New Issue: MOODY'S ASSIGNS Aaa RATING TO UNLIMITED TAX G.O. BONDS AND Aa1 RATING TO LIMITED TAX G.O. BONDS; $1.1BILLION IN DEBT AFFECTED

Global Credit Research - 23 Apr 2012

STABLE OUTLOOK ALSO AFFIRMED

SEATTLE (CITY OF) WA
Cities (including Towns, Villages and Townships)
WA

Moody's Rating

ISSUE		RATING
Limited Tax General Obligation Improvement and Refunding Bonds, 2012		Aa1
Sale Amount	$76,670,000	
Expected Sale Date	04/19/12	
Rating Description	General Obligation Limited Tax	
Unlimited Tax General Obligation Refunding Bonds, 2012		Aaa
Sale Amount	$49,870,000	
Expected Sale Date	04/19/12	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, April 23, 2012 --Moody's Investors Service has assigned an Aaa rating to the Unlimited Tax General Obligation Refunding Bonds, 2012 being issued in the amount of approximately $49.9 million. The UTGO bonds are secured by the city's full faith, credit, and unlimited property tax pledge. Proceeds of the current offering will refund a portion of the city's outstanding Series 2002 UTGO bonds.

Moody's has also assigned an Aa1 rating to the city's Limited Tax General Obligation and Refunding Bonds, 2012 being issued in the amount of $77.7 million. The LTGO bonds are secured by the full faith and credit of the city within constitutional and statutory limits for limited tax debt. Proceeds of the current offering will fund a variety of city capital projects and refund a portion of the city's Series 2002, 2003, and 2005 LTGO bonds. At the same time, Moody's affirms the Aaa rating on the city's outstanding $109.2 million in unlimited tax obligation bonds, and affirms the Aa1 rating on the $953.1 million in limited tax obligation bonds. The outlook for the ratings remains stable.

SUMMARY RATINGS RATIONALE

The high ratings reflect the city's fundamentally sound economic base despite the lingering effects of the last recession and modest growth in sales tax revenues, above-average socio-economic indices, sound financial management, narrowed yet satisfactory financial position, and a favorable debt position.

The stable rating outlook is based on Moody's expectation that the city will continue to manage its financial operations well despite narrowed financial reserves and the challenges posed by the slow recovery from the recession.

Strengths

- Strong economic base as regional, technology, service, and financial center for the Pacific Northwest

- High wealth levels for a large metropolitan area; amongst the highest in its peer group

- Sound financial management with proven budgetary flexibility as reflected in positive year-end results following mid-year budget adjustments

- Below average debt burden

- No VRDO or derivatives exposure

Challenges

- Reliance on economically-sensitive revenues for operations, which have not rebounded to pre-recession levels

-Reserves remain somewhat narrow for a large Aaa-rated city. Moody's expects the city to continue conservative budgeting practices and adhere to policies established to replenish

reserve funds.

DETAILED CREDIT DISCUSSION

FUNDAMENTALLY STRONG LOCAL ECONOMY HAS STABALIZED FOLLOWING RECESSION; MODEST GROWTH IS OCCURING

The City of Seattle is the heart of the Puget Sound region, and the commercial hub of the Pacific Northwest. The computer services and aircraft sectors are key components of the

diverse regional economy which includes King County (UTGO bonds rated Aaa). Seattle's economy remains on the recovery path because these primary employers continue to expand, and employment levels have almost completely recovered to pre-recession levels. Employment growth has been steady over the last two years, and the city's unemployment rate of 7.1% (February 2012) remains well below that of the state (9.1%) and the nation (8.7%). Although homebuilding and manufacturing jobs are not expected to rebound, the latter sector is beginning to benefit from improved orders and production, especially due to the back-log of orders at Boeing. A recent four-year agreement with machinists securing jobs in nearby Renton enhances economic stability in the region. Global trade is beginning to flow again due to strong exports in Asia, mostly transportation equipment and agricultural goods, and the city's lower exposure to euro zone export markets compared with the U.S. will be a key strength in the near-term. Despite three years of declines in full valuation, the rate of growth over the last five years remains positive and averaged 1.9%. The city's full valuation remains sizable at $116.8 billion, following a modest 2.2% decline in 2012. Full value per capita, at $191,892, remains very high for a major metropolitan city. Wealth levels are also fairly high for a large city, with 2006 - 2010 estimated median family income of $87,987, or 139.7% of the U.S.

FINANCIAL OPERATIONS EXPECTED TO IMPROVE DESPITE 2010 OPERATING DEFICIT LARGER THAN ANTICIPATED, MODERATE GROWTH EXPECTED IN NARROWED RESERVE LEVELS

General fund revenues have declined in recent years and contributed to a series of operating deficits through FY 2010. In recent years city officials have demonstrated ability to budget accurately and cut costs when needed, but have still relied on reserve draws to balance the budget. Going in to the recession, the city had accumulated a general fund balance of $328.0 million in FY 2007, or 33.8% of revenues, while unreserved general fund balance was $197.7 million, or 20.4% of revenues. Due to lower than expected sales tax revenues during FY 2008 and FY 2009 and a prolonged recession that delayed recovery, general fund reserves and expenditure cuts were used to balance the city's budget through FY 2010. The city's general fund balance declined to $167.0 million, or 17.0% of 2010 general fund revenues, while unreserved general fund balance was $104.7 million, or 10.6% of revenues. This ending fund balance is below the initial estimate of $184 million, or 18.6% of revenues.

Following the recession, recent moderate revenue growth appears to be sufficient for the city to achieve structural balance. The city enjoys a fairly diverse stream of general fund revenues, which help to mitigate the volatility in the economically-sensitive revenues, particularly holiday sales tax receipts. In FY 2010 property tax revenues comprised approximately 23.4% of general fund revenues, with sales tax revenues comprising 14.6%, B&O taxes at 17.3% and utility taxes at 18.7%. Despite the city's 2.2% decline in fiscal 2012 assessed value, property tax revenues increased slightly due to an increase in the city's operating tax rate to approximately $3.13 per $1,000 of assessed valuation.

This rate remains well below the $3.60 maximum.

One notable source of financial risk is the receipt of holiday-related sales taxes very late in the city's fiscal year. Lower than anticipated retail sales tax at the end of FY 2010, presented a challenge for the city in 2010 leaving no time to make expenditure adjustments, which resulted in the ending fund balance below the initial estimate. However, anticipating the budgetary stress of a lower ending fund balance in 2010, management addressed potential deficits for FY 2011 through a variety of actions including mid-year program cuts totaling $10.0 million. These actions reflect the sound financial management and budgetary flexibility of the city. Through additional layoffs and revenue increases in commercial parking tax and other various fees, the total general fund balance is expected to increase from $167.0 million at the end of FY 2010 to $190.0 million at the end of FY 2011. This $23.0 million surplus is comprised of $20.0 million in additional revenues (including an $11.0 million land sale to the state), and a $3.0 million under-spend. Moody's notes that the city has been responsive to its budget challenges and believes that the city will continue to take such steps as are necessary to achieve fiscal balance, preserving its long-term credit strength.

The FY 2012 budget totals $910 million (3.4% larger than FY 2011) and included a $3.4 million reserve to act as a cushion in the event that the most recent forecasts result in less revenue for the general fund. In approving the 2012 budget, the mayor and council have focused on significant programmatic changes that address the long-term financial health of the city, and reflects the fourth consecutive year of budget reductions. The city has identified $6.0 million in savings from a new jail contract with King County, $3.3 million in savings from lower health care costs, and certain frozen positions are being held vacant. City officials do not anticipate any mid-year budget reductions for FY 2012.

After reaching a peak of $30.2 million in 2008, the city's Revenue Stabilization Account ("Rainy Day Fund") (within the General Fund) was drawn down during the recession to balance the budget, declining to $10.5 million in FY 2010. Since that time, the city council has approved and adopted a plan to replenish the fund with transfers to the fund by ordinance and an automatic transfer of tax revenues that exceed the last official revenue forecast. The policy would cap this value at 5% of tax revenues, or approximately $45 million, about equal to the city's emergency reserve. The 2012 budget includes a $1.95 million contribution to the fund, with approximately $4.0 million in FY 2013. An additional $6 million from unexpectedly large fund balances is to be set aside in this account. The city also adopted a policy in 2011 to fully fund the annually required funding (ARC) level starting in 2012. While this does require an increase in employer contribution rates, the changes result in an increase of approximately $30 million annually to support the retirement system. Moody's notes that these changes also reflect the city's commitment to rebuild and maintain reserves and meet future pension obligations, a credit positive.

MANAGEBLE DEBT POSITION

The City of Seattle continues to maintain a low overall debt burden of 1.6%, well below levels typical of larger cities. Despite additional borrowing plans, debt levels are expected to remain low going forward; a direct debt burden of 0.9% is also below levels typical of other large cities. Proceeds of the current limited tax offering will fund a variety of city capital projects and refund a portion of the city's Series 2002, 2003, and 2005 LTGO bonds. Approximately 40% of the city's 2012 limited tax debt service is paid from dedicated revenues outside the general fund, including commercial parking taxes and payments from other agencies. Proceeds from the unlimited tax offering will be used to refund certain maturities of the city's Series 2002 UTGO debt. Beyond the current offerings, city officials do not expect to issue additional tax supported debt this year and the remainder of its $283 million capital program will be funded on a pay-as-you-go basis. Payout of the city's general obligation bonds (both unlimited and limited tax) remains sound with 66.8% of outstanding bonds retired in ten years.

The city has no variable rate debt or any associated swap transactions.

WHAT COULD MOVE THE RATING DOWN

-Substantial deterioration of financial position due to greater than expected declines in operating revenues

- Subsequent downturn in the local economy

- Substantial deterioration in the city's socioeconomic measures

Outlook

The stable rating outlook is based on Moody's expectation that the city will continue to manage its financial operations well despite narrowed financial reserves and the challenges

posed by the slow recovery from the recession.

KEY STATISTICS:

2011 population estimate: 612,100

2006 - 2010 estimated median family income: $87,987 (139.7% of state)

2012 full valuation: $116.8 billion

2012 full value per capita: $191,892

FY 2010 general fund balance: $167.0 million (17.0% of general fund revenues)

FY 2010 unreserved general fund balance: $104.7 million (10.6% of general fund revenues)

FY 2011 estimated general fund balance: $190.0 million

Direct debt burden: 0.9%

Overall debt burden: 1.6%

Payout of principal (10 years): 66.8%

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on

www.moodys.com for a copy of this methodology.

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