

Seattle, Washington

General Obligation Bonds New Issue Report

Ratings

New Issues

Unlimited Tax General Obligation Bonds, 2013	AAA
Limited Tax General Obligation Improvement and Refunding Bonds, 2013A	AA+
Limited Tax General Obligation Improvement and Refunding Bonds, 2013B (Taxable)	AA+

Outstanding Debt

Unlimited Tax General Obligation Bonds	AAA
Limited Tax General Obligation Bonds	AA+

Rating Outlook

Stable

New Issue Details

Sale Information: \$50,000,000 Unlimited Tax General Obligation Bonds, 2013, \$42,200,000 Limited Tax General Obligation Improvement and Refunding Bonds, 2013A, and \$55,100,000 Limited Tax General Obligation Improvement and Refunding Bonds, 2013B (Taxable), expected to sell competitively the week of May 6.

Security: Unlimited tax GOs (ULTGOs) secured by an unlimited ad valorem tax; limited tax GOs (LTGOs) secured by an ad valorem tax pledge limited subject to statutory limits.

Purpose: ULTGO bond proceeds to finance the design and a portion of the construction of the Alaskan Way Seawall. LTGO bonds to refund outstanding LTGO bonds and to fund various city projects.

Final Maturity: ULTGOs: Dec. 31, 2025; LTGOs: Dec. 31, 2033.

Key Rating Drivers

Resilient But Concentrated Economy: Seattle serves as the economic center for the Pacific Northwest and benefits from high wealth and education levels, a declining unemployment rate, and a recovering housing market. However, despite ongoing diversification, the regional economy remains heavily influenced by Boeing and Microsoft.

Prudent Financial Practices: Financial management practices include economic projections, regular budgeting monitoring and adjustment, and sound reserve and debt policies that are consistently followed.

Balanced Financial Performance: Expenditure reductions and increased revenue led to an operating surplus (after transfers) in 2011 and a projected surplus in 2012 after several years of fund balance draws. The city benefits from a diverse revenue base with property, sales, and business taxes, all of which recorded growth above original estimates in 2012.

Sound Reserves: The unrestricted fund balance, which declined between fiscal years 2008 and 2010, increased to a sound level in fiscal 2011 and is projected to grow again in 2012. Liquidity levels remain strong.

Low Debt Burden: Overall debt levels for the city are expected to remain low given the city's limited debt issuance plans, pay-as-you-go financing of capital improvements through dedicated real estate excise tax (REET) revenues, and rapid amortization of outstanding debt.

Rating Distinction: Fitch Ratings assigns the LTGOs a rating one notch lower than the ULTGOs because of the limited permitted increase to the tax levy securing the LTGOs.

Rating Sensitivities

Fundamental Credit Characteristics: The rating is sensitive to shifts in fundamental credit characteristics including the city's solid financial profile. The Stable Rating Outlook reflects Fitch's expectation that such shifts are unlikely.

Related Research

[Seattle, Washington \(April 2013\)](#)

Analysts

Matthew Reilly
+1 415 732-7572
matthew.reilly@fitchratings.com

Karen Ribble
+1 415 732-5611
karen.ribble@fitchratings.com

Rating History — ULTGOs

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	4/9/13
AAA	Affirmed	Stable	4/16/12
AAA	Affirmed	Stable	2/16/11
AAA	Affirmed	Stable	3/4/10
AAA	Affirmed	Stable	3/5/09
AAA	Affirmed	Stable	6/6/08
AAA	Affirmed	Stable	3/30/07
AAA	Affirmed	Stable	3/24/06
AAA	Affirmed	Stable	3/2/05
AAA	Affirmed	Stable	4/15/04
AAA	Affirmed	—	1/28/03
AAA	Affirmed	—	9/4/02
AAA	Affirmed	—	12/31/01
AAA	Affirmed	—	7/30/01
AAA	Affirmed	—	5/23/00
AAA	Assigned	—	6/17/99

Rating History — LTGOs

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	4/9/13
AA+	Affirmed	Stable	4/16/12
AA+	Affirmed	Stable	2/16/11
AA+	Affirmed	Stable	3/4/10
AA+	Affirmed	Stable	3/5/09
AA+	Affirmed	Stable	6/6/08
AA+	Affirmed	Stable	3/30/07
AA+	Affirmed	Stable	3/24/06
AA+	Affirmed	Stable	3/2/05
AA+	Affirmed	Stable	4/15/04
AA+	Affirmed	—	1/28/03
AA+	Affirmed	—	9/4/02
AA+	Affirmed	—	12/31/01
AA+	Assigned	—	7/30/01

Credit Profile

Financial Balance Returned in 2011

Seattle relied on its historically solid reserves during the worst of the recession to avoid the severe expenditure reductions made by many other cities. From 2007 through 2010, the city's unreserved fund balance fell from \$197.7 million (22.4% of spending) to \$104.7 million (10.3%). Financial balance was restored in 2011 as spending reductions, particularly layoffs and furloughs, asset sales (\$21.3 million), and revenue increases (commercial parking tax and various fees) resulted in an operating surplus (after transfers) of \$25.3 million (2.5% of spending).

The city's unrestricted reserves increased to \$145.3 million, or a sound 14.5% of spending, at the end of 2011. Included in the total were the balances for the city's emergency fund (\$44 million), which is maintained at the maximum amount allowed by state law, and the city's rain day reserve fund (\$10 million). Preliminary figures were not available for 2012; however, the city's unrestricted balance is expected to increase, as revenues generally outperformed their budgetary estimates and expenditures held steady. The rainy day reserve fund is expected to grow to approximately \$22 million in 2012 and reach its previous high of approximately \$30 million in 2014.

Diverse Revenue Base

The city's financial operations benefit from a diversity of revenue sources, led by property taxes (25% of general fund revenues), utility taxes (19%), business and occupation (B&O) (23%), and sales taxes (16%). Property tax revenues are relatively protected from declines in assessed valuation as the city is generally permitted to increase the tax levy by 1% annually plus new growth. Significant tax revenue sources recorded solid growth in 2012 (based on November 2012 estimates), with B&O taxes up 7.6% and sales tax up 4.9%.

The 2013 adopted budget projects a very modest use of reserves that Fitch views as manageable. Annual budgets are compared to actual performance regularly and the city generally makes several adjustments throughout the year depending on financial performance.

Resilient But Concentrated Economy

The city's economic recovery compares well with the nation overall and socioeconomic indicators remain strong. The city's unemployment rate, which reached a high of 8.4% in 2010, has declined to 5.6% (December 2012) and compares favorably to the state and national averages of 7.7% and 7.6%, respectively. Wealth indicators remain a credit positive with per capita money income at 149% of the national average.

The region's two large employers (Boeing and Microsoft) added a significant number of jobs in 2012, although recent reports indicate that Boeing may implement layoffs in 2013. Positively, other employers in the Puget Sound area appear to be increasing their hiring with Amazon, Google, and other companies announcing plans to expand their regional workforce.

Activity in the city's real estate market appears to be increasing. Amazon recently made a \$1.2 billion acquisition in the downtown area and the commercial vacancy rate declined to 14.3% from 17.7% the year prior. Residential home sales also appear to be increasing, with management reporting a 20% increase in sales over the past year.

Related Criteria

U.S. Local Government Tax-Supported
Rating Criteria (August 2012)

Tax-Supported Rating Criteria
(August 2012)

Favorable Debt Profile

Seattle maintains a relatively conservative debt portfolio with no outstanding variable-rate debt. Direct debt amortizes at a rapid rate, with approximately 76% of outstanding ULTGO and LTGO principal retired within 10 years.

The city's overall debt burden is low at 1.3% of fiscal 2013 AV and low to moderate at \$2,450 per capita. Preliminary plans for future debt issuance include the possibility of up to \$150 million over the next few years

to support the construction of a basketball arena, annual issuances of \$50 million to \$60 million to finance various city improvements, and \$240 million to complete the Seawall. Additional issuances at the projected size would not materially affect Fitch's view of Seattle's overall debt burden, given the rapid amortization of outstanding debt and the relatively limited debt plans.

The city finances a significant amount of capital projects through funds generated by the city's 0.5% REET. REET revenues are restricted for qualifying capital projects and the repayment of some general obligation debt. REET revenues equaled \$30 million in 2011 and are projected to reach \$35 million in 2012.

Debt Statistics

	(\$000)
This Issue	147,300
Outstanding Direct Debt – Net of Refunding	791,945
Total Net Direct Debt	939,245
Overlapping Debt	581,659
Total Overall Debt	1,520,904

Debt Ratios (%)

Net Direct Debt Per Capita (\$) ^a	1,513
As % of Market Value ^b	0.8
Overall Debt Per Capita (\$) ^a	2,450
As % of Market Value ^b	1.3

^aPopulation: 620,778 (2012). ^bMarket value: \$117,686,522,000 (2013). Note: Numbers may not add due to rounding.

Policies Address Pension Funding Weakness

City employees and retirees participate in one of four defined benefit pension plans. The largest, which includes most miscellaneous employees (SCERS) is weakly funded with a funding ratio of 68.3% (Jan. 1, 2012). Using Fitch's more conservative 7% investment return assumption, the system's funding ratio dropped to a low 63%. Concerns regarding the funding level are partially addressed by the city's legislative action in 2011 requiring the full funding of the annually required contribution. Fitch views the growing contribution amount as manageable for the city, given its solid financial profile and financial flexibility, but will continue to monitor the impact on the city.

The city's annual other post-employment benefit cost is a manageable 2.2% of general fund spending. Benefits are limited to an implicit subsidy for most employees and medical benefits for two closed systems.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2013 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.