

# RatingsDirect®

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## Summary:

# Seattle, Washington; General Obligation; General Obligation Equivalent Security

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### Credit Profile

US\$55.14 mil ltd tax GO imp and rfdg bnds ser 2013B due 01/01/2025		
<i>Long Term Rating</i>	AAA/Stable	New
US\$50.0 mil unltd tax GO imp bnds ser 2013 due 12/01/2042		
<i>Long Term Rating</i>	AAA/Stable	New
US\$42.225 mil ltd tax GO imp bnds ser 2013A due 10/01/2033		
<i>Long Term Rating</i>	AAA/Stable	New

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Seattle, Wash.'s series 2013A limited-tax general obligation (GO) improvement bonds, 2013B taxable limited-tax GO improvement and refunding bonds, and 2013 unlimited-tax GO improvement bonds. In addition, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's existing GO bonds and GO-equivalent obligations. The outlook on these ratings is stable.

The 'AAA' ratings reflect our view of the city's:

- Economic role as the center of a very deep and dynamic regional economy;
- Strong income indicators and a resilient employment market that has kept the city's unemployment rate below the national average;
- Relatively low level of funding interdependencies with the federal government;
- Strong financial management policies and practices, including robust forecasting and monitoring capabilities; and
- Low to moderate debt burden, with rapid amortization and excellent management of the city's longer-term capital improvement plan.

The series 2013A and 2013B limited-tax GO bonds are secured by the city's full faith and credit, including the obligation to levy ad valorem property taxes 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 per \$1,000 of assessed value (AV). The series 2013 unlimited-tax GO bonds are not subject to these limitations.

We understand that the city will use the proceeds of the bonds to fund capital improvements and, for the series 2013B, to refund all or a portion of its series 2004 limited-tax GO bonds.

Seattle serves as the economic core of a 4.2 million-resident, seven-county region and encompasses 616,500 residents and a total market value of \$117.7 billion for 2013. The city's recovery after the Great Recession appears to have solidified, with year-over-year growth in its count of employed residents in 23 of the past 24 months and an

unemployment rate of just 5.6% in December 2012 (preliminary), compared with 7.8% nationwide. The region's historically dominant employer, Boeing, has a multiyear backlog of aircraft orders (3,044 for its 737 model compared to 799 orders for its new 787 model that has experienced high-profile setbacks) and the city's downtown has been experiencing declining vacancy rates and is stretching northward with the investments by Amazon.com. Likewise, total market value is down 15% from its peak in 2009 but inched upward for the first time in four years by 0.8% for 2013. A continuing economic strength, in our view, is the city's reservoir of human capital, with 56% of its residents holding a bachelor's degree compared with the 31% nationwide average. We also consider the city's median household effective buying income to be strong, at 111% of the U.S. level, despite a relatively small average household size.

We consider the city's operating revenue structure to be diverse, with budgeted 2013 general fund revenues led by property taxes (28% of revenues), gross receipts taxes (20%), sales taxes (18%), and utility taxes (19%). The city has limited revenue flexibility under state law without voter approval but has a track record of receiving voter support for property tax increases for services and capital improvements, most recently a seven-year increase for library services. At \$3.15 per \$1,000 of AV, the city's operating levy rate is 13% below the state limit of \$3.60. We believe that this provides a cushion against the effect of a potential setback in AV growth, as the city could allow its levy rate to rise and allow its property tax revenues to remain stable or grow slightly until its levy rate reached \$3.60 per \$1,000 of AV.

The city exhibits a relatively low level of funding interdependencies with the federal government. For 2011, capital and operating grants, less than half of which, we understand, consisted of federal payments, represented 15% of total governmental expenses. Management does not expect the federal sequestration will significantly affect the city's operations, and management estimates the loss of interest subsidies for the city's Build America Bonds will amount to just \$46,000 this year.

Concurrent with improving economic conditions, the city's economically sensitive revenue streams have recovered from losses in 2009, as has the city's financial position as it has sought to rebuilt its "rainy day" account within its general fund. Gross receipts taxes (known as the "business and occupation" tax) rose by 7% in 2011 and, according to city estimates, by another 8% for 2012. Likewise, sales taxes increased 8% and an estimated 5% during the same years. Available reserves reached a nadir in 2010 at 10.3% of expenditures and (mostly recurring) out-transfers, which we still consider strong, as the city tapped a portion of its rainy day subaccount. Since then, the city has posted a general fund surplus due to a rebound in revenues and nominal spending reductions in all departments but public safety, and we calculate the city's available general fund balance following the conversion to Government Accounting Standards Board Statement 54 guidelines at 12.5% of expenditures and out-transfers in 2011 (including balances reported as committed for the city's health care reserve and employee benefit trust funds). Although we understand that the city's budgetary basis reporting does not include fund balance totals that directly correspond to its audited financial statements, we estimate that the city finished 2012 at about 15% of expenditures and out-transfers, or about \$139 million (unaudited). The city's budget anticipates a slight after-transfer deficit for 2013, which we calculate would reduce its available financial position to approximately 14% of expenditures for the year, although based on prior experience we anticipate that the gap may close if revenue assumptions prove conservative.

We consider the city's financial management "strong" under our financial management assessment (FMA) methodology. An FMA of "strong" indicates our view that practices are strong, well embedded, and likely sustainable.

Practice highlights include detailed, empirically based revenue and expenditure forecasts that use myriad internal and external independent sources, as well as monthly monitoring of revenue and expenditure performance.

Seattle's debt levels are low to moderate, in our view, at 1.2% of market value and \$2,369 per capita. The city's GO amortization schedule is rapid, in our opinion, with 71% of the city's new and previously issued GO bonds scheduled to be retired within 10 years, and carrying charges are low, in our view, at 6.2% of governmentwide, noncapital expenditures in 2011.

The city independently manages a defined-benefit pension for most of its nonpublic safety employees that, similar to many other plans, experienced a drop in assets during the 2008 bear market. Consistent with the city's policy of setting its asset valuation at the current level (rather than create a rolling average that smooths ups and downs over time), the plan's ratio of actuarial assets to actuarial liabilities fell substantially to 62% as of Jan. 1, 2010, which we consider below average, from 92.4% on Jan. 1, 2008. In 2011 the city raised its and its employees' contribution rates in response, but not enough to meet the higher actuary-calculated annual required contribution (ARC). However, for 2012, a shift to a five-year smoothing approach to its asset valuation, among other factors, strengthened the pension funding ratio to 74.3% on Jan. 1, 2011. (The ratio would have been 66.9% without asset smoothing.) The city plans to fully fund its ARC for the foreseeable future.

The city's other postemployment benefit consists of an implicit subsidy and, for certain public safety employees under a now closed plan, a direct subsidy. In 2011, the city funded this obligation on a pay-as you-go basis. This expense totaled \$25.0 million, or 61% of the annual cost and 1.7% of total governmental fund expenditures in 2011. The unfunded actuarial accrued liability was \$581.9.5 million as of the most recent valuation dates of its three plans.

## Outlook

The stable outlook reflects our view that the city's robust management framework has contributed to what we view as an appropriate use of reserves to manage operating revenue declines and the use of the same policies to rebuild reserves as revenue growth has returned. In our view, the city's decision to fully fund its pension liability for the foreseeable future under its new asset valuation method provides credit stability. We do not expect to lower the ratings during our two-year outlook horizon due to the city's economic growth trend and strong management policies and practices.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011
- U.S. State And Local Government Credit Conditions Forecast, April 4, 2013

### Ratings Detail (As Of April 11, 2013)

Seattle ltd tax go imp & rfdg bnds ser 2005

Long Term Rating

AAA/Stable

Affirmed

<b>Ratings Detail (As Of April 11, 2013) (cont.)</b>		
Seattle unlted tax GO rfdg bnds ser 2012 due 12/01/2021		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Seattle GO ser 2002, 2003		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Seattle GO Bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Seattle Lmtd Tax GO Imp & rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Seattle GO</b>		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
<b>Pike Place Mkt Preservation &amp; Dev Auth, Washington</b>		
Seattle, Washington		
Pike Place Mkt Preservation & Dev Auth (Seattle) spl oblig rev rfdg bnds ser 2002		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Seattle Chinatown Intl Dist Pres &amp; Dev Auth, Washington</b>		
Seattle, Washington		
Seattle Chinatown Intl Dist Pres & Dev Auth spl oblig bnds (Hsg Fac) ser 2002A&B		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Seattle Chinatown Intl Dist Pres & Dev Auth spl oblig rfdg bnds ser 2007		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Seattle Indian Svcs Comm, Washington</b>		
Seattle, Washington		
Seattle Indian Svcs Comm spl oblig rev rfdg bnds ser 2004		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Seattle Indian Svcs Comm (Seattle) spl oblig rev rfdg bnds ser 2002		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Seattle Museum Dev Auth, Washington</b>		
Seattle, Washington		
Seattle Museum Dev Auth GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Washington St Hsg Fin Comm, Washington</b>		
Seattle, Washington		
Washington St Hsg Fin Com (Seattle) multifam rev bnds (Seattle) (Lowman Bldg Proj) ser 2004 dtd 06/01/2004 due 01/01/2029		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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