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

Related Research

Seattle, Washington (April 2013)

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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.

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

Related Criteria

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

Tax-Supported Rating Criteria (August 2012)

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.

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.

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

[a]Population: 620,778 (2012). [b]Market value: $117,686,522,000 (2013). Note: Numbers may not add due to rounding.

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.

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.