FITCH RATES SEATTLE, WA'S ULTGOS 'AAA' & LTGOS 'AA+'; OUTLOOK STABLE

Fitch Ratings-San Francisco-28 April 2015: Fitch Ratings assigns the following ratings to the city of Seattle, WA general obligation (GO) bonds:

--$162.6 million unlimited tax GO (ULTGO) improvement bonds, series 2015, 'AAA';
--$167.3 million limited tax GO (LTGO) improvement and refunding bonds, series 2015A, 'AA+';
--$28.2 million LTGO improvement bonds, series 2015B (taxable), 'AA+'.

In addition, Fitch affirms the following ratings:

--$128.4 million in outstanding ULTGO bonds at 'AAA';
--$739 million in outstanding LTGO bonds at 'AA+'.

The Rating Outlook is Stable.

ULTGO bond proceeds will finance project costs related to the rebuilding of the Seawall. LTGO bonds will be used to fund various city projects and refund outstanding LTGO bonds. The bonds will be sold via competitive sale the week of May 4.

SECURITY

ULTGOs are payable from an unlimited ad valorem tax and LTGOs are payable from an ad valorem tax pledge subject to statutory limits.

KEY RATING DRIVERS

SOLID FINANCIAL PROFILE: The city benefits from a diverse and growing revenue base, solid unrestricted reserve levels, balanced financial performance, and a demonstrated ability to reduce spending.

PRUDENT FINANCIAL PRACTICES: Financial management practices include economic forecasting, regular budgeting monitoring and adjustment, and sound reserve and debt policies that are consistently followed.

DYNAMIC BUT CONCENTRATED ECONOMY: The city serves as the economic center for the Pacific Northwest and benefits from high wealth and education levels, a relatively low unemployment rate, above-average job growth, and significant on-going development. The regional economy remains heavily influenced by Boeing and Microsoft but has become increasing diversified due to the growth of Amazon and other companies.

LOW DEBT BURDEN: Overall debt levels for the city are expected to remain low given the city's limited debt issuance plans, pay-as-you-go financing of capital improvements through dedicated real estate excise tax (REET) revenues, and rapid amortization of outstanding debt.

SUSTAINABLE PENSION IMPROVEMENT PLAN: Seattle's primary pension plan is poorly funded, but the city has taken prudent steps to improve its sustainability. Fitch believes carrying costs for debt service, pensions and other post-employment benefits will remain quite affordable despite pension payment increases and rapidly amortizing debt.

RATING DISTINCTION: Fitch rates the LTGOs one notch lower than the ULTGOs because of the limited permitted increase to the tax levy securing the LTGOs.

RATING SENSITIVITY:
The rating is sensitive to shifts in fundamental credit characteristics including the city's solid financial profile. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

DYNAMIC, CONCENTRATED ECONOMY

Over the past couple of years the city has benefitted from a period of strong economic growth. Amazon's recent and rapid growth, increasing employment by other technology companies, and a booming construction industry have supported some of the strongest levels of job creation in the nation. Average annual employment growth from 2012 through 2014 was 2.6% compared to the national average of 1.5%, leading to the city's currently low unemployment rate of 4.4% (February 2015).

While the city's transition towards a more broadly diversified economic base is viewed positively, Boeing and Microsoft, the most significant employers in the region, remain driving forces for the regional economy. The performance of those companies and their plans for the area has an outsized impact on the economic fortunes of the city and region.

The city's socioeconomic measures remain strong. Per capita income and median household income levels are approximately 54% and 23%, respectively, above national averages. The city's poverty rate is below the national average and educational attainment levels are significantly higher, particularly with respect to advanced degrees where the city is over two times the national rate.

The city's assessed value (AV) rose a strong 23.5% from fiscal 2013 through fiscal 2015 as increased employment, a growing population, and the significant development plans by Amazon and other companies led to a more active and higher priced real estate market. Fitch expects additional growth, though likely at a slower pace, over the next few years as on-going and planned development projects are completed.

SOLID FINANCIAL PROFILE

The city's high rating reflects its solid financial profile that includes a diverse and growing revenue base, consistently positive financial performance, and healthy reserve levels. These credit strengths are supported by management's proactive financial planning and prudent financial practices and policies.

Seattle's diverse revenue base is well-positioned to benefit from the recent economic growth. Total general fund revenues increased by 6.1% and 3.5% in 2012 and 2013; estimated growth in 2014 remains strong at 5.7%. Sales taxes, which account for approximately 17% of general fund revenue, have notched the largest gains recently as the construction boom and rising retail sales drove nearly 7% increases in 2012 and 2013 and an estimated increase of just over 10% in 2014.

Business and occupation taxes (B&O) -- approximately 23% of general fund revenue --continued to set new all-time highs with growth of 3.1% in 2013 and 5.8% (estimated) in 2014. Property tax revenue (23% of general fund revenues) provides stability to the city's revenue base as the levy is restricted to an annual increase of 1% plus new growth, thereby protecting the revenue stream from declines in AV while also limiting the upside from AV gains. However, actual revenues have increased more than normal due to the significant amount of new growth in the city, leading to an estimated revenue increase of 6.3% for 2014.

The city's financial operations are expected to record a fourth consecutive surplus in 2014 as rising revenues offset a significant increase in expenditures during the year. The net general fund operating surplus (after transfers) is estimated at $8.1 million or 0.7% in 2014 compared to the $34 million net surplus (3.1%) recorded in 2013. Fitch views the city's financial performance positively, but notes that cost containment will remain important to future results, particularly if the recent pace of revenue increases slows.

The city's reserve levels have largely been rebuilt following a significant reduction during and immediately after the last recession. Unrestricted reserves increased to $208.9 million in 2013 or approximately 18.9% of general fund spending. The estimated unrestricted balance at the end of 2014 is $222.6 million or a healthy 19% of spending.

FAVORABLE DEBT PROFILE

Seattle maintains a conservative debt portfolio with no outstanding variable rate debt. Direct debt amortizes at a rapid rate with approximately 69% of outstanding ULTGO and LTGO principal retired within 10 years.

The city's overall debt burden is low at 1.3% of 2015 AV and moderate at $2,498 per capita. Planned issuances would not materially impact Fitch's view of Seattle's overall debt burden given the rapid amortization of outstanding debt and the relatively limited debt plans. Preliminary plans for future debt issuance include the remaining $42 million in voter-authorized ULTGO bonds for the Seawall project over the next one to three years and annual LTGO issuances of $50 million to $60 million to finance various city improvements.

The city finances a significant amount of capital projects through funds generated by the city's 0.5% REET. REET revenues are restricted for qualifying capital projects and the repayment of some general obligation debt. REET revenues equaled approximately $48.4 million in 2013 and are projected at approximately $50 million in 2014. Fitch views the dedicated funding for capital projects positively.

SUSTAINABLE PLAN TO IMPROVE PENSIONS

City employees and retirees participate in one of four defined benefit pension plans. The largest, SCERS, which includes most miscellaneous employees, reports a weak funding ratio of 64.2% as of Jan. 1, 2014. Using Fitch's more conservative 7% investment return assumption, the system's estimated funding ratio drops to a low 60.9%. The unfunded actuarial accrued liability was $1.2 billion or 0.8% of AV.

Concerns regarding the funding level are partially addressed by changes enacted in 2011. These changes included city legislation requiring full funding of the actuarially required contribution (ARC) and adoption of five-year smoothing rather than the annual mark-to-market approach used prior to that.

Carrying costs for debt service, pensions and OPEB are low at 12.6% of governmental spending in 2013. Fitch expects carrying costs to remain relatively low despite expected pension increases and rapid amortization of debt.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria
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