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Summary:

Seattle, Washington; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$167.335 mil ltd tax GO imp and rfdg bnds ser 2015A due 12/01/2035		
Long Term Rating	AAA/Stable	New
US$162.565 mil unltd tax GO imp bnds ser 2015 due 12/01/2044		
Long Term Rating	AAA/Stable	New
US$28.2 mil ltd tax GO imp bnds ser 2015B due 04/01/2035		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Seattle, Wash.'s series 2015A limited-tax general obligation (GO) improvement and refunding bonds, series 2015 unlimited-tax GO improvement bonds, and series 2015B taxable limited-tax GO improvement bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the city's previously issued GO bonds and GO-equivalent obligations. The outlook is stable.

The city's full faith and credit, including the obligation to levy ad valorem property taxes without limitation as to rate or amount, secure the city's unlimited-tax GO bonds. The city's limited-tax GO bonds are 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 at of $3.60 per $1,000 of assessed value (AV). The city's 2015 levy rate is $2.49. The GO-equivalent obligations have a contingent limited-tax GO pledge of the city, and to date the city has not needed to support such debt instruments.

The ratings reflect our assessment of the following factors for the city:

- Very strong economy, which is the center of a large and diverse metropolitan region;
- Very strong management, with strong financial policies and practices, including the maintenance of long-term operating forecasts and formal quarterly budget reviews with the city council;
- Very strong budgetary flexibility, aided by the revenue effects of strong economic performance;
- Adequate budgetary performance, with modestly positive unaudited general fund results in 2014;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong debt and contingent liability position, with a low overall net debt burden; and
- Adequate institutional framework.

Very strong economy

We consider Seattle's economy very strong. The center of a 4.2 million-resident region, the city has benefited, in our view, from a deep reservoir of human capital and exposure to export markets, anchored by such major regional employers as Boeing and Microsoft. We believe that the most influential single local employer in recent years has been

Amazon.com, which has added most of what management believes is about 14,000 employees in the past 10 years and effectively expanded the city's downtown northward. Based in part on news reports and known leases and development plans, management believes that the online retailer will expand its central offices to accommodate 45,000 employees in the coming years, which we believe would be significant in the context of the city's 2014 population of 640,500. Such employment growth has intensified a public debate about strains on the city's transportation infrastructure, but we note that the region's light rail operator, Sound Transit, is slated to open a northeast spur of its network in Seattle in 2016, and online travel agent Expedia announced in April 2015 that it is relocating to a former biotech campus just northwest of downtown. The city's overlapping county has seen its unemployment rate drop to a preliminary 4.6% for 2014 from 5.0% in 2013. We project Seattle's per capita effective buying income at 169% of the U.S. level in 2018 and estimate its per capita market value at $225,600 for 2015.

Very strong management

We view the city's management conditions as very strong, with strong financial policies and practices and what we view as a consistent approach to budgeting. Among the city's tools are detailed, empirically based revenue and expenditure forecasts to build budgets, management's provision of quarterly budget-to-actual updates to the council, the use of a detailed three-year financial forecasting model to consider the long-term effects of current-year budgeting decisions, a rolling six-year capital improvement plan, internally guided investment management with quarterly reporting, and a formal and well-embedded comprehensive debt management policy.

Very strong budgetary flexibility

In our opinion, Seattle's budgetary flexibility is very strong, with an available general fund position that has plateaued at about 19% of expenditures. Inclusive of our analytic adjustments to include transfers-out in our calculation of expenditures because of their recurring nature, we calculate that the city's available general fund balance stood at 19.0% of expenditures, or $222.6 million, for 2014 (unaudited) from 10.3% at the end of 2010, consistent with the city's goal to rebuild reserves after the Great Recession. Based on the city's budget covering 2015 and 2016, we anticipate that the city's available financial position will hover at a similar level to that of 2014. The city lacks significant taxing flexibility under state law but has a record of securing voter overrides for specific services or capital needs in recent years, and we believe that this political environment is likely to continue as a result of recent economic and property value growth. The mayor has proposed that the city put to voters a nine-year 61-cents-per-$1,000 of AV "levy lid lift" for transportation improvements that would replace a multiyear $36-per-$1,000 override that expires in 2015.

Adequate budgetary performance

The city's budgetary performance is adequate, in our view, with a surge in tax revenue contributing to a 2013 general fund surplus, inclusive of our analytic adjustments, of 1.0% of expenditures, but a moderate deficit of 3.4% of total governmental funds expenditures. Preliminary 2014 actual results suggest that the general fund finished the year with a surplus of about 0.5%, and the city's adopted 2015-2016 budget suggests a slight 0.5%-of-expenditures deficit for the general fund this year followed by a 1.0% surplus in 2016.

Low federal funding interdependencies

The city exhibits a relatively low level of funding interdependencies with the federal government. For 2013, capital and operating grants represented 10% of total governmental expenses.

Very strong liquidity

Supporting the city's finances is liquidity that we consider very strong, with 2013 ending total government available cash at 60% of total governmental fund expenditures. Seattle's cash and investments position at the end of 2013 stood at 12x total governmental funds debt service. We believe the city has exceptionally strong access to external liquidity, with approximately annual issuances of GO bonds in recent years and frequent issuances of various security types during the past 15 years.

Strong debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is strong. Total governmental funds debt service was 5% of total governmental funds expenditures for 2013. Carrying charges associated with contingent liabilities, which the city has thus far not been required to support, and the "new money" portion of the series 2015 issuances would not significantly raise this ratio. Management reports that the city will use the proceeds of the series 2015 issuances to achieve interest expense savings on previously issued GO debt and to fund capital projects, the largest of which is the city's $181 million contribution to the cost of replacing and upgrading the seawall on the downtown waterfront. Net direct debt stands at 67% of total governmental funds revenue. Supporting credit quality, in our view, is the city's low overall net debt to market value, at 1.1%.

The city independently manages a defined benefit pension for most of its non-sworn employees and two small closed plans for public safety employees. Other public safety employees participate in the state-managed Law Enforcement Officers' and Firefighters' Retirement System. In 2012, the city shifted its valuation of its pension assets to a five-year smoothing approach and formally declared its intention to fund its actuarially calculated annually required contribution (ARC) for the city-managed pension system based on a 30-year amortization. It has consistently met the ARC under its definition, although its payments fall slightly below the ARC under Governmental Accounting Standards Board (GASB) guidelines because, as we understand, the GASB guidelines do not allow an entity to assume growth in the number of employees. The city's other postemployment benefit (OPEB) liability consists of an implicit subsidy and, for certain public safety employees under a now closed plan, a direct subsidy. We consider combined pension and OPEB contributions moderate at 7% of total governmental funds expenditures and believe that these costs are unlikely to decline in the coming years, as the city's actuary has calculated the funded ratio of the city's self-administered plan at 64% as of the day after the end of 2013.

Adequate institutional framework

We consider the institutional framework score for Washington cities adequate.

Outlook

The stable outlook reflects our view of Seattle's positive economic momentum and anticipation that the city's general fund will be largely balanced along the lines of its budget covering 2015 and 2016. We do not anticipate lowering the rating in the next two years unless the city experiences deterioration in multiple factors that we view as important to credit quality, such as a combination of a significant operating deficit that substantially erodes the city's liquidity position and available reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Washington Local Governments

Ratings Detail (As Of April 20, 2015)		
Seattle ltd tax go imp & rfdg bnds ser 2005		
Long Term Rating	AAA/Stable	Affirmed
Seattle ltd tax GO bnds imp & rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle ltd tax GO imp and rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle unltd tax GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle GO Bnds		
Long Term Rating	AAA/Stable	Affirmed
Seattle Lmtd Tax GO Imp & rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Pike Place Mkt Preservation & Dev Auth, Washington		
Seattle, Washington		
Pike Place Mkt Preservation & Dev Auth (Seattle) spl oblig rev rfdg bnds ser 2002		
Long Term Rating	AAA/Stable	Affirmed
Seattle Chinatown Intl Dist Pres & Dev Auth, Washington		
Seattle, Washington		
Seattle Chinatown Intl Dist Pres & Dev Auth spl oblig bnds (Hsg Fac) ser 2002A&B		
Long Term Rating	AAA/Stable	Affirmed
Seattle Chinatown Intl Dist Pres & Dev Auth spl oblig rfdg bnds ser 2007		
Long Term Rating	AAA/Stable	Affirmed
Seattle Indian Svcs Comm, Washington		
Seattle, Washington		
Seattle Indian Svcs Comm spl oblig rev rfdg bnds ser 2004		
Long Term Rating	AAA/Stable	Affirmed
Seattle Museum Dev Auth, Washington		
Seattle, Washington		
Seattle Museum Dev Auth GO		

Ratings Detail (As Of April 20, 2015) (cont.)		
Long Term Rating	AAA/Stable	Affirmed
Washington St Hsg Fin Comm, Washington		
Seattle, Washington		
Washington St Hsg Fin Comm (Seattle) (Lowman Bldg)		
Long Term Rating	AAA/Stable	Affirmed

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