Rating Action: Moody's assigns Aa1 to Seattle, WA's LID 6751 2021 bonds and downgrades LID 6750 2006 bonds to Aa1 from Aaa; outlook is stable

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New York, October 01, 2021 -- Moody's has assigned a Aa1 rating to the City of Seattle, WA's $97.4 million Local Improvement District No. 6751 Bonds, 2021 (Taxable). Concurrently, Moody's has downgraded the $2.5 million outstanding local improvement district (LID) 6750 2006 bonds to Aa1 from Aaa. Both LID ratings carry the City's stable outlook.

RATINGS RATIONALE

The Aa1 rating on the LID 6751 bonds reflects our view of the strength of the City's statutory Guaranty Fund, which provides additional security to both the LID 6751 bonds and the LID 6750 bonds beyond their respective pledged special assessments. The bond ordinance requires the Guaranty Fund to be maintained at a minimum of the lesser of 8% of outstanding par of all LID bonds and maximum annual debt service on all bonds guaranteed by the fund. The City is required to replenish the Guaranty Fund by either borrowing from the City's general fund or levying a citywide property tax, subject to constitutional as well as practical limitations. If special assessment collections are insufficient, the Guaranty Fund can be used to pay interest on LID bonds when due and principal only at maturity. It can also pay for the City's costs to foreclose on an assessment lien or to protect an assessment lien at a tax foreclosure sale. Moreover, the Guaranty Fund provides a backstop for the LIDs' special assessment pledge, which has potential exposure to elevated delinquencies in an economic downturn, offset by a very strong value to lien ratio.

The Aa1 rating on the LID 6751 bonds incorporates narrow debt service coverage initially provided by the billed assessment installments, due to the City electing to bill for interest only on property owners' assessment balances for the first ten years. Any excess receipts, including permitted prepayment of assessments, must be used to redeem bonds annually. The timing of any delinquencies, which may be heightened when the principal portion of assessments are billed, or of early bond redemptions could affect the sufficiency of assessment revenue for debt service in other years.

The additional security of the Guaranty Fund with the available citywide tax levy for replenishment is similar to a general obligation limited tax (GOLT) pledge without a full faith and credit (FFC) pledge. While there is substantial legal taxing headroom for the City to replenish the Guaranty Fund, this ability is limited by practical and political considerations, which are reflected in the one-notch distinction from the issuer's general obligation unlimited tax (GOULT) bond rating. Overall, the benefit of the Guaranty Fund backstop as well as the complexity of LID and Guaranty Fund administration are governance considerations driving this rating action.

The downgrade on the LID 6750 bonds to Aa1 resulted from the correction of an error. In prior rating actions, these bonds were mistakenly classified as GOLT bonds with a FFC pledge. The City's GOLT bonds are rated Aaa, the same as its GOULT bonds. The LID 6750 bonds have now been reviewed as special assessment bonds that also benefit from the additional pledge of the Guaranty Fund for LID bond debt service, but do not carry the City's FFC pledge. As is the case for the LID 6751 bonds, the one notch difference in the Aa1 rating for the LID 6750 bonds from the City's Aaa GOULT rating incorporates the City's substantial legal taxing headroom to replenish the Guaranty Fund that is limited by the same practical and political considerations.

RATING OUTLOOK

The stable outlook is based on our expectation that the City of Seattle (Aaa stable) will continue to have a strong tax base and economy, and that the city will maintain its robust financial position.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Decline in the general credit quality of the City of Seattle

- Elevated delinquent assessment installment payments resulting in rapid depletion of the Guaranty Fund

- Substantial narrowing of available headroom on the citywide Guaranty Fund levy

LEGAL SECURITY

LID bonds are special fund obligations payable solely from 1) the special assessments on properties located in the respective LID 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.

USE OF PROCEEDS

Proceeds of the LID 6751 bonds will be used to pay or reimburse a portion of the costs of certain waterfront improvements provided for in the Seattle Central Waterfront Program and to make a deposit into the Guaranty Fund.

PROFILE

Seattle is the economic center for the Pacific Northwest. The city is a full-service city, with a relatively affluent population of 761,100, a large and well-educated labor force, and ties to the broader metropolitan area including the cities of Bellevue and Everett.

The city formed Local Improvement District No. 6751, known as the Waterfront LID, in 2019 consisting of 6,624 properties in downtown Seattle, in the area bordered on the west by Puget Sound, the east by Interstate 5, the north by Denny Way and the south by streets south of Pioneer Square. The Waterfront LID is intended to provide a portion of the financing for the Seattle Central Waterfront Program, a multi-year plan to build a new waterfront for the city. The properties are mostly residential condominium units or commercial properties located within the associated complexes, with the rest being a mix of commercial properties, including high rise towers, retail spaces and special purpose facilities. Of properties located in the LID, 6,398 were determined to benefit from the planned waterfront improvements and assessed for their share of project costs in proportion to that benefit.

The city formed Local Improvement District No. 6750 in 2005 consisting of 1,089 commercial and residential properties located in a 1.3-mile corridor from the downtown core through the Denny Triangle to South Lake Union to be served by a since-completed streetcar line. The city determined that the streetcar improvements would provide special benefits to 666 of those properties, which were assessed for their share of project costs in proportion to that benefit.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260094. An additional methodology used in these ratings was Special Assessment / Special Property Tax (Non-Ad Valorem) Debt published in November 2016 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1044931 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISLCOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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