

RATING ACTION COMMENTARY

Fitch Rates Seattle, WA's LTGO Improv and Ref Bonds 2024 and UTGO Ref Bonds 2024; Outlook Stable

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Fitch Ratings - San Francisco - 14 May 2024: Fitch Ratings has assigned a 'AAA' rating to Seattle, WA's \$45.6 million limited tax general obligation (LTGO) Improvement and Refunding Bonds 2024 and \$11.8 million unlimited tax GO (UTGO) Refunding Bonds 2024. Fitch has also affirmed the city's Issuer Default Rating (IDR) and outstanding UTGO and LTGO bonds at 'AAA'.

The new money bonds are being sold to fund several municipal facilities. The refunding bonds will refund various outstanding bonds for debt service savings.

The bonds are expected to be sold the week of June 3rd, 2024.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Seattle (WA) [General Government]	LT IDR AAA Rating Outlook Stable	AAA Rating Outlook Stable
	Affirmed	

Seattle (WA) /General Obligation - Limited Tax/1 LT	LT	AAA Rating Outlook Stable	AAA Rating Outlook Stable
		Affirmed	

Seattle (WA) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	AAA Rating Outlook Stable
		Affirmed	

[VIEW ADDITIONAL RATING DETAILS](#)

The 'AAA' GO and IDR incorporates the city's 'aaa' financial resilience assessment, which reflects a midrange level of budgetary flexibility and an expectation that available reserves will be maintained at or above 15% of spending (compared to the current 35.9%). The rating also considers the city's strong long-term liability burden profile (82nd percentile of the Fitch local government rating portfolio), and strong population trend (90th percentile) and strong demographic level metrics (composite 88% percentile).

The rating further reflects the application of two positive additional analytical factors (AAF) notches. The first recognizes the city's role as the center of an important and growing Seattle-Tacoma-Bellevue MSA with a vital role in the regional and national economy. The second AAF reflects the city's high market value per capita and greater capacity to tap into revenues as evidenced by a record of voter approved revenue initiatives.

The Stable Outlook reflects Fitch's expectation that the city's strong fiscal management policies and practices, along with a broad resource base combined with spending flexibility which enables to it to adjust spending in response to changes in revenue forecasts and ongoing inflationary pressures.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Failure to implement expenditure reductions to maintain available reserves at or above 15% of spending resulting in a financial resilience assessment of 'aa';

--A material erosion of the city's demographic and economic metrics.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Not applicable given the 'AAA' rating and Stable Outlook.

SECURITY

The ULTGO bonds are a general obligation of the city payable from its full faith and credit and ad valorem property tax pledge subject to statutory limits, the LTGO are general obligation bonds subject to statutory limits.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model (LGRM) generates Model-Implied Ratings (MIR) which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the MIR will be the IDR except in certain circumstances explained in the applicable criteria). The MIR is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher ('AAA'), 9.0 ('AA+'), 8.0 ('AA'), and so forth down to 1.0 ('BBB-' and below).

MIRs reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile (MP), and a structured framework to account for Additional Analytical Factors (AAFs) not captured in the Metric Profile that can either mitigate or exacerbate credit risks. AAFs are reflected in notching from the MP and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Seattle MIR: 12.92 ('AAA')

--Metric Profile: 10.92 ('AAA')

--Net Additional Analytical Factor Notching: +2.0

Individual Additional Analytical Notching Factors:

--Revenue Capacity: +1.0

--Economic and Institutional Strength: +1.0

Seattle's MIR of 12.92 is at the upper end of the range for its current 'AAA' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

Seattle's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

--Revenue control assessment: High

--Expenditure control assessment: Midrange

--Budgetary flexibility assessment: High Midrange

--Minimum fund balance for current financial resilience assessment: $\geq 10.0\%$

--Current year fund balance to expenditure ratio: 35.9% (2022)

--Five-year low fund balance to expenditure ratio: 15.1% (2022)

Revenue Volatility - 'Strong'

Seattle's weakest historic three-year revenue performance is neutral to the MIR.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

--Lowest three-year revenue performance (based on revenues dating back to 2005): 0.5% decrease for the three-year period ending fiscal 2010

--Median issuer decline: -4.7% (2022)

Financial Profile Additional Analytical Factors and Notching: +1.0 notch (for Revenue Capacity)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise

skew the time series.

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Strongest'

Based on the median of 10-year annual percent change in population, Seattle's population trend is assessed as 'Strongest'.

Population trend: 2.3% 2021 median of 10-year annual percent change in population (90th percentile)

Unemployment, Educational Attainment and MHI Level - 'Strongest'

The overall strength of Seattle's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2022 are assessed as 'Strongest' on a composite basis, performing at the 87th percentile of Fitch's local government rating portfolio. This is due to relatively strong education attainment levels, median-issuer indexed adjusted MHI and unemployment rate.

--Unemployment rate as percentage of national rate: 75.0% 2022 (83rd percentile), relative to the national rate of 3.6%

--Percent of population with a bachelor's degree or higher: 65.9% (2021) (97th percentile)

--MHI as a percent of the portfolio median: 133.3% (2021) (80th percentile)

Economic Concentration and Population Size - 'Strongest'

Seattle's population in 2021 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

--Population size: 731,507 (2021) (above the 15th percentile)

--Economic concentration: 44.6% (2022) (above the 15th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch
(for Economic and Institutional Strength)

LONG TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Strongest'

Seattle's long-term liability metrics remain moderately strong across each of the three dimensions: liabilities to personal income, liabilities to governmental revenue, and carrying costs to governmental expenditures. The long-term liability composite metric in 2022 is at the 82nd percentile, indicating a low liability burden relative to the Fitch local government rating portfolio.

--Liabilities to personal income: 3.0% Analyst Input (76th percentile) (vs. 3.0% 2022 Actual)

--Liabilities to governmental revenue: 85.8% Analyst Input (90th percentile) (vs. 91.4% 2022 Actual)

--Carrying costs to governmental expenditures: 9.6% Analyst Input (84th percentile) (vs. 9.6% 2022 Actual)

Analyst Inputs to the Model

The analyst for long term liability burden metric includes the par amount of new money debt to be sold and associated debt service.

PROFILE

Seattle is the largest city in the Pacific Northwest and the cultural and business center of the Puget Sound. Boeing had long been the largest regional employer, but while Boeing has reduced its Washington based workforce, Amazon has been expanding and is currently the largest regional employer followed by Boeing and Microsoft. Through the decade ending 2020, the city experienced robust economic growth as Amazon and other technology companies expanded in downtown, fostering complementary multiuse development.

The workforce is highly educated, helping to sustain above average economic and revenue growth. The recessionary impact on the economy due to the pandemic is fairly modest at this

point, and concentrated in the hospitality and entertainment sector. Both revenue per hotel room and diners at restaurants have trailed the national rates since the onset of the pandemic, and employment recovery - particularly in leisure and hospitality remains weak.

Fitch's U.S. Labor Market Tracker estimates that the Seattle-Tacoma-Bellevue MSA added back about 84% of the 12% of jobs lost at the start of the pandemic, which is modestly better than the 81% median among MSAs. Seattle's March 2023 unemployment rate was 2.5%, notably below the state and national rates.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from DRIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[U.S. Local Government Rating Model, v1.2.0 \(1\)](#)

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ENDORSEMENT STATUS

Seattle (WA)

EU Endorsed, UK Endorsed

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