

CREDIT OPINION

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Seattle (City of) Sewer Enterprise, WA

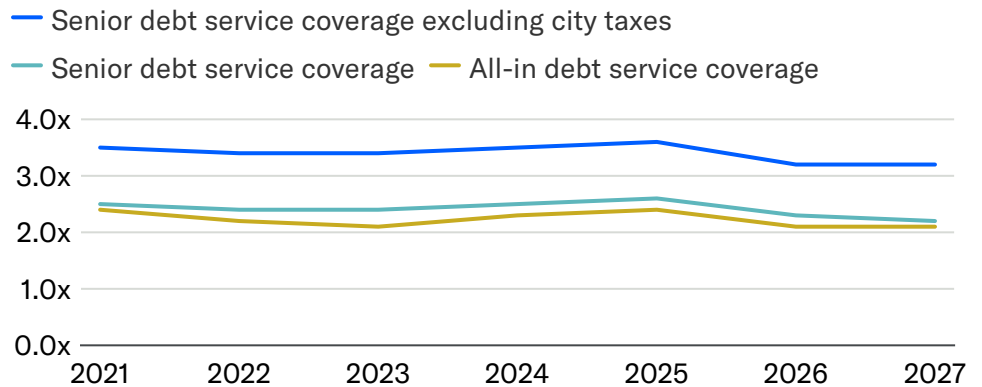
Update to credit analysis following assignment of positive outlook

Summary

The [Seattle \(City of\) WA Sewer Enterprise](#) (Aa1 positive) benefits from a large and stable service area, nearly coterminous with the city and high average resident incomes. Financial operations and liquidity will remain strong. Debt is likely to rise, but will remain moderate and manageable. Regulatory compliance and capital planning are overseen by a strong management team. The rate-setting record is notably strong, with the city regularly increasing rates to maintain financial metrics and support its large capital program for the wastewater and drainage systems.

Exhibit 1

Debt service coverage is projected to stabilize near current levels



Source: Audited financial statements, city's projections, Moody's Ratings

Credit strengths

- » Stable, established customer base and service area
- » Demonstrated willingness to increase utility rates
- » Access to citywide cash pool for liquidity purposes

Credit challenges

- » Large capital program will require large rate increases
- » High combined utility bill relative to regional peers, though more affordable when compared to national peers

Rating outlook

The positive outlook for the drainage and wastewater system revenue bonds reflects our expectation that the utility will continue to maintain its very strong financial metrics, including moderate but manageable leverage despite large planned debt issuances and very strong liquidity and debt service coverage. It further reflects the anticipated resolution of its consent decree by the EPA as the required infrastructure improvements near completion.

Factors that could lead to an upgrade

- » All-in debt service coverage sustained above 2.0 times
- » Sustained cash on hand at current levels

Factors that could lead to a downgrade

- » Deterioration in debt service coverage below 1.5 times
- » Weakened cash on hand below 150 days
- » Increase in debt to operating revenue ratio above 4.0 times

Key indicators

Exhibit 2

Seattle (City of) Sewer Enterprise WA					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	42 years				
System Size - O&M (in \$000s)	\$473,713				
Service Area Wealth: MFI % of US median	188.9%				
Legal Provisions					
Rate Covenant (x)	1.25x				
Debt Service Reserve Requirement	DSRF funded at lesser of standard 3-prong test (Aa)				
Management					
Rate Management	Aaa				
Regulatory Compliance and Capital Planning	Aa				
Financial Strength					
	2021	2022	2023	2024	2025
Operating Revenue (\$000)	\$502,517	\$519,029	\$542,934	\$576,840	\$610,831
System Size - O&M (\$000)	\$353,905	\$358,990	\$414,651	\$432,762	\$473,713
Net Revenues (\$000)	\$153,746	\$152,947	\$146,166	\$167,021	\$177,690
Net Funded Debt (\$000)	\$871,234	\$873,092	\$1,023,960	\$1,049,078	\$1,276,202
Annual Debt Service (\$000)	\$63,055	\$68,450	\$67,744	\$73,808	\$74,301
Annual Debt Service Coverage (x)	2.4x	2.2x	2.2x	2.3x	2.4x
Cash on Hand	226 days	275 days	305 days	362 days	420 days
Debt to Operating Revenues (x)	1.7x	1.7x	1.9x	1.8x	2.1x

Financial metrics differ from those reported by the city because of inclusion of utility taxes in O&M and subordinate debt service in debt service calculation.

Source: Audited financial statements, Moody's Ratings

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Profile

Seattle Public Utilities (SPU) was created in 1997 as a department of the City of Seattle and includes the city's water, drainage, sewer and solid waste utilities.

The combined drainage and wastewater enterprise has two separate systems serving city residents. The drainage system conveys stormwater runoff through various modes, including storm drains, a combined stormwater and wastewater system and a ditch, culvert and creek system. The wastewater system is responsible for the collection and its transmission of wastewater to regional treatment facilities that are operated by King County.

Detailed credit considerations

Service area and system characteristics: strong and stable service area supports rate increases

The utility system's robust service area economy is a significant credit strength. Seattle is the commercial and tourism hub of the Puget Sound region and the economic center of the state. Income measures are strong and will continue to be a positive component of the utility's credit profile. Median family income of 188.9% of the US level is among the highest for large urban areas.

The drainage system conveys stormwater runoff through various modes, including storm drains, a combined stormwater and wastewater system and a ditch, culvert and creek system. The drainage system is principally residential, though revenue generation is more evenly split with commercial activities as drainage fees are based on a property's estimated impact on the drainage system. The largest customer of the drainage system is the city of Seattle (6.3% of revenue in 2025) and the top 10 customers generated 17.4% of 2025 revenue, similar to figures from prior years.

The wastewater system is responsible for the collection and its transmission of wastewater to regional treatment facilities that are operated by King County. Like the drainage system, the wastewater system principally serves residential customers, although wastewater revenue is more heavily driven by commercial accounts (65%). The largest customer of the wastewater system in 2025 was the University of Washington (3.3%) and the top 10 customers generated 10.6% of revenue.

The city anticipates conservation efforts and slower population growth will result in stable, rather than growing, demand over the next several decades. The utility recently completed a modification of a consent decree by the Environmental Protection Agency (EPA) related to sewer overflows, following expansion of the original project scope while partnering with King County on major initiatives.

Debt service and liquidity: strong debt service, liquidity bolstered by city's consolidated cash pool

Debt service coverage is healthy despite increasing annual debt service for bond issuances to finance regulatory, renewal and optimization of existing infrastructure and transportation projects. Operating revenue for 2025 reached \$611 million, a 5.9% increase from the prior year. By ordinance, city utility taxes are remitted to the city after the payment of debt service, though in practice they are remitted monthly. Net revenue available for debt service in 2025 was \$177 million, sufficient to provide 2.6 times senior lien debt service and 2.4 times all-in debt service. Debt service coverage will decline slightly in fiscal 2026, as the city begins paying debt service on its WIFIA loan, but all-in coverage is projected to remain above 2.0 times.

Liquidity

Seattle's utilities have historically maintained lower levels of cash on their own balance sheets because of their access to liquidity in the city's \$4.3 billion consolidated cash pool. Short-term liquidity (up to 90 days) can be accessed with approval of the city's finance director. For long-term liquidity, the enterprise must receive approval of the city council. The enterprise ended 2025 with \$545 million of cash, or 420 days of cash on hand. Cash balances are likely to decline closer to historical levels (250 days) as the city uses cash on hand for capital projects, though the city has historically outperformed similar projections by considerable margins.

Debt and legal covenants: debt to increase but will remain manageable

The drainage and wastewater enterprise's debt burden will continue to rise, but will remain manageable. As of fiscal 2025, total debt of \$1.28 billion included revenue bonds (including premiums), a WIFIA loan and state loans, the latter of which are subordinate. The enterprise's debt to operating revenue ratio in fiscal 2025 was 2.1 times, which will rise closer to 3.0 times in the next several years. The utility's capital program through 2030 calls for \$1.49 billion in projects. The city expects to pay for these using operating cash, superfund site reimbursements and debt financing. The increase in leverage will be manageable given currently strong margins and expected rate-driven revenue increases.

The bonds are payable from the combined net revenue of the drainage and wastewater system, which has a rate covenant that requires the system to set rates to maintain at least 1.25 times annual debt service coverage on a pre-city tax basis. The additional bonds test similarly requires that rates be set to maintain at least 1.25 times annual debt service coverage on a pre-city tax basis. Furthermore, the bonds are backed by a common debt service reserve sized at the lesser of the standard three-prong test.

Debt structure

The combined drainage and wastewater debt is structured with declining debt service to allow for layering of additional bond issuances in the future.

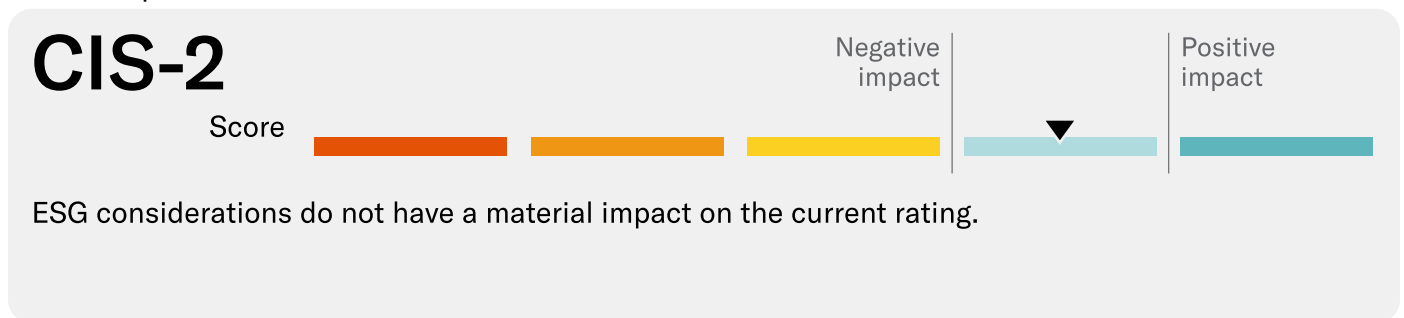
Pensions and OPEB

Pensions and other post-employment benefits (OPEB) are not a material driver for the drainage and wastewater utility. Contributions have generally have been above its "tread water" mark, or the contribution level required to keep pension liabilities from growing given plan assumptions. The city funds its OPEB expenses on a pay-as-you-go basis and the utility's share is limited to the implicit subsidy associated with retiree healthcare.

ESG considerations

Seattle (City of) Sewer Enterprise, WA's ESG credit impact score is CIS-2

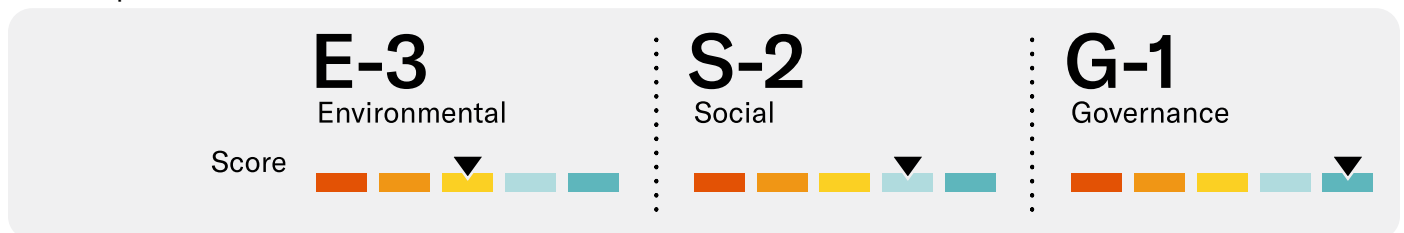
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Seattle Sewer, WA's ESG credit impact score of **CIS-2** indicates that ESG considerations have limited impact on its credit rating. This reflects moderately negative exposure to environmental risks, neutral-to-low exposure to social risks and positive governance considerations.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The utility's credit exposure to environmental risks includes water management considerations given the risk of potential regulatory violations associated with wastewater disposal. Wastewater operations face risks of increased operating costs or capital requirements in addressing any future violations. In addition, physical climate risks are low, including long-term environmental challenges such as sea level rise and the greater frequency of extreme rainfall, which increases the risk of severe flooding.

Social

The system's social risk exposure is primarily the potential challenge of rate affordability to customers, although the system benefits from positive population trends and above-average resident incomes.

Governance

The system benefits from its strong financial strategy and risk management, as well as a strong track record of adopting recommended rate increases and multi-year planning. Board structure poses a modest risk, reflecting the concentrated control of the system by the city council.

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

Exhibit 5

Seattle (City of) Sewer Enterprise WA (808896192)

Rating Factors	Input	Weight	Score
System Characteristics (30%)			
Asset Condition (Years of Annual Depreciation)	42 years	10%	Aa
System Size (O&M in Thousands of Dollars)	\$473,713	7.5%	Aaa
Service Area Wealth (Median Family Income as % of US)	188.9%	12.5%	Aaa
Financial Strength (40%)			
Annual Debt Service Coverage (x)	2.39x	15%	Aaa
Days Cash on Hand	420 days	15%	Aaa
Debt to Operating Revenue (x)	2.09x	10%	Aa
Management (20%)			
Rate Management	Aaa	10%	Aaa
Regulatory Compliance and Capital Planning	Aa	10%	Aa
Legal Provisions (10%)			
Rate Covenant (x)	1.25x	5%	Aa
Debt Service Reserve Requirement	Aa	5%	Aa
Notching Factors			Up/Down
No Notching Factors Applied			N/A
Scorecard-Indicated Outcome			Aaa
Assigned Rating			Aa1

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

Source: US Census Bureau, audited financial statements, Moody's Ratings

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