

CREDIT OPINION

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City of Seattle, WA

Update to credit analysis

Summary

[Seattle, WA](#) (Aaa stable) continues to benefit from its robust economy, including above-average resident incomes, very strong full value per capita and economic growth far outpacing the US. This is consistent with the city's role as the economic center of the [State of Washington](#) (Aaa stable) and its economic base is among the strongest in the country for a large city. The region includes some of the world's most well-known international corporations, including [Amazon](#) (A1 stable), [Microsoft](#) (Aaa stable) and [Boeing](#) (Baa2 stable). Softening in the real estate market will likely reduce total assessed value modestly in the short term, but will not affect property tax revenue, given the mechanics of property assessment and taxation in the state. The city's financial performance is very strong, supported by its new payroll expense tax and prudent budget management. Leverage is moderate and fixed costs are low.

Credit strengths

- » Strong management team
- » City serves as the regional economic center of the Pacific Northwest
- » Strong resident wealth and income metrics for an urban area
- » Healthy financial position that includes ample reserves and available liquidity
- » Favorable debt profile with relatively moderate leverage

Credit challenges

- » Modest exposure to economically sensitive revenue
- » Somewhat dependent upon a small number of high profile private-sector firms for growth

Rating outlook

The outlook is stable because the city's healthy finances, strong economic fundamentals and sophisticated management will help it weather the current economic slowdown and any lingering effects of the pandemic.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Significant decline in resident incomes and property values
- » A trend of negative economic growth relative to the US
- » Material decline in financial performance or a significant increase in leverage

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

Seattle (City of) WA

	2018	2019	2020	2021	Aaa Medians
Economy					
Resident income ratio (%)	128.5%	130.7%	132.4%	133.3%	173.2%
Full Value (\$000)	\$214,109,064	\$244,938,709	\$257,958,280	\$262,134,062	\$8,668,233
Population	708,823	724,305	741,251	726,054	36,139
Full value per capita (\$)	\$302,063	\$338,171	\$348,004	\$361,039	\$225,444
Economic growth metric (%)	2.9%	2.8%	3.6%	3.5%	-0.6%
Financial Performance					
Revenue (\$000)	\$4,472,852	\$4,750,185	\$4,740,769	\$5,360,375	\$101,271
Available fund balance (\$000)	\$963,018	\$1,236,298	\$1,093,717	\$1,518,474	\$60,284
Net unrestricted cash (\$000)	\$1,718,633	\$2,041,135	\$1,930,013	\$2,135,301	\$85,080
Available fund balance ratio (%)	21.5%	26.0%	23.1%	28.3%	62.5%
Liquidity ratio (%)	38.4%	43.0%	40.7%	39.8%	89.9%
Leverage					
Debt (\$000)	\$5,365,806	\$5,324,223	\$5,710,450	\$5,920,732	\$71,359
Adjusted net pension liabilities (\$000)	\$3,938,391	\$4,081,739	\$5,221,259	\$5,187,575	\$120,889
Adjusted net OPEB liabilities (\$000)	\$551,351	\$585,226	\$633,742	\$596,159	\$14,025
Other long-term liabilities (\$000)	\$660,280	\$689,642	\$698,500	\$721,261	\$3,650
Long-term liabilities ratio (%)	235.1%	224.9%	258.7%	231.8%	257.7%
Fixed costs					
Implied debt service (\$000)	\$0	\$395,365	\$388,188	\$408,941	\$4,843
Pension tread water contribution (\$000)	\$116,662	\$142,096	\$123,903	\$116,115	\$3,247
OPEB contributions (\$000)	\$26,015	\$28,976	\$31,101	\$31,450	\$517
Implied cost of other long-term liabilities (\$000)	\$0	\$48,651	\$50,282	\$50,021	\$244
Fixed-costs ratio (%)	3.2%	12.9%	12.5%	11.3%	11.3%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Seattle-Tacoma-Bellevue, WA Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Seattle (City of) WA's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

The City of Seattle is located in [King County](#) (Aaa stable) in northwestern Washington. The city is bounded by Puget Sound on the west and Lake Washington on the east.

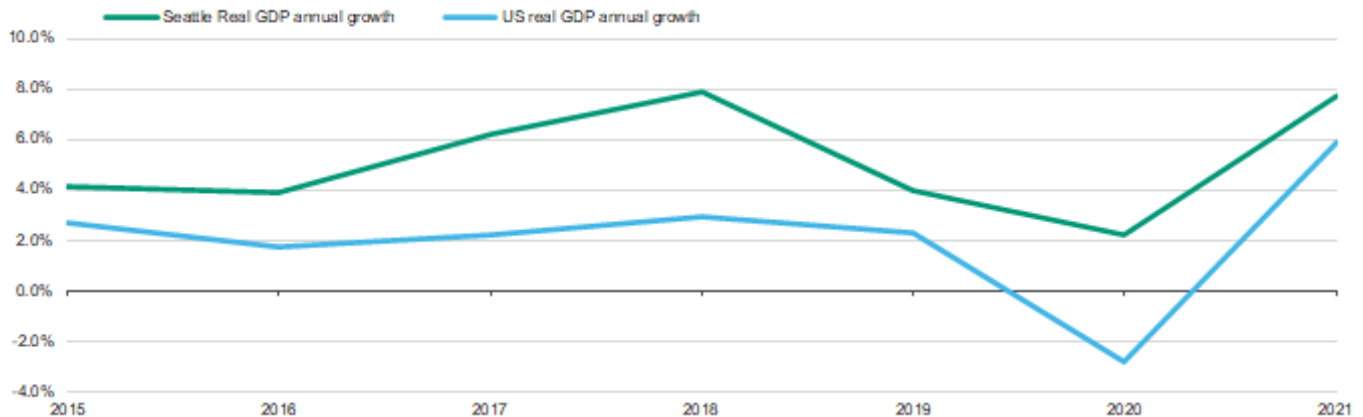
Detailed credit considerations

Economy: multi-year robust economic growth is reflected in strong resident wealth and incomes

As the commercial and tourism hub of the Puget Sound region and the economic center of the State of Washington, Seattle benefits from the presence of some of the world's most well-known international corporations. Socioeconomic measures for the city are a credit strength, supporting extremely high property values.

Amazon and other technology firms performed well during the pandemic, despite the shift to remote work. Hospitality and brick and mortar retail struggled, however. As of 2021, economic activity recovered to pre-pandemic levels. Seattle's unemployment rate temporarily exceeded the US during the pandemic, reaching 8.3% in 2020 as compared to the US rate of 8.1%, but otherwise has been consistently lower than the national rate. As of 2022, unemployment in Seattle was 3.4%.

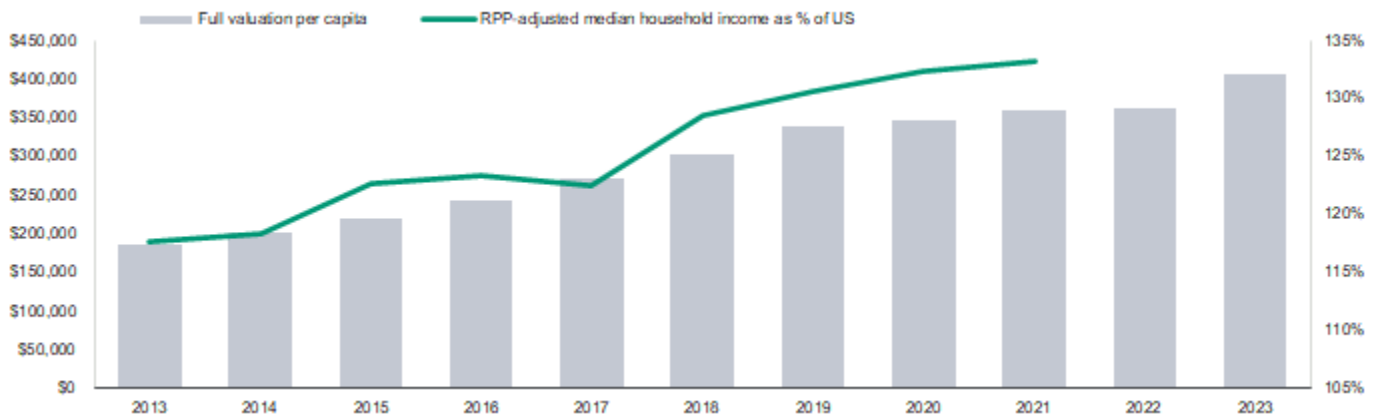
Exhibit 2

Seattle's real GDP growth has consistently outpaced the US and had positive growth during the pandemic

Source: Government data sources

The city's robust economy is reflected in the ongoing growth in resident incomes and per-capita assessed values. However, management reports that the assessed valuation for fiscal 2024 is expected to reflect a small decline, largely the result of increased vacancies in commercial real estate and softening of the residential market.

Exhibit 3

Resident wealth and incomes have materially risen over the last decade

Resident incomes are measured as the Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI.

Source: Government data sources

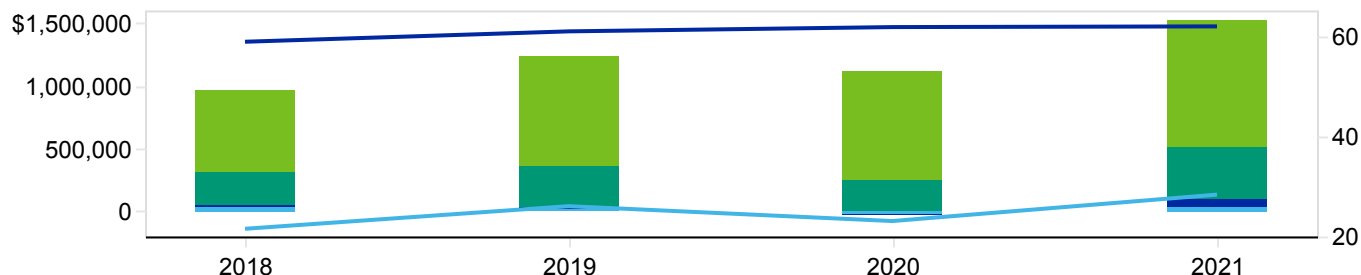
Financial operations: strong financial position reflects growing governmental revenues; capable financial management; and large, stable municipal utilities

The city's financial position is solid and while reserves will remain below the Aaa median for large cities on a percentage basis. This will continue to be offset by key strengths, including a large nominal fund balance, demonstrated history of effective budget control and sound prospects for revenue stability. In fiscal 2021 (December 31 fiscal year end), the city's revenues rebounded from the decline in fiscal 2020, up about 25% from the prior year, and grew available reserves. Revenue increases were led by the new payroll expense tax, which generated \$248 million equating to about 8% of governmental revenues. Available general fund balance increased by \$169 million. The city's business-type activities, which contribute to the strong financial position, include its [water enterprise](#) (Aaa stable), [sewer enterprise](#) (Aa1 stable) and [electric enterprise](#) (Aa2 stable)

Exhibit 4

Fund Balance

■ General fund
 ■ Other governmental funds
 ■ Internal service funds
 ■ Business-type activities
— Available fund balance ratio (%)
 — Aaa median available fund balance ratio (%)



The fund balance ratio is the total available fund balances as a percentage of total primary government revenues.
 Source: Moody's Investors Service

For fiscal 2022 (unaudited), the city's general revenues resumed pre-pandemic growth rates and were supplemented by one-time receipts from a large property sale, while expenditures reflected a decrease. Notably, the city's new payroll expense tax has cleared all legal challenges and for fiscal 2022, the city began programming taxes collected in the initial two years towards priority projects and programs. The city budgeted for fiscal 2022 to make use of fiscal 2021 surpluses to make certain expenditures that had been delayed during the pandemic. The city is forecasting that fiscal 2022 will end with an increase in available fund balances enabling the city to largely replenish its emergency and revenue stabilization funds, which are dedicated sub-funds within its general fund, in keeping with council policies.

While the payroll expense tax is an important new revenue benefiting the city's operations, management notes that the payroll expense tax revenue declined slightly in fiscal 2022 from the prior year corresponding to a slow down in larger technology-based companies, strongly correlated to a decline in stock awards that are part of compensation for these firms' employees but offset somewhat by a trend of returning to in-office work. The city is projecting a slight increase in this revenue for fiscal 2023, but also expects some volatility in the payroll expense tax, given the relatively narrow base. As such, the use of payroll expense tax revenues is intended to be for new priorities rather than ongoing operations, though the city council used a portion of the funds to support ongoing programs in fiscal 2022 to the extent general revenues were still affected by the pandemic, and adopted temporary flexibility for fiscal 2023 and 2024 to support ongoing city services in the general fund.

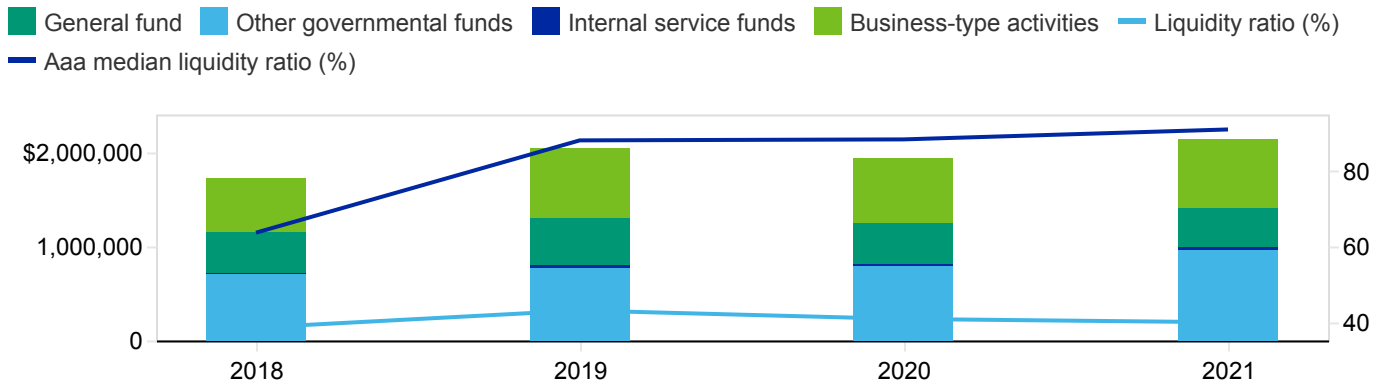
The city expects to expend the remainder of its \$363 million in Coronavirus Relief Fund and Coronavirus Local Fiscal Recovery Fund stimulus dollars by the end of fiscal 2023, committed to both one-time revenue recovery and investments in initiatives like affordable housing and assistance to vulnerable populations within the city.

Due to the mechanics of property assessment and taxation in the state, the anticipated decline in the city's assessed valuation in fiscal 2024 will not have a negative impact on the city's property tax revenues. The amount of property taxes collected automatically increases under state statute by 1% plus the amount of taxes generated by new development, but are not subject to a reduction when property values fall. Tax rates are subject to a statutory maximum and will increase when assessed values fall, but the city's rates are currently well under the statutory maximum rate.

Liquidity

The city's liquidity position is strong. As of fiscal 2021, the city's net unrestricted cash in governmental funds totaled \$1.4 billion or 45.4% of governmental revenue. When including business-type activities, the total primary government has \$2.1 billion in unrestricted cash or 51.6% of total primary government revenues.

Exhibit 5
Cash



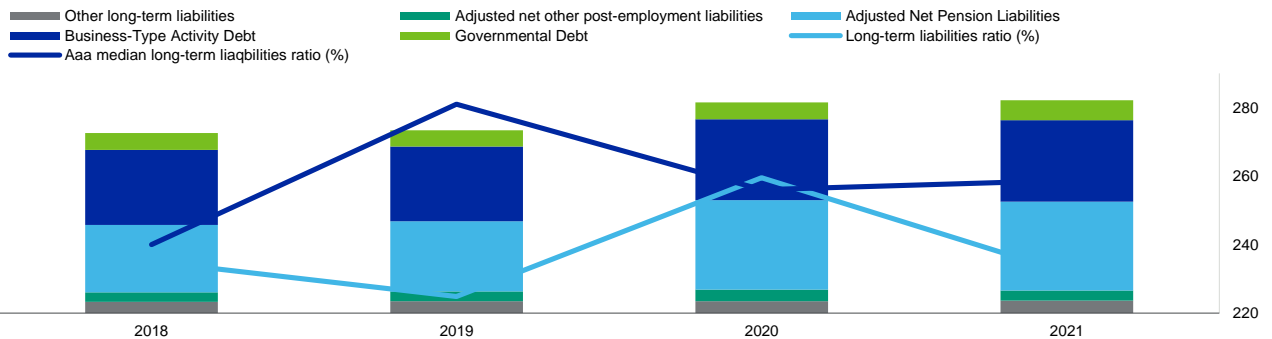
Liquidity ratio is net unrestricted cash as a percentage of total primary government revenues.
Source: Moody's Investors Service

Leverage: long-term liabilities will remain moderate and manageable

The city's long-term liabilities, which includes long-term debt as well as adjusted pension and OEPB liabilities across the total primary government, will remain moderate and the associated fixed costs will remain affordable. At the end of fiscal 2021, liabilities comprised \$1.2 billion in governmental debt, \$4.8 billion in business-type activity debt, \$5.2 billion in adjusted net pension liabilities and \$596 million in adjusted net OPEB liabilities. The city's \$147.5 million in limited tax general obligation (GOLT) bonds issued in 2022 and the current issuance, which includes about \$64.4 million in new money GOLT bonds, do not materially change the city's leverage. Changes in the assumed discount rates Moody's uses to adjust net pension and OPEB liabilities is likely to result in an increase in those liabilities in fiscal 2022 and a decline in those liabilities in the next year.

Exhibit 6

Total Primary Government - Long Term Liabilities



Long-term liability ratio is total primary government long-term liabilities as a percentage of total primary government revenues.
Source: Moody's Investors Service

Legal security

The city's unlimited tax general obligation (GOULT) bonds are backed by the city's full faith, credit and resources and unlimited property tax pledge, while the GOLT bonds are backed by the city's full faith, credit, and resources and pledge to levy taxes annually within the constitutional and statutory tax limitation provided by law without a vote of the people.

The city's local improvement district (LID) bonds are special fund obligations payable solely from 1) the special assessments on properties located in respective LIDs that when collected are available over and above the amount required for the payment of the interest on the bonds due and payable on that interest payment date and 2) the Guaranty Fund, when special assessment revenue is insufficient, for the payment of interest on the bonds when due and bond principal only at maturity.

Debt structure

The city's debt consists of fixed-rate obligations with a declining debt service structure. Final maturity of the city's outstanding bonds is in 2048, though most of the city's debt is retired by 2030.

Debt-related derivatives

The city has no debt-related derivatives.

Pensions and OPEB

Pension and OPEB liabilities are manageable. The city provides a single employer and defined-benefit public employee retirement plan (Seattle City Employees' Retirement System or SCERS), the Firefighter's Pension Fund, and the Police Relief and Pension Fund.

We generally expect funding of pension liabilities to improve given recently implemented pension reforms. On January 1, 2017, the city closed SCERS to new entrants, with new employees participating in a new system (SCERS 2). SCERS 2 has decreased benefit levels, increases the minimum retirement age and defers retirement eligibility by increasing the age-plus-years-of-service requirement for retirement with full benefits. Additionally, the city may, under state law, levy a \$0.225 per \$1,000 property tax levy to cover the Firefighter's fund; the city does not levy this additional tax.

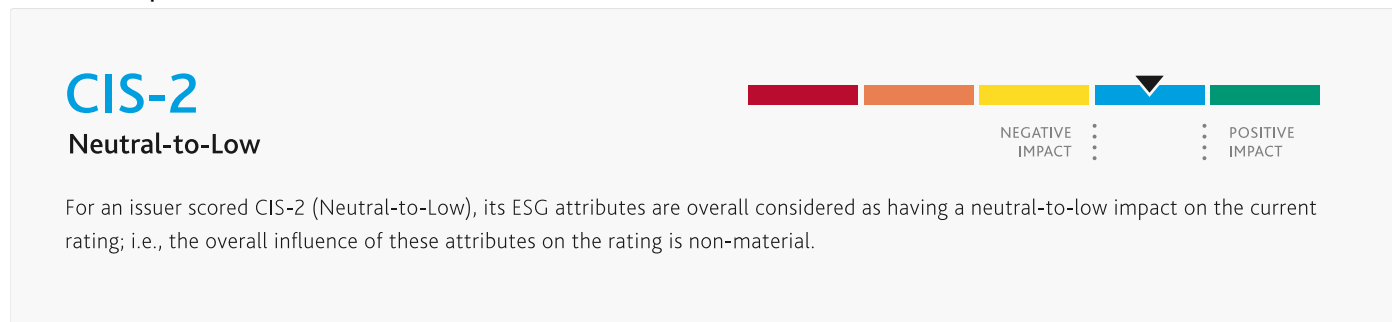
The city has three OPEB plans: the Health Care Blended Premium Subsidy, OPEB benefits under Firemen's Pension, and Police Relief and Pension. All OPEB plans are funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

ESG considerations

Seattle (City of) WA's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7

ESG Credit Impact Score

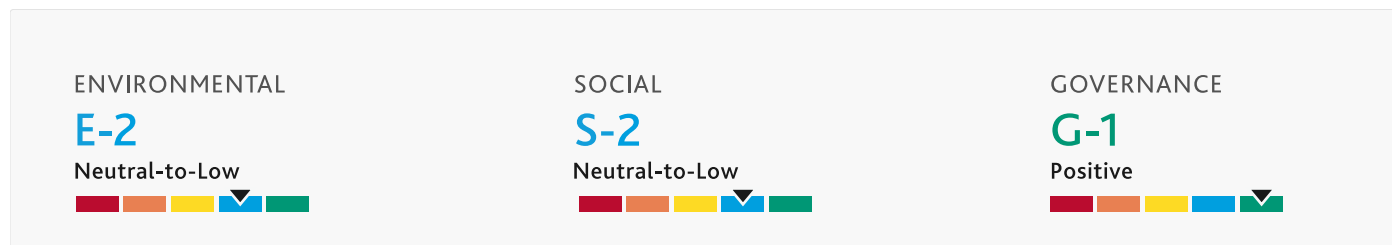


Source: Moody's Investors Service

Seattle's ESG Credit Impact Score is 2 (**CIS-2**), reflecting neutral-to-low exposure to environmental and social risks, and the city's strong governance.

Exhibit 8

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Seattle's overall E issuer profile score is neutral to low (**E-2**), reflecting relatively low exposure to environmental carbon transition, natural capital, and waste and pollution risks. The city's exposure to physical climate risks is also low. The city's most pressing long-term environmental challenges are sea level rise and greater frequency of extreme rainfall, which increase the risk of severe flooding.

Social

We assess the S issuer profile score as neutral to low (**S-2**). Seattle's growing population, expanding labor force, improving income metrics, and high educational attainment are positive to the credit. Increasingly unaffordable housing is a risk for the city, though the state and county are working along with the city to increase housing supply and support lower end wage earners.

Governance

Seattle's very strong governance profile supports its rating, as captured by a positive G issuer profile score (**G-1**). The score reflects both the city's strong institutional structure and demonstrated policy effectiveness. Seattle's solid transparency and disclosure as well as prudent budget management are also incorporated into the **G-1** issuer profile score.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

The city's Aaa issuer rating varies from the scorecard-indicated outcome primarily based on the city's strong financial management, as well as the scale of the financial operation, which provides a material level of financial flexibility not reflected in the scorecard-indicated outcome.

Exhibit 9

Seattle (City of) WA

	Measure	Weight	Score
Economy			
Resident income ratio	133.3%	10.0%	Aaa
Full value per capita	380,541	10.0%	Aaa
Economic growth metric	3.5%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	28.3%	20.0%	Aa
Liquidity ratio	39.8%	10.0%	Aa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	231.8%	20.0%	A
Fixed-costs ratio	11.3%	10.0%	Aa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			Aaa

The complete list of outstanding ratings assigned to the Seattle (City of) WA is available on their [issuer page](#). Details on the current ESG scores assigned to the Seattle (City of) WA are available on their [ESGView page](#).

Sources: US Census Bureau, Seattle (City of) WA's financial statements and Moody's Investors Service

Appendix

Exhibit 10

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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