King County, Washington

New Issue Summary

Sale Date: ULTGOs Oct. 21, 2021 and LTGOs Nov. 16, 2021

Series: ULTGOs and Limited Tax General Obligation and Refunding Bonds, 2021

Purpose: To finance public health, safety, and seismic improvements to the county's Harborview Medical Center and to refinance various outstanding debt of the county.

Security: Unlimited tax general obligation and limited tax general obligation

The 'AAA' Issuer Default Rating (IDR) and GO bond rating reflect the county's strong economic underpinnings, superior gap-closing capacity and low liability levels. The county is well positioned to withstand cyclical economic weakness and fiscal challenges. A history of steady revenue growth and sound financial cushion offset constraints on the county's independent ability to increase the property tax levy.

Economic Resource Base: King County benefits from a diverse economy and tax base that encompasses nearly 30% of the state's population including Seattle, the Pacific Northwest's largest city. Major private employers include Microsoft, Amazon, and Boeing. The regional economy is also supported by a substantial military presence.

Prior to the coronavirus-induced recession, economic growth in the county and region was robust, with rapid expansion of information technology employment and ongoing construction activity. Aerospace employment was initially affected by the grounding of Boeing's 737 MAX in early 2019. Further pressure will result from Boeing's decision to consolidate the 787 Dreamliner aircraft production out of state, which will result in job losses in the region over the next several months.

The coronavirus recession was sharp but brief in King County, with employment falling about 10% in the spring 2020 and improving gradually since then. According to Fitch's latest "U.S. Metro Labor Markets Tracker" dated Sept. 22, 2021, the Seattle metro area's job losses were below the national median but recovery has been slower, recovering about 64% of the jobs lost between February and April 2020 compared to the median of 68%. According to the county's August 2021 economic and revenue forecast, information technology sector employment remained fairly stable while construction dipped and then quickly recovered; manufacturing remains more than 10% below pre-pandemic levels, due in part to the changes at Boeing mentioned above. As in most other metro areas, the county's leisure and hospitality sector employment remains the weakest at about 15% below its pre-pandemic level. The forecast also indicates that consumer spending has recovered, increasing about 10% year over year (yoy) in July 2021 and is now above pre-pandemic levels.

Key Rating Drivers

Revenue Framework: 'aa'; Over the last decade, general fund revenues have lagged behind overall U.S. economic performance, but have exceeded inflation. Fitch Ratings expects that trend to continue over the long term, despite the rapid population growth, given constraints on the revenue system that keep the county from fully benefitting from economic growth. The county's independent legal ability to raise revenues is satisfactory.

Expenditure Framework: 'aa'; Constraints on revenue increases have challenged the county's ability to address inflationary and population-based expenditure growth; however, management has a strong track record of closing budget gaps and aligning expenditures with revenues. Carrying costs for debt service and retiree benefits are low to moderate.

FACT Tools

Ratings

Long-Term Issuer Default Rating	AAA

New Issues

$525,500,000 General Obligation Limited Tax Bonds (Taxable), Series 2021C	AAA
$388,405,000 General Obligation Limited Tax Refunding Bonds, Series 2021B	AAA
$18,430,000 General Obligation Unlimited Tax Bonds, Series 2021	AAA

Outstanding Debt Details on Page 2

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates King County, WA's $573MM GO Bonds 'AAA'; Outlook Stable (October 2021)

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Long-Term Liability Burden: 'aaa'; Long-term liabilities, primarily in the form of overlapping debt, are a low burden on the resource base. The county participates in several state pension plans and has a minimal other post-employment benefit (OPEB) liability.

Operating Performance: 'aaa'; The county used a combination of spending cuts, revenue raising and use of reserves to balance the 2021-2022 biennial budget assuming continued weak performance due to pandemic mitigation efforts. Given strong reserve levels and other tools available, Fitch expects the county to retain its superior gap-closing capacity.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	10/7/21
AAA	Affirmed	Stable	9/2/08
AAA	Affirmed	Negative[a]	10/24/07
AAA	Assigned	Stable	10/6/05

[a]Rating Watch.

Outstanding Debt

General Obligation Unlimited Tax Bonds	AAA

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Upgrades are not possible as the ratings are currently at the highest level.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- An inability to address fiscal challenges triggered by a slower than expected economic recovery, as evidenced by insufficient budget management, reducing the county's financial resiliency by the end of the recovery period.
- An inability to manage ongoing expenditure pressures in response to statutory limits on revenue growth, coupled with salary and benefit costs that outpace revenue growth.

Current Developments

Budget Impact and Response

The county's fiscal year coincides with the calendar year so almost the entire 2020 fiscal year was affected by the economic weakness from the pandemic and pandemic mitigation efforts. However, performance was better than the early forecasts, with sales and property taxes and ending fund balance all higher than in the county's August 2020 forecast. The county ended 2020 with sales and use taxes totaling about $146 million, down about 4.5% compared to 2019 ($6.8 million), and property taxes totaled $377 million, an increase of 2.8% ($10.3 million) over 2019. Early in the 2020 budget year, in response to the sharp drop in sales taxes, the county kept some positions vacant and made other spending adjustments in preparation for the development of the 2021-2022 budget. The county ultimately ended 2020 with a $17 million surplus, bringing unrestricted fund balance (committed, assigned and unassigned) to $199 million, or 20% of 2020 spending. This is up from $182 million in unrestricted 2019 fund balance, which was equal to 20% of 2019 spending.

The 2021–2022 biennial budget assumes a gradual return of normal economic activity, with hospitality — such as cruises, conventions and hotel stays — not likely to return to normal levels until the 2023-2024 biennium. The budget assumes no 2021 salary increases for open contracts which expired at the end of 2020, including for the coalition of unions representing about 40% of the county's workforce, which is currently negotiating its contract potentially through 2024.

The 2021–2022 general fund biennial budget totals about $1.9 billion, roughly the same as the 2019–2020 budget, not including revenues and expenditures related to the pandemic. The lower than previously forecasted sales taxes in 2020 along with some cost increases and new programs resulted in an estimated $143 million budget gap for 2021–2022 (about 8% of the biennial budget) that the county closed through improving efficiencies in service delivery, eliminating positions (including 14 filled positions) and reducing or eliminating services. The county also increased general fund revenue by charging utilities for the use of right-of-way on county-owned land (estimated at $30 million annually) and eliminating the use of a downtown office building, saving $5 million in operating costs and $40 million in deferred maintenance. The budget also appropriates about $29 million in undesignated fund balance and some of the rainy day reserve; however, given the American Recovery and Protection Act (ARPA) funding of $437 million, and improved prospects for tax revenues, the county now expects it will not use the rainy day reserve in 2021.

The county has received over $1.2 billion in federal and state funding to support county operations, including the public health response. These funds include $437 million from ARPA, $530 million Coronavirus Aid, Relief, Economic Security (CARES) Act, $110.7 million from the Washington State Department of Commerce, and $121 million from the Washington State Department of Health.

Credit Profile

King County has benefited from above-average population and employment growth during the past decade, increasing its population by 17.5% (compared to 7.4% nationally) to 2.3 million in 2020. In addition, educational attainment levels are well above the national average (52.5% with at least a bachelor's degree compared to 31.2% nationally) and annual personal income growth has been close to 6% in recent years. The county continues to attract new residents drawn by high-paying jobs in the information technology sector, which Fitch expects to support sustained economic growth.

Revenue Framework

Revenue growth generally outpaces inflation but is below overall U.S. economic performance. Fitch expects county revenues to continue to exceed inflation based on population gains and ongoing economic development, but to lag behind U.S. GDP over the long term due to the statutory limit.

Property taxes accounted for approximately 38% of general fund revenues in 2020 and have provided a steady source of revenue growth due to ongoing additions to the tax base from new construction, which are not considered in the 1% statutory limit on property tax levy growth. Charges for services, which include revenues received for services provided on behalf of other local governments, accounted for 28% of general fund revenue in 2020, while sales taxes provided an additional 15%.

Prior to 2020, sales tax revenue growth had been strong, particularly in unincorporated areas (which garner the county a larger share of the taxable sales value), as well as newly instituted taxing of remote sellers. The 1% statutory limit on increases to the property tax levy also provides downside protection by allowing the tax rate to increase to offset any property tax value declines.

Property and sales tax increases require voter approval. The county's chief area of independent revenue flexibility is in charges for services. In aggregate, these tools provide the county with satisfactory independent legal ability to raise operating revenues in relation to expected normal cyclical declines.

Expenditure Framework

Law, safety and justice is the county's primary responsibility and accounts for about three-quarters of general fund expenditures. In 2019, the county settled with two of its larger unions with a 4% wage increase for 2019 and 1.5% each on January 2020 and July 2020. A majority of the other unions agreed to similar terms. For the coalition of unions which have open contracts, the 2021-2022 biennial budget assumes no wage increases in 2021 and 2% for 2022.

Based on current spending practices, Fitch expects expenditure growth to be marginally above revenue growth over time in the absence of policy action.

Expenditure-cutting flexibility is solid. The county's carrying costs for debt service and retiree benefits equal about 10% of spending, but approximately 40% of pension costs (about two thirds of the total carrying costs) were paid from county enterprise funds. In addition, the county has incorporated ongoing expenditure controls into its biennial budget process, providing a strong starting point for potential cuts that may be required in a downturn or in order to align revenues with expenditures.

Long-Term Liability Burden

The county's long-term liability burden, including this issuance, outstanding direct and overlapping debt and the county's Fitch-adjusted net pension liabilities, totals about $11 billion, which is low relative to the county's resource base at just over 5% of personal income.

Including the series 2021C LTGO bonds, the county plans to issue about $1 billion in new money limited tax GO bonds during this biennium for bridge replacements, land purchases, facility improvements and the affordable housing and solid waste capital programs. In addition, the voters approved a $1.7 billion GO bond measure on the November 2020 ballot to finance needed improvements to the county's Harborview Medical Center, including seismic improvements. The 2021 ULTGO bonds will finance a portion of this project and the remaining bond authorization will be issued over several years.

The county participates in several state-sponsored pension plans that are adequately funded under Fitch's assumption of 6% investment returns. OPEB liabilities are low at approximately 0.1% of personal income.

Operating Performance

The Fitch Analytical Stress Test (FAST) scenario analysis tool relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria. The FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Hence, actual revenue declines will vary from the FAST results, and Fitch expects that the county will implement necessary corrective actions to offset them. The FAST does provide a relative sense of the risk exposure of a particular local government entity compared to other local government entities.

The county's FAST results under the moderate decline scenario, which assumes no policy action, show the county maintaining unrestricted general fund reserves well above the level required to maintain a 'aaa' financial resilience assessment. The county ended 2020 with an unrestricted general fund balance of $199 million, or 20% of general fund spending. The county has budgeted to use about $29 million in undesignated fund balance in the 2021-2022 biennium but should end better than budget due to the improved economic outlook and unbudgeted federal funding.

Fitch believes the county is well positioned to address the current fiscal challenges associated with slower revenue growth as the recovery takes hold and will maintain reserves that are consistent with the highest financial resilience assessment. This expectation is based on strong past performance, a healthy starting point for reserves, solid control over spending and a relatively manageable gap that would open in the downside scenario.

Financial resilience is supported by a policy that targets unassigned reserves at 8% (lowered to 6% in the 2021-2022 biennium) of general fund revenues, as well as a rainy day reserve that exceeded $25 million at the end of 2020 (equal to about 3% of general fund spending). At the end of 2020, the county also retained approximately $17 million in available balances outside the general fund.

The county has demonstrated a strong commitment to financial flexibility through the maintenance of reserves at targeted levels, extensive and conservative financial forecasting and monitoring, and regular closure of budget gaps without the use of reserves. In addition, the county has a track record of moving expenditure responsibilities outside of the general fund through voter-approved increases to property tax levy limits for specific purposes.

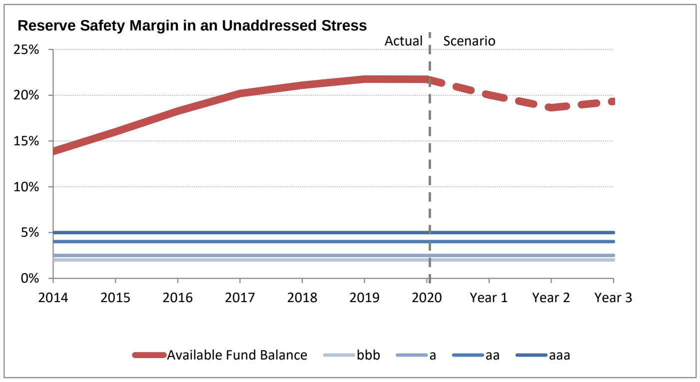
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

King County (WA)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

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Scenario Parameters:		**Year 1**	**Year 2**	**Year 3**
GDP Assumption (% Change)		(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)		2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-1%** *Case Used:* **Moderate**	(1.0%)	2.3%	4.1%
Inherent Budget Flexibility			Midrange	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Year 1**	**Year 2**	**Year 3**
Total Revenues	709,009	752,717	790,167	821,945	863,031	915,992	991,547	981,632	1,004,129	1,045,443
% Change in Revenues	-	6.2%	5.0%	4.0%	5.0%	6.1%	8.2%	(1.0%)	2.3%	4.1%
Total Expenditures	649,904	680,854	710,344	729,747	770,097	828,400	915,529	933,840	952,516	971,567
% Change in Expenditures	-	4.8%	4.3%	2.7%	5.5%	7.6%	10.5%	2.0%	2.0%	2.0%
Transfers In and Other Sources	274	342	11,121	13,423	11,798	19,425	20,929	20,720	21,195	22,067
Transfers Out and Other Uses	71,991	72,784	68,094	84,358	85,421	87,277	79,978	81,578	83,209	84,873
Net Transfers	(71,717)	(72,442)	(56,973)	(70,935)	(73,623)	(67,852)	(59,049)	(60,858)	(62,015)	(62,807)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	(12,612)	(579)	22,850	21,263	19,311	19,740	16,969	(13,066)	(10,402)	11,070
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	(1.7%)	(0.1%)	2.9%	2.6%	2.3%	2.2%	1.7%	(1.3%)	(1.0%)	1.0%
Unrestricted/Unreserved Fund Balance (General Fund)	100,105	100,548	123,820	142,754	162,733	182,008	199,187	186,121	175,719	186,789
Other Available Funds (GF + Non-GF)	-	20,000	18,280	21,650	17,750	17,250	17,250	17,250	17,250	17,250
Combined Available Funds Balance (GF + Other Available Funds)	100,105	120,548	142,100	164,404	180,483	199,258	216,437	203,371	192,969	204,039
Combined Available Fund Bal. (% of Expend. and Transfers Out)	13.9%	16.0%	18.3%	20.2%	21.1%	21.8%	21.7%	20.0%	18.6%	19.3%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	**Minimal**	**Limited**	**Midrange**	**High**	**Superior**
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

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