S&P Global
Ratings

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Summary:

Seattle; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$45.78 mil ltd tax GO imp and rfdg bnds ser 2024 due 05/01/2044		
Long Term Rating	AAA/Stable	New
US$11.885 mil unltd tax GO bnds ser 2024 due 12/01/2043		
Long Term Rating	AAA/Stable	New
Seattle GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Seattle's expected $45.8 million series 2024 limited-tax general obligation (GO) improvement and refunding bonds and $11.9 million series 2024 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 limited-tax and unlimited-tax GO bonds.
- The outlook is stable.

Security

The city's limited-tax GO bonds, including the series 2024, 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 (AV). The city's 2024 levy rate is $2.37.

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 unlimited-tax GO bonds.

Proceeds of the series 2024 limited-tax GO bonds will pay for a variety of capital projects, the largest of which are repairs to the city's Fire Station 31. Proceeds of the 2024 limited-tax GO bonds will also refund the city's series 2014 limited-tax GO debt outstanding for interest expense savings estimated at about 4.2% of refunded principal on a net present value basis. Proceeds of the series 2024 unlimited-tax GO refunding bonds will refund a portion of the city's series 2014 unlimited-tax GO bonds outstanding. Inclusive of this issuance, the city will have about $1.2 billion in governmental debt outstanding at the end of 2024.

Credit overview

Seattle's very strong available reserves remain resilient and one of the key factors that have allowed the city to maintain positive operating results in recent years, following the negative effects of the pandemic. However, the city faces certain macroeconomic weaknesses that will challenge its economic and fiscal health, including still-elevated inflation affecting its cost to provide services and maintain its capital program; unsettled labor contracts and uncertain future labor costs; high office vacancy rates and low construction activity that could negatively affect retail sales tax, business and occupation tax, payroll expense tax, and real estate excise tax, as well as taxable property value. Major operating revenue streams are lagging expenditures, and fiscal adjustments will be needed to ensure budgetary balance in the next two years. We expect the city will continue to monitor and adjust budgets to mitigate possible operating deficits.

We expect strong operating performance and very strong operating reserves to continue through fiscal 2024, owing in part to robust budgetary and forecasting practices. The city projected an operating deficit of about $230 million for its preliminary 2025-2026 biennium budget during November 2023, when it adopted its 2023-2024 midbiennial budget adjustments. However, the city has developed a plan to address the deficit and has taken measures to slow spending in 2024, including a hiring freeze and reconsideration of larger contracts. In addition, the city is exploring opportunities for consolidation and efficiencies across its departments, and identifying funding sources to maximize its utilization.

Finally, the city will adjust 2025-2026 biennium budget allocations for its departments to match forecast revenue and thus achieve a balanced and sustainable budget, according to management. We believe that the city will continue to adjust its budget to achieve balanced operations given what we consider its strong management practices and policies, and we also believe that its very strong reserve position will provide some time for budget adjustment without significant erosion of available financial resources.

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

- Very strong economic profile, including a projected per capita effective buying income of nearly 2x 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 with mostly positive operating results and very strong budgetary flexibility with maintenance of adjusted available general fund balance at what we consider a very strong level; and
- Very strong debt and contingent liability profile, which is unusual for a city of its size, with debt service carrying charges at just 3.7% of governmental expenditures and pension and other postemployment benefits (OPEB) carrying charges 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 factor neutral within our criteria framework.

Outlook

The stable outlook reflects our expectation that the city can sufficiently and actively adjust future budgets without substantially weakening reserves, a key factor in maintaining credit quality.

Downside scenario

We could lower the rating if the city is unable to make the adjustments it deems necessary to bring revenue and expenditures into balance over the next two years, and if it experiences sustained operating deficits resulting in materially weaker reserves.

Credit Opinion

Residential real estate continues to soar, hospitality trends toward business as usual, and office occupancy office remains a weak spot in an otherwise strong economic base

The local economy remains very strong in 2024, as evident in sustained income and wealth levels that remain robust and continue to increase annually. AV increased by a strong 12% in 2023 as a result of regional housing demand as well as construction of both residential and commercial properties. However, AV decreased by a modest 2.5% in 2024 mostly as a result of a decrease in commercial property values, but residential property AV continues to show strong increases. We note that the decrease in AV does not affect operating revenue.

The hospitality sector continues to show recovery and seems to be nearing business as usual compared with pre-pandemic activity. Downtown foot traffic and office occupancy have shown a slow but steady positive trend in the past two years, and this trend is expected to continue based on the city's economic forecast and employers' shifting their work culture toward a return to the office.

Core operating revenue recovery; new tax continues to help the city bounce back

Overall, the city's main revenue streams--property taxes, sales and use taxes, and business and occupation taxes--continued to grow modestly through 2023, and management projects that they will follow a similar trend for 2024. The city maintains a very strong financial position, with very strong reserve levels reported in its general fund, an operating surplus reported in 2022, and a projected surplus in 2023 based on unaudited figures. The city expects reserves to remain robust based on the size of available reserves compared with near-term needs Also, it has replenished its emergency and revenue stabilization funds since 2023, and plans to continue doing so for the next three years for a projected combined ending fund balance of $159 million by 2026. These two funds are included in the city's budgetary flexibility (available reserves), which totaled $980.9 million, or 49.9% of operating expenditures, for unaudited fiscal 2023.

Another key factor that has enabled the city to maintain its very strong financial position is its payroll expense tax that took effect Jan. 1, 2021. This tax is levied on businesses with highly compensated employees and generated approximately $248 million in 2021, $297 million in 2022, $317 million in unaudited 2023, and a projected $394 million in 2024 as of the city's April revenue forecast), and it is projected to increase annually for the next five years. In 2021, the city transferred the full $248 million (13% of operating revenue) from this revenue stream into the general operating fund to support general fund operations as well as replenish reserves to prior years' levels. Of the total amount that the payroll expense tax generated, about $85 million (4.8% of operating revenue) was transferred into the general operating fund in 2022 and $70 million (4.2%) in unaudited 2023, and $92 million (5.3%) is budgeted to be transferred in 2024.

Our calculation of budgetary flexibility includes an analytic adjustment to treat committed general fund balances as practically available because they generally consist of set-asides for particular policy priorities or risks rather than for initiatives that are likely to require immediate spending, and we have adjusted expenditures to include recurring transfers out.

We anticipate that the liquidity profile will remain very strong for the foreseeable future given the recent recovery in governmental reserves and access to the consolidated citywide cash pool.

Robust array of institutionalized policies and practices with robust independent five-year economic and revenue forecasting

Elements of the city's financial policies and practices include:

- What we view as a consistent approach to budgeting, with the use of detailed, empirically based revenue and expenditure forecasts to build budgets, and the transition of the revenue forecasting role to a position outside the budget office to improve independence and reduce the risk of political conflicts over revenue assumptions;
- Forecast updates to the council in May, September, and October, and the council's practice of quarterly expenditure amendments;
- The use of a detailed financial forecasting model covering the current and subsequent three years to consider the long-term effects of current-year budgeting decisions;
- An annually updated rolling six-year capital improvement plan with funding sources identified;
- Monthly reporting on investment holdings and returns under an internally guided investment policy;
- Formal and well-embedded comprehensive debt management policy, including elements such as a maximum general fund carrying charge threshold relative to the general operating fund budget (7%) and an annual debt portfolio report that coincides with the adoption of the annual budget; and
- Compliance with automatic formula contributions to designated reserves for emergencies and economic downturns, although the city does not set reserve policy minimums.

The city has a formal information security policy that addresses such issues as controls and training and provides for continuing threat assessments, including external penetration tests to identify gaps. The city has cyber security insurance.

The institutional framework score for Washington municipalities is adequate, partly as a result of discretion over the quality and frequency of financial reporting.

Continued voter support for multiyear tax overrides that can be used for capital has reduced the need for governmental debt issuance

We anticipate that the city will continue a pattern of annual limited-tax GO issuances to address a mix of capital needs, with management anticipating an issuance in 2025 similar in size to the series 2024. However, we do not anticipate that net direct debt will rise materially in the coming years, as the city continues to secure voter authorization for property tax increases for pay-as-you-go capital needs. Of the current five overrides, the soonest expiration, for transportation, happens in 2024, and the city council will consider whether to place the transportation levy renewal measure before voters this year.

The pension and OPEB burden is average, and the creation of a new tier for the main plan (SCERS) in 2017 and investment gain in 2021 and 2023 point to slower contribution rate growth

The city's major plans consist of:

- Seattle City Employees' Retirement System (SCERS): 83.3% funded with the city's proportionate net pension liability of $828.4 million (as of Dec. 31, 2022)
- Law Enforcement Officers and Fire Fighters (LEOFF) 1: 169.6% funded (as of June 30, 2022)
- LEOFF 2: 116.1% funded (as of June 30, 2022)

The city separately tracks two closed single-employer plans using Government Accounting Standards Board Statement No. 73 guidelines as of Dec. 31, 2022:

- Firefighters' Pension Fund: 32.6% funded with the city's unfunded actuarially accrued liability of $91.3 million
- Police Relief and Pension Fund: unfunded with the city's unfunded actuarially accrued liability of $76.7 million

The city's OPEB liabilities as of Dec. 31, 2022, consisted of:

- City of Seattle Blended Health Care Premium Subsidy Plan: $55.7 million
- Firefighters' Pension Fund: $243.8 million
- Police Relief and Pension Fund: $238 million

The state systems' actuarially determined contributions (ADCs) match the contractually required contributions (CRCs) and exceeded both static funding and minimum funding progress, indicating our view of timely progress in reducing pension liabilities. The CRCs, which are developed using the same approach as the ADCs, are not updated following passage into law biennially and so can diverge from the annually updated ADCs. And the plans' 6.75% discount rate increases potential contribution volatility. However, because CRCs determine funding requirements using an approach that approximates 10- to 15-year level percent open amortization, timely progress on reducing liabilities is made even when ADCs exceed CRCs, and so we believe costs will likely remain stable.

Actuarial OPEB liabilities consist of an implicit subsidy for the smaller single-employer plan for public safety employees qualifying for LEOFF 2 and, for LEOFF 1 employees, a direct subsidy. The city manages this cost on a pay-as-you-go basis, and management thinks the latter has likely peaked as a result of LEOFF 1 eligibility ending for employees hired starting October 1977.

Rating above the sovereign

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 likely to accompany a sovereign default given autonomy from sovereign intervention. We view the city as exhibiting 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--key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	201			
Market value per capita ($)	401,913			
Population		749,453	739,654	734,613
County unemployment rate (%)		2.9		
Market value ($000s)	301,214,631	276,293,192		
Ten largest taxpayers % of taxable value	3.2			
Strong budgetary performance				
Operating fund result % of expenditures		12.2	11.2	(4.8)
Total governmental fund result % of expenditures		3.0	4.4	(5.9)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		35.9	23.8	15.1
Total available reserves ($000s)		668,648	420,068	250,764
Very strong liquidity				
Total government cash % of governmental fund expenditures		92	72	70
Total government cash % of governmental fund debt service		2,486	1,793	1,659
Very strong management				
Financial Management Assessment	Strong			
Very strong debt and long-term liabilities				
Debt service % of governmental fund expenditures		3.7	4.0	4.2
Net direct debt % of governmental fund revenue	38			
Overall net debt % of market value	0.6			
Direct debt 10-year amortization (%)	50			
Required pension contribution % of governmental fund expenditures		5.0		
OPEB actual contribution % of governmental fund expenditures		1.0		
Adequate institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 23, 2024)		
Seattle GO		
Long Term Rating	AAA/Stable	Affirmed
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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

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