

Summary Analysis

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Summary:

Seattle, Washington; Solid Waste/Resource Recovery

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Summary:

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Credit Profile		
US\$47.075 mil Solid Waste rev bnds ser 2011 due 08/01/2036		
<i>Long Term Rating</i>	AA/Stable	New
Seattle Solid Wste rev & Rfgd bnds ser 2007		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Seattle solid waste		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to Seattle, Wash.'s solid waste revenue bonds series 2011. The outlook is stable. In addition, Standard & Poor's affirmed its 'AA' long-term rating on the city's previously issued solid waste revenue bonds. Credit factors include:

- A very deep and diverse economic base that consistently endures business cycles;
- A strong revenue collection mechanism as solid waste service charges appears on the water and sewer bills;
- The continued strength of the system's financial performance, supported by conservative financial policies; and
- Affordable rates indicating capacity for future increases to accommodate rising costs.

Net revenues of the solid waste enterprise secure the bonds.

The solid waste system is one of three utilities, along with the water, drainage, and wastewater utilities (both rated 'AA+'), for which the city collects a single bill. The system serves the city of Seattle (rated 'AAA'), which has a population of more than 602,000. The city is the largest in the Pacific Northwest region and is the center of a metropolitan area that is home to an estimated four million. The region is a leading center of transportation, with the ports of Tacoma and Seattle, as well as nearby Vancouver B.C.. Technology and manufacturing remain important sources of jobs, with Boeing Co. and Microsoft Corp. the leading employers. Per capita incomes are above average at 40%, better than the national median; unemployment was 9.0% in 2010.

The city council sets rates. The system is responsible for residential and commercial collection, and primary facilities are two transfer stations, South Park and Wallingford. From these transfer stations, waste is hauled to a landfill in Oregon. There are more than 150,000 residential customer accounts, accounting for 48% of revenues, and a typical monthly bill will be \$34.75 in 2011. Rates are set according to financial policies. These financial policies include a 1.7x debt service coverage target, the goal of generating net income each year, and maintaining cash equal to 20 days' contracted expenses and financing a minimum of \$2.5 million (in 2003 dollars) of capital expenses with cash reserves each year. Based on 2009 results for the fiscal year ended Dec. 31, net available revenue of \$21.8 million would provide good 2.03x coverage of annual debt service. Rates increased 12% in fiscal 2010 and 6.3% in fiscal

2011 to offset the increases in waste disposal and collection costs. Coverage in fiscal 2010 was more than 5x, primarily due to reduced debt service requirements and the effects of rate increases of 27% and 12% in 2009 and 2010, respectively. We expect coverage levels for 2011 and 2012 to be strong, based on projected financial statement released by management, at 3.76x and 3.03x, respectively.

Liquidity levels are low as unrestricted cash and investments accounted for 27 days' cash on hand in fiscal 2010, but the system has more than \$11 million in restricted cash, which provides an additional 30 days' cash on hand. In addition, the system has access to the city's pooled cash reserves, which total more than \$1.3 billion.

The city has contracts with Waste Management Inc. and Cleanscapes for residential and commercial pickup. Effectively, these contracts assure that waste generated inside city limits will be disposed of at city facilities, and, therefore, the city does not have to worry about competing waste facilities, which would limit rate-setting flexibility. These contracts expire March 31, 2019. Contracted expenses are the leading expense of the system, more than 55% of total 2009 expenses.

Currently, the system plans to issue an additional \$98 million in debt by 2015 to fund the projects related to replacing the two existing transfer stations. Once completed, the two relatively new transfer stations would meet the system's needs well into the future, thereby limiting future debt issues.

Outlook

The stable outlook reflects our expectation that financial targets will continue being met. It also reflects our expectation that management will continue to raise rates as needed to continue meeting these financial policies. Given the strength of the revenue stream collection mechanics, it is unlikely that the rating will be lowered in the near future. However, after the issuance of potentially \$98 million in parity debt by 2015 and more clarity regarding future costs as the current contracts expire by 2019, an upgrade could be warranted.

Related Criteria And Research

USPF Criteria: Solid Waste System Financings, June 15, 2007

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