CITY OF SEATTLE
BOND RATINGS OVERVIEW

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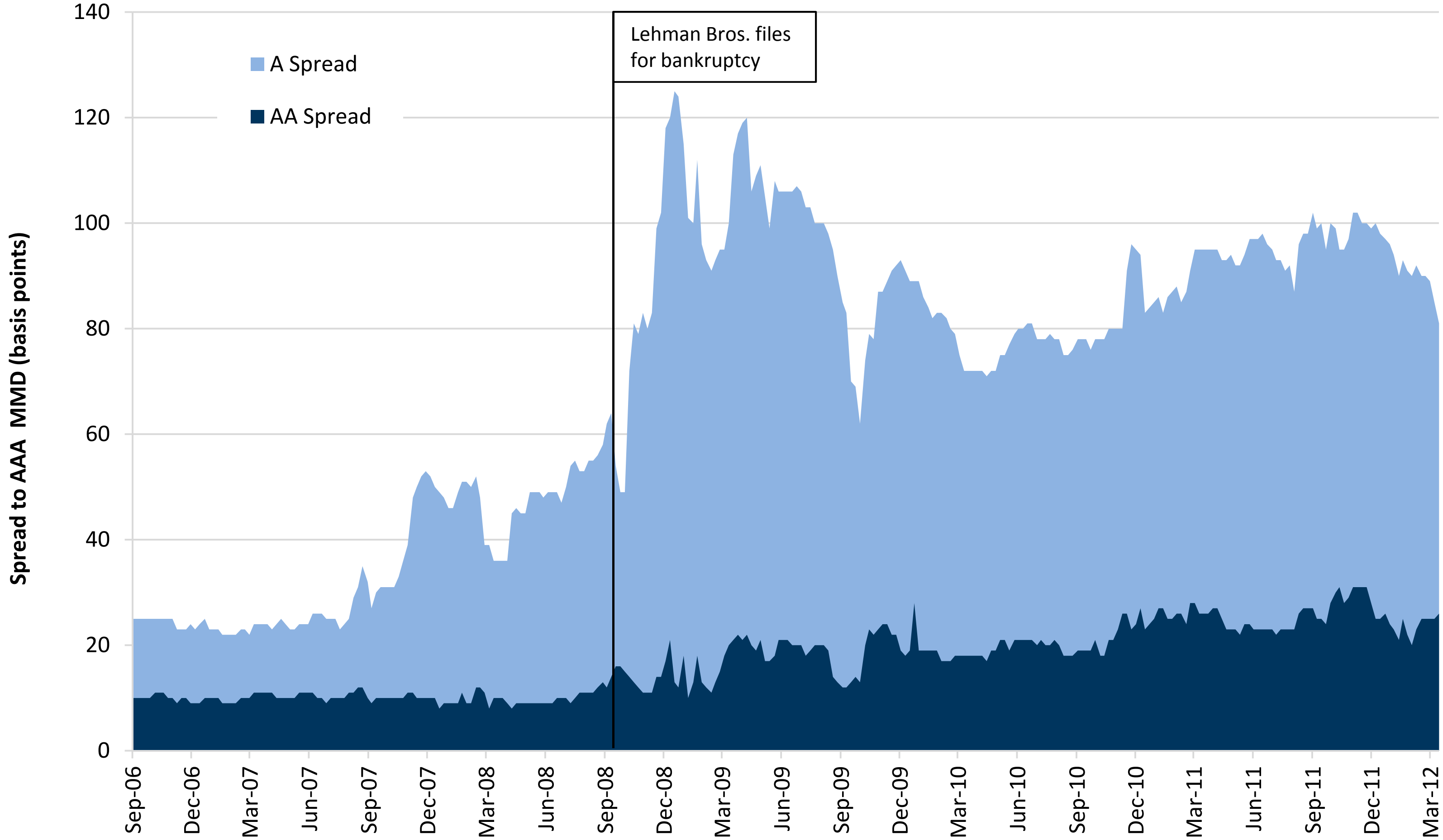
AGENDA

- Why Bond Ratings Matter
- The City's Current Bond Ratings
- Ratings Criteria:
  - Economic strength
  - Financial strength
  - Management, Governance and Political Climate
  - Debt Profile & Overlapping Debt
- Summary

- Debt financing is used to support the City's capital programs.
- Like pension and healthcare costs, debt service is a fixed long term commitment and represent a sizable share of the City's operating budget.
- The City and its utilities spend approximately $370 million annually on debt service. About half of this amount is interest – which is the cost of borrowing.
- In the normal course of its capital program, the City will borrow approximately $2 billion over the next 5 years, *excluding* large new programs such as the seawall. Approximately 80% of this total is for the utilities.
- Small differences in interest rates have a large impact on costs, given the size and duration of the City's borrowing.
- Bond ratings are the primary driver of borrowing costs as they affect the interest rate paid by the City.

Value of a Rating - Historic Credit Spreads (20yr MMD)



- The value of high credit ratings has increased significantly since the financial crisis.
- Currently, a AA-rated issuer would likely pay about 20-30 basis points (0.20%-0.30%) more than a AAA-rated issuer for 20 year debt. An A-rated issuer would likely pay about 60-70 basis points more than a AA-rated issuer.

City's Current Bond Ratings

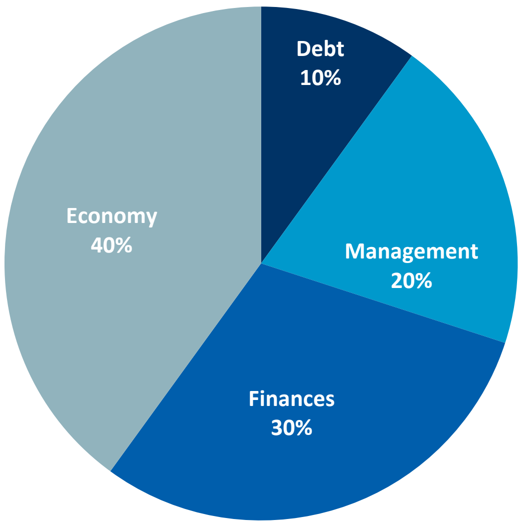
- The City's various bond ratings are all high. This translates into lower borrowing costs for taxpayers and utility customers.
- S&P has changed its outlook on GO bonds from "stable" to "negative" due to retirement system losses and the City's decision not to fully fund the "actuarial required contribution" (ARC) in 2011. The City subsequently passed legislation committing to fully fund the ARC and did so with the 2012 Budget.
- Utility ratings are relatively high because they are part of a AAA-rated City. Stand-alone utilities would have much lower ratings.
- A downgrade of City Light or Solid Waste into the single-A category would increase borrowing costs substantially.

Credit Quality	Borrowing Cost	Moody's	S&P	Fitch
Highest	Lowest	**Aaa** **UTGO**	**AAA** **UTGO, LTGO** **(negative outlook)**	**AAA** **UTGO**
High	Low	**Aa1** **LTGO, Water, Drain/Sewer**	**AA+** **Water, Drain/Sewer**	**AA+** **LTGO**
High	Low	**Aa2** **City Light**	**AA** **Solid Waste**	**AA**
Good	Medium	**Aa3** **Solid Waste**	**AA-** **City Light**	**AA-**
Medium	Higher	**Single A** ***Solid Waste until 2005***	**Single A** ***City Light until 2008*** ***Solid Waste until 2007***	**Single A**

Bond Rating Analysis Overview

- What is a bond (credit) rating?
    - Measurement of the risk to a debt holder of not receiving timely payment of principal and interest on a debt security.
- Moody's four categories of ratings criteria are: economic strength, financial strength, management and governance, and debt profile.
    - These categories are analyzed using a weighted average approach to develop a rating range. Relative weightings are shown in the chart to the right.
    - Specific ratings are based on peer comparison, interactions of the individual factors and additional considerations not covered by the four primary factors.

Primary Credit Factors



Source: Rating Methodology (October 2009) Moody's U.S. Public Finance – General Obligation Bonds Issues by U.S. Local Governments

The economic climate is evaluated based on:

- The size and growth trends of the local economy.
- Economic diversification (e.g. relative dependence on aerospace and software).
- Industrial concentration (e.g. relative size of major employers).
- Wealth (as measured by assessed property values and income) and overall demographic trends.
- Unemployment rates and trends.

	Per Capita Income (2000 Census)
Seattle (PMSA)	**$37,746**
Moody's Median for Aaa-rated Cities with populations over 500,000	$24,101

AAA and/or Aaa Rated Cities	Per Capita Assessed Value
Seattle	**$ 196,269**
Albuquerque	209,608
Austin	113,328
Boston	135,246
Charlotte	102,247
Columbus	56,332
Denver	138,549
Indianapolis	50,108
Minneapolis	101,510
Oklahoma City	66,238
Omaha	65,609
Phoenix	84,478
Portland	179,109
Raleigh	127,247
San Antonio	64,026
San Jose	125,017
Virginia Beach	141,080
Average	115,059
Median	**113,328**

Financial Strength

The financial strength of a City is evaluated based on:

- The size of its reserves (fund balances) and its liquidity. Balance sheet strength indicates an ability to cope with unforeseen circumstances or a downturn in revenues. The City's declining fund balances is a sign of weakness.
- Its operating flexibility, such as long-term fixed costs and the ability to raise taxes.
- Its ability to accurately forecast revenues, balance its budget without compromising basic services and to make budgetary adjustments when necessary.

	General Fund Balance as % of Revenues	Unreserved, Undesignated General Fund Balance as % of Revenues
Seattle (FY2010)	**17.51%**	**11.01%**
Median for Moody's Aaa-rated cities	33.02%	18.28%
Median for Moody's Aaa-rated cities with populations over 500,000	23.84%	19.95%

Management , Governance & Political Climate

- The quality of management and governance has become an increasingly important factor for credit ratings. This subjective assessment addresses the quality of:
  - Financial planning and budgeting.
  - Debt management & capital planning.
  - Management of the tax base.
  - Governance structure.
  - Legal disclosure.

- Voter and legislative willingness to support tax initiatives which enhance revenues is also important (e.g. Libraries for all and various levy lid lifts).

Debt Profile

An issuer's debt profile is evaluated based on:

- Its overall debt burden. Seattle's per capita debt is relatively high, but modest relative to assessed property values.
- Debt structure & composition.
- Debt management & financial flexibility.
- Other long-term commitments and liabilities.

AAA and/or Aaa Rated Cities	Per Capita Debt (Net Direct Debt)	Per Capita Debt (Overlapping Debt)	Net Direct Debt to Assessed Value	Net Direct & Overlapping Debt to Assessed Value
Seattle	**$ 1,536**	**$ 3,006**	**0.78%**	**1.53%**
Albuquerque	352	1,673	0.17%	0.80%
Austin	1,155	3,802	1.02%	3.35%
Boston	1,271	n/a	0.94%	n/a
Charlotte	639	2,235	0.63%	2.19%
Columbus	2,533	3,797	4.50%	6.74%
Denver	1,558	4,166	1.12%	3.01%
Indianapolis	329	948	0.66%	1.89%
Minneapolis	503	1,589	0.50%	1.57%
Oklahoma City	836	1,483	1.26%	2.24%
Omaha	1,284	2,549	1.96%	3.89%
Phoenix	677	1,499	0.80%	1.77%
Portland	447	1,963	0.25%	1.10%
Raleigh	897	2,813	0.70%	2.21%
San Antonio	909	6,084	1.42%	9.50%
San Jose	489	3,444	0.39%	2.75%
Virginia Beach	2,321	n/a	1.65%	n/a
Average	1,043	2,737	1.10%	2.97%
Median	**897**	**2,549**	**0.80%**	**2.21%**

Summary

- Seattle taxpayers and utility customers benefit significantly from very high credit ratings.
- Given such high ratings, performance expectations are very high.
- Seattle's credit strengths include:
  - High regional wealth and income.
  - Strong management and governance
  - Modest and conservative debt profile.
- Credit weaknesses include:
  - Relatively high per capita debt.
  - Declining reserves.
  - Rising fixed costs (e.g. for funding the retirement system and healthcare benefits, combined with debt service).
- Protecting the City's credit rating is important because the financial consequences of a ratings downgrade would be large and lasting.
- City Council controls many factors that can support ratings, such as decisions about the budget and capital program, what share of future revenues to tie up with a long-term debt service obligations and which projects should be funded on a pay-as-you-go basis.