benefits are also very low relative to operations.

The city has been actively cleaning up its closed South Park Landfill since 2007 and, along with a developer, have been subject to a consent decree with Washington State Department of Ecology since 2019. A 2020 change in project scope caused the work to fall behind the schedule, which resulted in a revised project timeline in 2024. Construction was underway in 2025 and completion of the work is expected in 2028. The city's share of project costs are included in the environmental liability estimate on its balance sheet, totaling about \$19 million as of 2024. The city's landfill closure and post-closure costs are calculated based on regulatory accounting and are included in revenue requirements used to set solid waste rates. They are amortized for recovery through 2030, though actual costs are added to the liability and accrued when identified.

Debt structure

Debt service had been declining slightly each year through 2036, and then significantly, with final maturity in 2041.

Pensions and OPEB

Pensions and other post-employment benefits (OPEB) are not a material driver for the enterprise. As of fiscal 2024, the utility has an adjusted net pension liability (ANPL) of \$39.3 million based on a discount rate of 4.83%, which is very manageable at 0.2 times operating revenue. The enterprise uses a discount of 6.75% and therefore has a lower reported pension liability of \$27.0 million. Contributions have historically been slightly lower than Moody's calculated "tread water" indicator, or the contribution amount required to keep reported pension liabilities from growing given plan assumptions. Reported OPEB liabilities are very modest, as the expense is limited to an implicit subsidy associated with retiree health care.

ESG considerations

Environmental

The city's exposure to physical climate risks is relatively low, with the most pressing long-term environmental challenges being sea level rise and greater frequency of extreme rainfall, which increase the risk of severe flooding. The solid waste system is a key component of the city's zero waste initiatives. The consent decree with WA State Department of Ecology for clean up of a closed landfill South Park landfill represents exposure to waste and pollution risks. Projects are underway to address the consent decree's requirements by 2028.

Social

The solid waste system is operated as part of Seattle Public Utility, which also operates water and sewer systems. While rate affordability is a potential challenge, the solid waste system benefits from positive exposure to strong resident income levels and positive population trends.

Governance

The system benefits from positive financial strategy and risk management considerations, as well as credible management and a strong track record of rate setting. We consider exposure to board structure, policies and procedures a risk across the sector, due to a lack of independent rate setting authority, reflecting the concentrated control of the system's operations by a city council.

Rating methodology and scorecard factors

Exhibit 3

Seattle (Cityof) WA Solid Waste Enterprise (806247802)

Rating Factors	Input	Weight	Score
System Characteristics (30%)			
Asset Condition (Years of Annual Depreciation)	14 years	10%	A
System Size (O&M in Millions of Dollars)	\$221,660	7.5%	Aaa
Service Area Wealth (Median Family Income as % of US)	187.5%	12.5%	Aaa
Financial Strength (40%)			
Annual Debt Service Coverage (x)	5.33x	15%	Aaa
Days Cash on Hand	314 days	15%	Aaa
Debt to Operating Revenue (x)	0.28x	10%	Aaa
Management (20%)			
Rate Management	Aa	10%	Aa
Regulatory Compliance and Capital Planning	A	10%	A
Legal Provisions (10%)			
Rate Covenant (x)	1.25x	5%	Aa
Debt Service Reserve Requirement	Aa	5%	Aa
Notching Factors			Up/Down
No Notching Factors Applied			N/A
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aa2

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

Source: Audited financial statements, Moody's Ratings

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