S&P Global
Ratings

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Summary:

Seattle, Washington; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$93.94 mil ltd tax GO imp and rfdg bnds ser 2023A due 11/01/2043		
Long Term Rating	AAA/Stable	New
US$35.455 mil unltd tax GO rfdg bnds ser 2023 due 12/01/2042		
Long Term Rating	AAA/Stable	New
Seattle GO		
Long Term Rating	AAA/Stable	Affirmed
Seattle GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Seattle, Wash.'s anticipated $93.94 million series 2023A limited-tax general obligation (GO) improvement and refunding bonds and the anticipated $35.455 million series 2023 unlimited-tax GO refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's previously issued unlimited-tax and limited-tax GO bonds.
- The outlook is stable.

Security

The city's full faith and credit, including the obligation to levy ad valorem property taxes without limitation as to rate or amount, secures the city's unlimited-tax GO bonds. The city's limited-tax GO bonds, including the series 2023A, are subject to statutory limitations that include a limit on annual property tax revenue growth without a voter override and a limit on the city's levy rate of $3.60 per $1,000 of assessed value. The city's 2023 operating levy rate is $1.93. The city will use proceeds of the series 2023A limited tax and 2023 unlimited-tax GO refunding bonds to refund its 2013A limited-tax and 2013 unlimited-tax GO debt outstanding for interest expense savings. A portion of the series 2023A limited tax bonds will also be used to fund or reimburse all or a portion of the costs of the various projects of the city's capital improvement program.

Credit overview

The local economy for Seattle remains very strong in fiscal 2023, evidenced by sustained income and wealth levels that remain robust and have increased steadily the past several years. The city's assessed value (AV) has also increased continuously, most recently by nearly 12% in 2023. The latest increase is attributable to the ongoing housing demand in the region as well as new construction of both residential and commercial properties.

Overall, the city's major revenue streams, which include property taxes, sales and use taxes, and business &

occupation (B&O) taxes, have demonstrated continued growth in fiscal 2022, and management projects it will follow a similar positive trend for fiscal 2023. A key factor that has enabled the city to maintain its very strong financial position is its new payroll expense tax that became effective Jan. 1, 2021. This tax is levied on businesses with highly compensated employees and has generated approximately $248 million (13% of general fund revenues) for the 2021 year. The city has transferred funds from this revenue stream into the general operating fund to support its general fund operations as well as replenish its reserves back to higher levels. The city continues to maintain a very strong financial position, with healthy reserve levels reported in its general fund (equal to $668.6 million or 36% of expenditures for unaudited fiscal 2022), an operating surplus reported in fiscal 2021, and a projected surplus in fiscal 2022 based on unaudited figures. Management indicates the city may draw down on these reserves in the near-term, although it expects reserves to remain robust based on the current size of the city's available reserves compared with its near-term needs.

We note that certain macroeconomic weaknesses could challenge the city's budgetary performance in the longer term, such as historically high inflation resulting in expenditures outpacing revenue growth. However, we believe the city's very strong management practices and policies, coupled with its reserves, will cushion the city from potential shocks to its budget should a recession occur.

The ratings further reflect our assessment of the city's:

- Very strong economic profile, including a projected per capita effective buying income nearly twice the national level, which is unusually strong for a city of its size;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance in 2021 and 2022, which boosted the adjusted available general fund balance to what we consider a very strong 36% of expenditures; and
- Very strong debt and contingent liability profile unusual for a city of its size, with debt service at just 4% of governmental expenditures and pension and other postemployment benefits (OPEB) at 6% of expenditures.

Environmental, social, and governance

In our view, the city has elevated exposure to rising sea levels, which we consider a form of chronic physical risk, and is addressing the implications by assessing vulnerable areas and making capital improvements that include debt-financed reinforcements to its downtown seawall. The city has managed the risk of natural disasters, particularly earthquakes, by revising building codes and funding an emergency management office.

Social capital risks also are elevated, in our view, with a substantial number of households at risk of or experiencing homelessness. A pattern of rising ownership and rental prices is also likely exacerbating the problem, and planning policies in the region do not seem to provide conditions for supply to match demand growth for additions. The city is responding to this challenge in multiple ways, such as generating resources for affordable housing development through a recently adopted employer tax and a voter-approved property tax override.

We consider governance risk neutral within our criteria framework, with robust political debate but a functional decision-making process. We also consider its public document disclosure regarding policy and budgetary challenges timely.

Outlook

In light of certain budgetary challenges that the city faces, we believe the city's very strong reserve levels will be key to maintaining current credit quality if costs rise faster than revenues in the longer term. The stable outlook reflects our expectation that the city can sufficiently and actively adjust its future budgets without substantially spending its reserves to materially weaker levels.

Downside scenario

We could lower the rating if the city experiences sustained operating deficits without a credible recovery plan resulting in materially weaker reserve levels.

Credit Opinion

Issue rating's relationship with U.S. sovereign rating

Our issue ratings reflect our view that the city's general creditworthiness is above that of the U.S. sovereign. We do not expect the city to default in a stress scenario that accompanies a sovereign default, given autonomy from sovereign intervention. We think the city exhibits relatively low funding interdependency with the federal government, as local taxes represent the vast majority of total governmental funds revenue. However, consistent with our view that U.S. state and local governments are moderately sensitive to country risk, we would be unlikely to set ratings on the city's obligations more than two notches above the U.S. sovereign rating.

Seattle, Wash: key credit metrics

	Most recent information	Historical information		
		2021	2020	2019
Economic indicators				
Population	739,654			
Median household EBI % of U.S.	146			
Per capita EBI % of U.S.	193.89			
Top 10 taxpayers as a % of assessed value	3.46			
Financial indicators				
Total adjusted available fund balance ($000)		420,937	250,764	334,350
Total adjusted available fund balance as a % of operating expenditures		23.81	15.12	21
Governmental funds cash as a % of governmental fund expenditures		72.43	70.28	81.08
General fund operating result as a % of general fund operating expenditures		11.24	(4.77)	6.4
Debt and long-term liabilities				
Overall net debt as a % of market value	0.54			
Debt service as a % of governmental funds expenditures		4.04	4.24	4.70
Required pension contribution ($000)		158,044	158,735	135,519
OPEB contribution ($000)		31,344	30,121	28,826

Seattle, Wash: key credit metrics (cont.)			
	Most recent information	Historical information	
Required pension plus OPEB contribution as a % of governmental fund expenditures	6.43	6.07	6.49

EBI--Effective buying income. OPEB--Other postemployment benefit.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 23, 2023)		
Seattle GO		
Long Term Rating	AAA/Stable	Affirmed
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Seattle GO		
Long Term Rating	AAA/Stable	Affirmed
Seattle Indian Services Commission, Washington		
Seattle, Washington		
Seattle Indian Svcs Comm (Seattle) GO		
Long Term Rating	AAA/Stable	Affirmed
Seattle Museum Development Authority, Washington		
Seattle, Washington		
Seattle Museum Dev Auth (Seattle) GO equiv		
Long Term Rating	AAA/Stable	Affirmed