MOODY'S
INVESTORS SERVICE

CREDIT OPINION
30 July 2020

Rate this Research

Contacts

William Oh +1.415.274.1739
VP-Senior Analyst
william.oh@moodys.com

Grayson Nichols +1.214.979.6851
VP-Senior Analyst
grayson.nichols@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

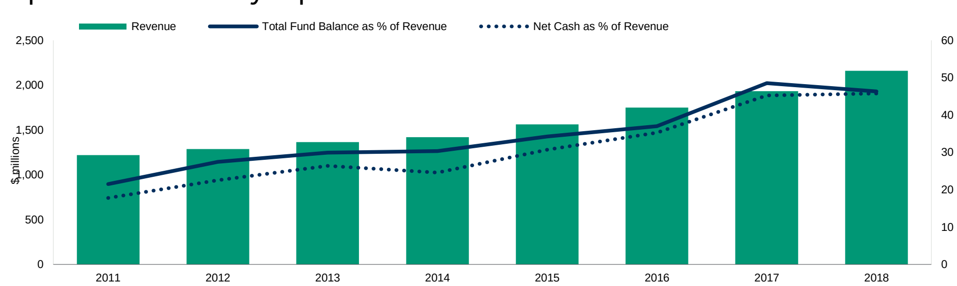
Seattle (City of) WA

Update to credit analysis

Summary

The City of Seattle, Washington (Aaa stable) benefits from a large tax base that forms the economic center of the State of Washington (Aaa stable) and the region includes some of the world's most well-known international corporations, including Amazon, Microsoft and Boeing. Although the coronavirus pandemic is having a significant impact on general economic conditions, particularly for the aerospace and leisure and hospitality sectors, we expect strong underlying fundamentals will help to mitigate some of these challenges. High property values are driven by socioeconomic measures that are amongst the strongest in the country for a large city, though we anticipate some softening as the coronavirus pandemic wears on. The city's financial profile, which has historically been characterized by healthy reserve levels and liquidity, will experience some weakness in the near-term as substantial declines in revenue are anticipated as a result of the coronavirus. The city's credit profile benefits from a very strong management team with prudent institutionalized financial practices. The city's debt profile is manageable, consisting entirely of fixed-rate obligations, and pension and OPEB liabilities are moderate.

Exhibit 1
The city improved its financial position in the years following the Great Recession; 2019 expected to show healthy surplus



Figures are on an operating funds basis (general, special revenue and debt service funds)
Source: City of Seattle, Washington and Moody's Investors Service

Credit strengths

» Strong management team

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

» Strong socioeconomic measures for an urban area including high median family income

» 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 stable outlook reflects our expectation that the city's currently strong financial profile will provide some cushion from the effects of the coronavirus. While we expected elevated levels of unemployment and depressed levels of spending to result in lower overall tax revenue for the city, we also expect that the city's management team will find ways to address projected revenue shortfalls in ways that allow the city to maintain an overall healthy financial profile.

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	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$128,205,754	$144,513,932	$163,305,928	$185,626,174	$213,389,284
Population	637,850	653,017	668,849	688,245	708,823
Full Value Per Capita	$200,997	$221,302	$244,160	$269,709	$301,047
Median Family Income (% of US Median)	152.2%	155.8%	159.6%	162.9%	165.6%
Finances					
Operating Revenue ($000)	$1,419,507	$1,561,538	$1,749,022	$1,932,950	$2,160,109
Fund Balance ($000)	$241,883	$268,656	$316,907	$350,326	$301,709
Cash Balance ($000)	$348,782	$479,428	$616,475	$874,485	$988,475
Fund Balance as a % of Revenues	17.0%	17.2%	18.1%	18.1%	14.0%
Cash Balance as a % of Revenues	24.6%	30.7%	35.2%	45.2%	45.8%
Debt/Pensions					
Net Direct Debt ($000)	$897,610	$1,040,474	$1,027,503	$1,028,140	$990,550
3-Year Average of Moody's ANPL ($000)	$1,880,940	$2,177,634	$2,272,141	$2,422,195	$2,471,035
Net Direct Debt / Full Value (%)	0.7%	0.7%	0.6%	0.6%	0.5%
Net Direct Debt / Operating Revenues (x)	0.6x	0.7x	0.6x	0.5x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.5%	1.5%	1.4%	1.3%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.4x	1.3x	1.3x	1.1x

Source: City of Seattle, Washington, US Census Bureau 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 (Aaa stable) and Everett.

Detailed credit considerations

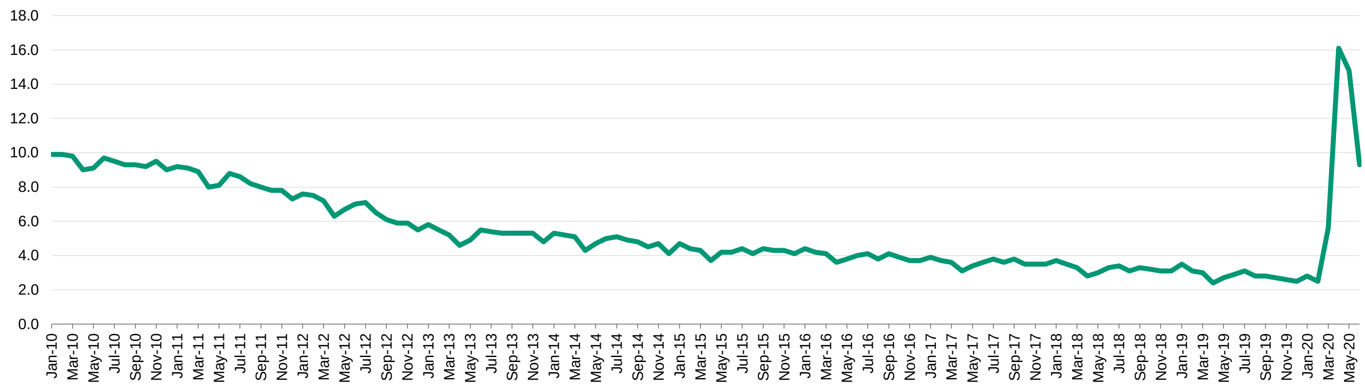
Tax base and economy: coronavirus severely affecting leisure/hospitality, aerospace; strong underlying fundamentals will help tax base

The city's tax base and economy have historically been credit strengths that we expect will continue to support the city's strong overall credit profile, despite the current malaise driven by the coronavirus pandemic. In addition to being the commercial and tourist hub of the Puget Sound region, the city is the economic center of the State of Washington, benefitting from the presence of some of the world's most well-known international corporations, including Amazon (A2 positive), Boeing (Baa2 negative), Microsoft (Aaa stable), and Starbucks (Baa1 negative). Amazon and other technology firms have performed well during the pandemic by providing direct or enabling technologies that can capitalize on the broad “shelter in place” orders taking place across the country. On the opposite end of the spectrum, leisure and hospitality providers and brick and mortar retailers have struggled. Boeing, one of the world's leading aircraft manufacturers, has continued to struggle as global demand for air travel has declined precipitously, compounding the company's pre-pandemic problems stemming from the company's 737MAX aircraft.

Both business and leisure travel to the region have largely ground to a halt, and general economic activity has slowed materially. The coronavirus pandemic resulted in sky-rocketing unemployment rates for the metro area in April, reaching 16.1% after hitting a near record low of 2.5% in February. As shelter in place orders have eased, unemployment rates have improved, though June data still showed an extraordinarily high unemployment rate of 9.3%. We expect unemployment levels to improve as the economy continues to reopen, though the risk of a second closure from a resurgent spread of the coronavirus is significant.

Exhibit 3

Unemployment spiked with the outbreak of the coronavirus but has recovered modestly



Source: Bureau of Labor Statistics and Moody's Investors Service

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 United States, with median family income at 165.5% of the US. Prior to the pandemic, new construction was driving the city's assessed value higher; assessed value reached $257.9 billion in 2020, though median home prices were showing signs of softening. Commercial office vacancy had been low and projected to decline further as Amazon and other technology companies occupied additional space in the city's downtown core, though that expectation may change as firms continue to support extended remote work as the coronavirus persists.

Financial operations and reserves: coronavirus drives large revenue declines, expense increases; budget revisions likely

The city's strong financial position heading into the coronavirus pandemic will provide the city a cushion as it works through near-term turbulence that include large revenue declines compounded by additional expenses in the current fiscal year and possibly beyond. Unaudited 2019 financial results are additive to the city's previously strong financial profile, with preliminary figures showing a general fund surplus of $101.8 million, driven by a 9.3% growth in revenue versus a 1.5% increase in expenditures and net transfers. In fiscal 2018, the city had a general fund deficit of -$18.4 million because of a one-time $65 million settlement with its police officers bargaining group. On an operating funds basis (which includes the city's general fund, special revenue fund, and debt service fund), the city has delivered surpluses since the Great Recession, building total reserves from $262.1 million in 2011 (21.5% of revenue) to just over $1.0 billion in 2018 (46.3% of revenue). Available reserves, which include reserves that are unassigned, assigned or committed, was a substantial $301.7 million in 2018 (14.0%). The restricted portions are generally for capital projects, low-income housing, transportation and health care.

In 2020, the city has projected $378 million in general fund budgetary adjustments necessary to address the effects of the coronavirus, including $145 million revenue shortfall and $233 million in activities related to the coronavirus response. The city was the beneficiary of more than $200 million in federal aid, including money from the Coronavirus Relief Fund and FEMA reimbursements. The remaining budgetary gap is expected to be closed by a mix of one-time resources ($36 million), budget reductions and re-prioritizations ($69 million) and the use of reserves ($29 million). Given the highly uncertain nature of economic conditions, these budgetary moves are expected to be revisited several times throughout the year.

The revenue shortfall in 2021 is projected to be $293 million, stemming from sharp declines in sales and business & occupation taxes. The city's baseline and pessimistic scenarios include sales tax declines between -8.3% and -23.1% and B&O tax declines of -9.4% and -23.9%. The city's management team has prepared a variety of options to address the shortfall, including budgetary reductions, use of reserves, the reallocation of levy resources, staffing adjustments and new revenue streams. The city recently passed a payroll tax for companies with high salaries to take effect in January 2021 that is anticipated to generate substantial revenue. However, uncertainty about headcounts given the current levels of remote work and the city's own recent history of repealing similar taxes merit a degree of skepticism toward this particular new revenue stream.

Liquidity

The city's liquidity position is healthy. The city's general fund cash and equity in pooled investments at the end of 2018 was $430.9 million, or 27.7% of general fund revenue. On an operating funds basis, cash was even stronger at $988.5 million, or 45.8% of revenue. Functionally, however, the city pools its cash and investments across funds. This consolidated pool held $2.7 billion at the end of 2019. City funds may withdraw cash out of the pool without prior notice or penalty.

Debt and pensions: moderate total liabilities, affordable fixed costs

The city's financial leverage is moderate, with debt, pension and OPEB liabilities combined representing just 1.94x revenue and 2.0% of full value based on audited 2018 financial figures. This includes an adjusted net pension liability of $2.6 billion and an adjusted net OPEB liability of $608.1 million. Total fixed costs are affordable at just 10.2% of revenue, providing the city significant flexibility in adjusting in operating expenditures.

Legal security

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

The city's 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.

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 80% 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 revenues and tax base. The city manages a single-employer and 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 adjusted net pension liability (ANPL) based on a 3.60% discount rate, is $2.59 billion in 2018, equal to a manageable at 1.2% of full value and 1.2x times operating funds revenue.

Based on our calculations, the city's pension contributions in 2018 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 2018 was $608.1 million, or 28% of revenue and 0.3% of full value.

ESG considerations

Environmental

Environmental considerations are not a material consideration of the city's credit quality.

Social

Social considerations are an important factor in the city's credit quality. Socioeconomic measures are strong, including above average levels of wealth and educational attainment. The coronavirus pandemic is also a factor under our ESG framework given its impact on public health and safety. The coronavirus is also having a significant impact on the city's financial profile, as discussed above.

Governance

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. Like the Emergency Subfund, the city is now adding to the “Rainy Day Fund” at a rate tied to inflation.

Washington Cities have an Institutional Framework score of “Aa”, which is strong. The sector's major revenue sources are economically sensitive sales taxes and property taxes. Cities can increase property tax collections 1% over the prior year, subject to state statutory limits on property tax rates. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Social unrest poses some fiscal and governance risks for the city. Seattle remains under a 2012 consent decree it entered into with the US Department of Justice regarding excessive use of force by police department, as well as for practices that could result in bias against minorities. City had filed to remove the consent decree in May, but withdrew that request following protests in response to the killing of George Floyd.

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 4

Seattle (City of) WA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$257,958,281	Aaa
Full Value Per Capita	$345,187	Aaa
Median Family Income (% of US Median)	165.6%	Aaa
Notching Factors:[2]		
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	14.0%	A
5-Year Dollar Change in Fund Balance as % of Revenues	3.9%	A
Cash Balance as a % of Revenues	45.8%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	29.1%	Aaa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.4%	Aaa
Net Direct Debt / Operating Revenues (x)	0.5x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.0%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.1x	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: City of Seattle, Washington, US Census Bureau and Moody's Investors Service

REPORT NUMBER 1239339

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE