Fitch Ratings

FITCH RATES SEATTLE (WA) ULTGOS 'AAA', LTGOS'AA+; AFFIRMS OUTSTANDING; OUTLOOK STABLE

Fitch Ratings-San Francisco-16 April 2012: Fitch Ratings assigns the following rating to the city of Seattle, Washington general obligation (GO) bonds:

--$49.9 million unlimited tax GO (ULTGO) refunding bonds, 2012 at 'AAA';
-- $77.7 million limited tax GO (LTGO) improvement and refunding bonds, 2012 at 'AA+'.

The ULTGO refunding bond proceeds will be used to refund outstanding ULTGO bonds for savings. LTGO bonds proceeds will be used to refund a portion of outstanding LTGO bonds for savings and to fund about $32 million in new money projects. Bonds are expected to be sold via competitive sale on May 2, 2012.

In addition, Fitch affirms the following ratings:
--$109.7 million ULTGO bonds at 'AAA';
--$836.1 million LTGO bonds at 'AA+'.

The Rating Outlook is Stable.

SECURITY
All GO bonds are secured by the full faith of the city. ULTGOs are secured by an unlimited ad valorem tax and LTGOs are secured by an ad valorem tax pledge limited subject to statutory limits.

KEY RATING DRIVERS
STRONG SOCIOECONOMIC BASE: Seattle is a regional economic center with a large and diverse but historically cyclical economy due to the presence of Boeing and Microsoft. Wealth indicators are well above state and national averages and the unemployment rate improved to 6.6% in Dec. 2011.

SOLID FINANCIAL MANAGEMENT: City policies and practices include economic forecasting, regular budget monitoring and adjustment, and sound debt and reserve policies. The city has remained in compliance with its reserve and debt policies.

DIVERSE REVENUES; SOUND FINANCIAL POSITION: The city's finances are marked by diverse revenues which include property, sales, business, and utility taxes. Sound reserves positioned the city to retain its financial flexibility through the recent downturn; fund balances in the future will be supported by an enhanced rainy day fund, annually funded with a portion of general fund revenues.

POSITIVE DEBT PROFILE: The city's overall debt is low at just 1.6% of market value. Effective policies regarding pay-as-you-go capital financing and a real estate excise tax (REET) dedicated to capital spending have resulted in an affordable direct debt burden as a share of general fund spending. Furthermore, the amortization rate is rapid with 72% of principal retired in ten years.

ECONOMY REMAINS SUBJECT TO CYCLICALITY: Despite diversification, the regional economy remains heavily influenced by Boeing and Microsoft and their related industries, both of which experience regular but generally uncorrelated economic cyclicality. The city expects a slower recovery than after past downturns.

RETIREMENT COSTS AFFORDABLE: The city's total pension costs are affordable and recent changes to its non-safety pension fund provide some budgetary relief and funding consistency. OPEB costs are manageable and include an implicit subsidy for most retirees but also include medical benefits through two closed public safety systems.

RATING DISTINCTION; ULTGO AND LTGO: Fitch rates the LTGOs one notch lower than the ULTGOs because of the limited permitted increase to the tax levy securing the LTGOs.

CREDIT PROFILE

IMPROVED FINANCIAL OPERATIONS BENEFITTING BOTTOM LINE

Revenue declines in 2008 and 2009 were more pronounced than the city originally anticipated, leading to sizeable operating deficits (after transfers) in those years of about $55 million and $74 million, respectively. In 2010 the city continued to make spending reductions, including layoffs and furloughs as well as across the board budget reductions and use of fund balance and other one-time measures. The city used $30 million of its fund balance to close the gap, resulting in an ending fund balance in 2010 of $167 million (16.4% of spending) with an unreserved portion of $104.7 million (10.3% of spending).

In recognition of the need to achieve fiscal balance, the 2011 budget was also balanced using additional layoffs, but also included revenue increases (commercial parking tax and various fees) and $10 million in mid-year cuts. As a result of these measures as well as an $11 million asset sale, the city anticipates adding about $23 million to fund balance.

The city estimated initial gaps for 2012 and 2013 of $40 million or roughly 4% each year. This appears to be a manageable level of budgetary fiscal imbalance and is expected to be addressed by some spending cuts, the resumption of healthier revenue growth and close budget management. The city's budget cuts to date have not been severe by comparison with other entities affected by the downturn. In Washington, the tax levy may be increased by about 1% over the previous year plus new construction. As a result, the city is largely insulated from assessed valuation declines.
Fitch does have some concerns about future public safety costs as the police have been working without a contract since 2011 which could result in a one-time payout and increased ongoing costs.

STRONG ECONOMY UNDERPINS DIVERSE REVENUE

The city's financial operations benefit from a diverse source of revenues, led by property taxes (27%), utility taxes (19%), business & occupation (B&O) (17%), and sales taxes (16%). Utility and property taxes provided some stability as sales taxes and B&O taxes are more volatile. While sales and B&O taxes declined steeply from 2007-2010 (by an aggregate 15% and 12%, respectively), property and utility taxes remained stable to increasing.

The city's economy and socioeconomic indicators remain strong. Per capita money income is about 150% of the national average. The employment picture is much improved from a year ago, led by employment growth of 1.5% (exceeding the national rate of 1.1%). The unemployment rate improved to 6.6% in December 2011 compared to 7.6% a year prior. The city reports that the regions two large employers (Boeing and Microsoft) have both been adding jobs in recent months, spurring job growth at related companies. The city reports that foreclosures are down throughout the city and region compared to a year ago, but Fitch notes that foreclosures may increase as a result of the settlement by mortgage banks with various attorneys general including with the state of Washington.

FUND BALANCES AT LOW END BUT POISED TO GROW

Current fund balance levels are at the low end of the city's historical range so retaining fiscal balance is key to maintaining credit quality. Fitch does not expect the city to rebuild reserves to their previous peak levels.

In order to help maintain and build reserves, the council adopted a funding formula for its rainy day reserve. The rainy day reserve is currently funded at about $13 million and will be increased annually from unanticipated unreserved fund balance and 0.50% of budgeted revenues, funded to 5% of budgeted revenue (currently about $45 million). This reserve is in addition to the $45 million emergency reserve fund and other unreserved fund balances. This new reserve policy should enable the city to rebuild reserves to adequate levels in anticipation of future revenue volatility.

PENSION FUNDING STABILITY; LOW DEBT BURDEN

After the city's unfunded pension liability for miscellaneous employees (SCERS) rose steeply due

to investment losses not offset by the typical practice of smoothing over five years, the city instituted smoothing and adopted a resolution to fully fund the annually required contribution (ARC). This helped improve the funding ratio in 2011 to 74% from 62% and the employer contribution to 21% from 25% of payroll, of which the employees pay about 10%. Using Fitch's more conservative 7% investment return assumption, the system is just adequately funded at 69%. Public safety pensions (administered at the state) are well funded and affordable. For 2012, the ARC for SCERS ($35.5 million from the general fund) combined with other pension costs totaled a low 2.7% of general fund budgeted spending.
The city's annual OPEB cost is a manageable 4.1% of spending. Benefits are limited to an implicit subsidy for most employees and medical benefits for two closed systems.

Seattle's debt burden is low, largely the result of a significant pay-as-you-go capital program funded by the real estate excise tax and voter-approved levies. Debt service on unlimited tax debt is exempt from the levy growth and rate limits. Proceeds from this sale will fund various capital projects and refund existing ULTGO and LTGO debt. Amortization is above average with 72% of principal repaid in ten years.

Contact:

Primary Analyst
Karen Ribble
Senior Director
+1-414-732-5611
Fitch, Inc.
650 California Street, 4th Floor
San Francisco, CA 94108

Secondary Analyst
Matthew Reilly
Associate Director
+1-415-732-7572

Committee Chairperson
Katherine Masterson
Senior Director
+1-415-732-5622

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 15, 2011);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842