S&P Global
Ratings

RatingsDirect®

Research Update:

Seattle Series 2025 Limited GO Tax Bonds Rated 'AAA'

May 29, 2025

Primary contacts

Brian Phuvan
San Francisco
1-415-371-5094
brian.phuvan
@spglobal.com

Li Yang
San Francisco
1-415-371-5024
li.yang
@spglobal.com

Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Seattle's estimated $77.5 million series 2025 limited-tax GO improvement and refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's previously issued unlimited-tax and limited-tax GO bonds.
- Finally, S&P Global Ratings affirmed its 'AAA' long-term rating on the Museum Development Authority of Seattle's special obligation refunding bonds outstanding.
- The outlook is stable.
- The rating reflects the application of our "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.

Rationale

Security

The city's limited-tax GO bonds, including the series 2025, are subject to statutory limitations that include a limit on annual property tax revenue growth without a voter override and a limit on the city's levy rate of $3.60 per $1,000 of assessed value (AV). The city's 2025 levy rate is $2.69.

Given the fungibility of Seattle's resources and because pledged revenue is not measurably narrower or subject to disproportionate risks relative to the city's overall revenue, we rate the city's limited-tax GO bonds on par with our view of Seattle's general creditworthiness.

The city's full faith and credit, including the obligation to levy ad valorem property taxes without limitation as to rate or amount, secures the unlimited-tax GO bonds.

The special obligation refunding bonds are a GO of the City of Seattle, in our view, and include its limited-tax GO pledge on a contingent basis. The city has pledged its full faith, credit, and resources, which under state law include the obligation to levy ad valorem property taxes within statutory limitations, to make timely loans to the authority to maintain compliance with a reserve requirement associated with a lease agreement between the authority and the Seattle Art Museum. The city may not terminate this obligation until the bonds are repaid or defeased. Under the lease agreement, the museum has agreed to make lease payments to the authority as lessor during the life of the bonds.

Proceeds of the series 2025 limited-tax GO bonds will pay for or reimburse all or a part of the costs of various elements of the city's capital improvement program. Proceeds of the 2025 limited-tax GO bonds will also refund the city's series 2015 limited-tax GO debt outstanding for interest expense savings estimated at about 2.6% of refunded principal on a net present value basis.

Credit highlights

Seattle's credit quality continues to support the 'AAA' rating. Key credit factors include well-above average economic metrics with income levels well above the national average, maintenance of healthy available reserves, and mostly positive trend of financial performance in recent years.

However, the city faces some challenges with its 2025 and 2026 budgets such as ongoing high inflation, stagnation of operating revenue growth, and the uncertainty of macroeconomic conditions, which are consistent with our macroeconomic forecast.

Typical of the city's budgetary practice, several budget balancing strategies have been implemented for a balanced adopted 2025 budget that includes assessing city operations and evaluating core city services for its community, maintaining critical services by leveraging its payroll expense tax in the amount of $314 million to the general operating fund, reducing internal service functions, and limiting growth in new programs given the overall general operating fund increase in spending driven by settled labor bargaining agreements. However, the 2025 budget was based on the city's revenue forecast in October 2024 and the recent revenue forecast in April 2025 shows approximately $10.2 million in less general operating fund revenues and $85.5 million less in revenues outside the general operating fund. To address the reduction in operating revenues, the city will evaluate and reduce expenditures implementing a hiring freeze, limiting discretionary spending on non-essential items, evaluating new consultant contracts, and implementing current year underspend targets.

For the 2026 proposed budget that includes lower forecasted revenues, the city issued budget reduction targets for all departments relying on the general operating fund and payroll expense tax revenue. At the same time, the city is evaluating options for additional revenue.

Despite the city's budgetary challenges, we expect Seattle to maintain its financial performance trend and ample available operating reserves, owing in part to robust budgetary and forecasting practices.

The ratings further reflect our assessment of the city's:

- Per capita gross county product (GCP) that is well above the national averages and local income levels nearly double the national level, coupled with somewhat resilient residential real estate demand supporting high home prices.
- Mostly positive financial performance reported in the general operating fund in the past several years, albeit with some potential budgetary challenges in the near term as a result of rising operating costs and slower operating revenue growth.

- Maintenance of ample available reserves in the general operating fund that are sufficient to weather deficits during the next two years, in our opinion, and continue rebuilding its revenue stabilization and emergency funds to be in compliance with the city's reserve policy.
- Maintains robust financial management policies and practices that include comprehensive financial planning and forecasting practices as well as several formal policies such as a formal investment, debt, and reserve policies.
- Manageable debt and liability profile with retirement benefit costs likely to remain low relative to those of national peers and ongoing debt plans that are well managed.
- We view the institutional framework for Seattle as above the portfolio standard given its accrual basis of accounting and posting annual and timely GAAP based audits. For more information on our institutional framework assessment for Washington cities, see "Institutional Framework Assessment: Washington Local Governments," published Sept. 10, 2024.

Environmental, social, and governance

In our view, the city has elevated exposure to rising sea levels, which we consider a form of chronic physical risk, and is addressing the implications by assessing vulnerable areas and making capital improvements that include debt-financed reinforcements to its downtown seawall. The city has managed the risk of natural disasters, particularly earthquakes, by revising building codes and funding an emergency management office.

Social capital risks also are elevated, in our view, with a substantial number of households at risk of or experiencing homelessness. A pattern of rising ownership and rental prices is also likely exacerbating the problem, and planning policies in the region do not seem to provide conditions for supply to match demand growth for additions. The city is responding to this challenge in multiple ways, such as generating resources for affordable housing development through a recently adopted employer tax and a voter-approved property tax override.

We consider governance factor neutral within our criteria framework.

Rating above the sovereign

The rating on Seattle's GO debt is eligible to be higher than the sovereign rating because we think the city can maintain positive credit characteristics relative to the U.S. sovereign in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, the city has predominantly locally derived revenue with independent taxing authority and treasury management from the federal government.

Outlook

The stable outlook reflects our expectation that the city can sufficiently and actively adjust future budgets without substantially weakening reserves, a key factor in maintaining credit quality.

Downside scenario

We could lower the rating if the city is unable to make the adjustments it deems necessary to bring revenue and expenditures into balance over the next two years, and if it experiences sustained operating deficits resulting in materially weaker reserves.

Credit Opinion

Economy

Located in King County, Seattle is among the nation's strongest economic bases with well-above-average per capita GCP and incomes that continue to grow annually. Seattle is among the main economic drivers of the county and the region represents the main economic hub in the Pacific Northwest. The city's AV trend shows annual increases and peaking in 2023 with a strong annual growth of 12% as a result of regional housing demand as well as new construction of both residential and commercial properties. However, AV decreased by 2.5% for the 2024 tax year and 0.4% for 2025 mainly as a result of reductions in AV for commercial real estate properties. However, the latest revenue forecast shows better AV growth than previously forecast. In addition, we believe Seattle continues to benefit from the long-term advantages of its local and regional economy: a deep reservoir of human capital, exposure to export markets, and large regional employers such as Amazon.com, The Boeing Co., and Microsoft Corp., which are major players in their respective markets.

The leisure and hospitality sector continues to show steady annual growth and recovering to business as usual compared with pre-pandemic activity. Downtown foot traffic and office occupancy have shown a slow but steady positive trend. This trend is expected to continue based on the city's economic forecast and employers' shifting to three to five days in the office, especially in the Seattle's technology-focused South Lake Union neighborhood. However, demand for office space remains low, especially in the city's Central Business District, and Seattle's office vacancy rate is expected to peak this year, according to CoStar.

Financial performance, reserves, and liquidity

Overall, the city's main revenue streams--property taxes, sales and use taxes, and business and occupation taxes--continued to grow modestly through 2024, but the latest forecast shows softer revenue than the previous forecast.

The city maintains ample available reserve levels reported in its general operating fund totaling $914.9 million, or 39.3% of unaudited 2024 general operating revenues. This amount includes the city's emergency and revenue stabilization funds, and its committed fund balance.

Another key factor that has enabled the city to maintain its very strong financial position is its payroll expense tax that took effect Jan. 1, 2021. This tax is levied on businesses with highly compensated employees and has generated from approximately $248 million to $360 million annually in revenues. Since 2021, the city has transferred various amounts of these revenues annually to support the general operating fund.

Our calculation of reserves includes an analytic adjustment to treat committed general fund balances, which consists of the payroll expense tax revenues, as practically available because they generally consist of set-asides for particular policy priorities or risks rather than for initiatives that are likely to require immediate spending.

The city's total liquidity that includes general fund cash and cash equivalents or investments are at nearly similar levels as its available general operating reserves.

Financial management

We believe financial decision-making will become more challenging as the city aligns operating revenue with operating costs in the coming years. Nevertheless, the city maintains robust institutionalized policies and practices with regular public reporting of revenue performance and long-term financial forecasts, reflective of its active and engaged management team.

The city's financial management policies and practices include the following:

- What we view as a consistent approach to budgeting, with the use of detailed, empirically based revenue and expenditure forecasts to build budgets, and the transition of the revenue forecasting role to a position outside the budget office to improve independence and reduce the risk of political conflicts over revenue assumptions.
- Forecast updates to the council in May, September, and October, and the council's practice of a mid-year supplemental ordinance expenditure amendment.
- The use of a detailed financial forecasting model covering the current and subsequent three years to consider the long-term effects of current-year budgeting decisions.
- An annually updated rolling six-year capital improvement plan with funding sources identified.
- Monthly reporting on investment holdings and returns under an internally guided investment policy.
- Formal and well-embedded comprehensive debt management policy, including elements such as a maximum general fund carrying charge threshold relative to the general operating fund budget (7%) and an annual debt portfolio report that coincides with the adoption of the annual budget.
- Compliance with automatic formula contributions to designated reserves for emergencies and economic downturns with strategic basis, although the city does not set reserve policy minimums.

The city is taking comprehensive measures to mitigate cyber risk. It has a formal information security policy that addresses such issues as controls and training and provides for continuing threat assessments, including external penetration tests to identify gaps.

Debt and liabilities

We anticipate that the city will continue a pattern of annual limited-tax GO issuances to address a mix of capital needs, with management anticipating another issuance in 2026 of approximately $65 million. However, we do not anticipate that net direct debt will rise materially in the coming years, as the city continues to secure voter authorization for property tax increases for pay-as-you-go capital needs. Of the current five overrides, the soonest expirations, for the I-122 election vouchers levy, and the families, education, preschool, and promise (FEPP) levy, happen in 2025. A proposed renewal of the I-122 election vouchers levy will be on the August 2025 ballot and the city council will consider whether to place the FEPP levy renewal measure before voters later this year.

The city's major pension plans consist of:

- Seattle City Employees' Retirement System (SCERS): 75.8% funded with the unfunded actuarially accrued liability of $1.3 billion (as of Jan. 1, 2024)
- Law Enforcement Officers and Fire Fighters (LEOFF) 1: 149% funded (as of June 30, 2023)
- LEOFF 2: 102% funded (as of June 30, 2023)

The city separately tracks two closed single-employer plans using Government Accounting Standards Board Statement No. 73 guidelines as of Jan. 1, 2024:

- Firefighters' Pension Fund: 44.7% funded with the city's unfunded actuarially accrued liability of $42.7 million
- Police Relief and Pension Fund: 18.7% funded with the city's unfunded actuarially accrued liability of $83.1 million

The city's OPEB liabilities as of Dec. 31, 2024, consisted of:

- City of Seattle Blended Health Care Premium Subsidy Plan: $86.8 million
- Firefighters' Pension Fund: $240.7 million
- Police Relief and Pension Fund: $213.2 million

We view pension and other postemployment benefit liabilities as unlikely to lead to credit pressure because the overall funding profile is unlikely to cause dramatic cost escalations.

Seattle, Washington--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.50
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	2.50

Seattle, Washington--key credit metrics

	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	255	255	245	245
County PCPI % of U.S.	175	175	171	170
Market value ($000s)	299,963,010	308,874,491	276,293,192	262,134,062
Market value per capita ($)	398,847	410,696	368,660	354,401
Top 10 taxpayers % of taxable value	2.5	3.5	3.9	0
County unemployment rate (%)	4	3.9	3	4.1
Local median household EBI % of U.S.	153	153	151	0
Local per capita EBI % of U.S.	198	198	200	0
Local population	752,076	752,076	749,453	739,654
Financial performance				
Operating fund revenues ($000s)	--	2,178,269	2,029,708	1,980,716

Seattle, Washington--key credit metrics

	Most recent	2023	2022	2021
Economy				
Operating fund expenditures ($000s)	--	1,966,991	1,864,086	1,768,247
Net transfers and other adjustments ($000s)	--	-26,556	123,161	-9,912
Operating result ($000s)	--	184,722	288,783	202,557
Operating result % of revenues	--	8.5	14.2	10.2
Operating result three-year average %	--	11	6.7	3.9
Reserves and liquidity				
Available reserves % of operating revenues	--	45	32.9	21.2
Available reserves ($000s)	--	980,906	668,648	420,068
Debt and liabilities				
Debt service cost % of revenues	--	3.5	3.6	3.9
Net direct debt per capita ($)	1,744	1,837	1,898	1,424
Net direct debt ($000s)	1,311,731	1,381,429	1,422,432	1,084,951
Direct debt 10-year amortization (%)	59	0	0	0
Pension and OPEB cost % of revenues	--	6	6	6
NPLs per capita ($)	--	2,005	2,242	1,120
Combined NPLs ($000s)	--	1,507,964	1,680,544	828,374

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$77.5 mil ltd tax GO imp and rfdg bnds ser 2025 due 06/01/2045	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Local Government	
Seattle, WA General Obligation Equivalent	AAA/Stable
Seattle, WA Limited Tax General Operating Pledge	AAA/Stable
Seattle, WA Unlimited Tax General Obligation	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.