S&P Global
Ratings

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Summary:

King County, Washington; CP; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$97.44 mil ltd tax GO and rfdg bnds ser 2022A due 12/01/2052		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to King County, Wash.'s expected $97.4 million series 2022A limited-tax general obligation (GO) and refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the county's previously issued GO debt, some series of which have a concurrent pledge of the county's sewer utility or the King County Housing Authority (which we consider institutionally independent of the county), its 'AAA/A-1+' rating on the county's series 2019A and B obligations that include a standby bond purchase agreement with TD Bank N.A., and its 'A-1+' short-term rating on the county's commercial paper program. The outlook, where applicable, is stable.

The county will have about $5.9 billion in direct debt outstanding at the end of 2022, excluding planned but unissued debt. Inclusive of our adjustments for revenue-supported debt and GO debt we consider self-supporting, we calculate net direct governmental debt at $1.6 billion.

The series 2022A is a full faith and credit obligation of the county, including ad valorem property taxes subject to statutory limitations that include a maximum levy rate and a maximum annual property tax revenue increase. Given the fungibility of the county's resources and because pledged revenue is not measurably narrower or subject to disproportionate risks relative to the county's overall revenue, we rate the county's limited-tax GO debt on par with our view of the county's general creditworthiness.

Proceeds of the series 2022A will fund land acquisitions and improvements to solid waste infrastructure and refund existing debt obligations for interest expense savings.

Credit overview

The credit profile appears to have weathered the COVID-19 pandemic and recent recession well, with continued buoyant demand for residential real estate and little evidence of a significant dispersal of information technology and life science jobs to lower-cost regions. Its management culture has what we see as a strong long-term record of conservative, arm's-length economic and revenue assumptions and a political culture that has resulted in multiple affirmative public votes to fund specific services and capital needs. For this reason, we anticipate that its budgetary flexibility will remain very strong in the intermediate term.

The ratings further reflect our assessment of the county's:

- Very strong economy that anchors a broad and diverse region centered on Seattle;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology; and
- Adequate budgetary performance, with what we anticipate will be continued positive general fund net results through 2022.

Environmental, social, and governance

We consider the county to have elevated exposure to environmental risks, including earthquakes, wildfires, inland flooding, and coastal flooding associated with sea level rise. We believe the county's maintenance of an emergency management office, which handled the county's pandemic response, and robust state building codes as effectively managing these risks in the intermediate term.

Social risk is above average, in our view, with rising housing costs appearing to have contributed to an increase in the local population of unhoused people during the past decade and degrading local employers' ability to recruit from outside the region. We think continued affordability challenges represent a drag on credit quality long term by adding to service demands, making it more difficult for the county to attract and retain employees and potentially slowing economic growth that underlies county tax revenue. However, expensive real estate also has helped the county by making it easier to leverage its tax base to fund service and capital needs.

We see county governance as above average, with a well-established revenue forecasting practice for budget-building that includes inputs from an independent economist and what we understand is a "continuous improvement" culture using lean management principles that supports projects and recognizes individual contributions to business process improvements.

Stable Outlook

Downside scenario

We could lower the ratings if budgetary flexibility as measured by available general fund balance deteriorates to a level approaching our adequate threshold of 8% of expenditures, the risk of which appears to be receding given the resilience of core tax revenue and federal grants that have absorbed pandemic-related costs.

Credit Opinion

One of the nation's strongest economic bases, with significant scale and clusters in growing industries associated with highly-paid jobs

King County has long-term advantages in the forms of a deep reservoir of human capital, exposure to export markets, and large regional employers that are major players in their respective markets. Although downtown Seattle has sustained temporary and permanent economic losses associated with the pandemic, and still-limited business and international travel are holding the leisure and hospitality industry back from a full recovery, the information sector has not missed a beat, with online and cloud computing giant Amazon accelerating its growth. Likewise, with the pandemic and other forces increasing investor interest in and national policy supporting the life sciences industry, we anticipate that the county's biotechnology cluster will continue to add often highly paid jobs that don't lend themselves to remote work. A weakness has been the aerospace industry focused on aircraft manufacturer Boeing, which has yet to approach its pre-pandemic production pace given continued travel restrictions and buyers' and regulators' concerns regarding its quality culture, plus parts shortages common among manufacturers during the pandemic.

Extensive financial management reporting and planning practices, including independent revenue forecasting

Highlights of the county's approach to financial management include:

- A budget formation process that incorporates internal and external analyses of historical revenue and expenditure trends, including employment of a full-time economist whose sole responsibility is to generate revenue forecasts;
- A biennial budget process with budget-to-actual reports presented to the county council quarterly and updated throughout the year if necessary;
- A formal financial forecast that covers at least five years beyond the budgeted year;
- A six-year rolling capital improvement plan, updated annually as part of the budget process, that identifies all known funding in the budgeted year;
- A formal investment policy coupled with quarterly presentation of holdings and earnings reports to the executive finance committee;
- A formal debt policy that specifies quantitative and qualitative limits as well as monitoring requirements for the county treasurer; and
- A designated general fund balance policy of 6% to 8% of expenditures, to which the county has adhered and which is based on cash flow to meet debt service obligations.

The county manages cybersecurity in its information technology department, with a chief of security role, and has risk management strategies in place such as cybersecurity insurance and remote backups of records.

Balanced operations and very strong reserves position the county well for future risks

The county's budgetary performance has held up despite the stresses of the pandemic and 2020 recession. General fund net results have ranged from 1% to 3% during the past three years and appear likely to come out balanced in 2021 and 2022, according to management. We view this picture as a function of cuts in discretionary expenditures and receipts of federal grants under the American Rescue Plan Act at the equivalent of about 22% of expenditures in each year. We understand that the county has fully allocated these resources, with 18% consisting of cost recovery and the largest share, 25%, for direct pandemic expenses.

General fund revenue primarily consists of property taxes; charges for services and fines; and sales and use taxes, all of which appear to be holding up or even growing during the 2021-2022 biennium. The county budgeted for them to account for 41%, 40%, and 15% of the county's general fund revenue, respectively.

Affecting our ratios are upward adjustments to general fund expenditures and corresponding net transfers downward to reflect ongoing transfers out to various special funds to support maintenance and operations. We also adjusted the available general fund balance upward to reflect the committed portion of the general fund balance consisting of the "rainy day" fund and for the portions of the employee benefits and risk management funds that the county calculates as in excess of its actuarial exposure.

We think the county's very strong available reserves and liquidity position, outlook for largely balanced operations, and formally slightly conservative revenue forecasting approach mean that it is ready to contend with future challenges, such a reimposition of public health controls if COVID cases surge again. The county has a history of securing voter authorization for property tax increases for services, including approvals of levy increases in 2019 for parks and emergency medical services, and we think the county could use public votes on revenues as a tool for resolving major budgetary questions should it face revenue pressures in the future.

Existing debt authorization, planned issuance may weaken debt profile by 2024, but retirement benefit costs likely to remain low relative to those of national peers

We think the debt ratios could rise in the coming years as the county exercises a $1.7 billion authorization to fund the expansion and modernization of its main public hospital, but debt issuances under the authorization would be unlikely to occur all at once. Depending on the pace of debt issuance, our view of the debt profile could weaken if the size of governmental debt relative to revenue rises, but economic performance and associated revenue could also keep pace. For now, the county is planning for about $250 million in additional new money governmental debt by end of 2022, including about $50 million for hospital projects, which approximately matches its annual debt amortization.

We view pension and other postemployment benefit (OPEB) liabilities as unlikely to lead to credit pressure, as the overall funding profile is unlikely to lead to dramatic cost escalations. The county participated in the following major pension plans funded as of Dec. 31, 2020:

- Public Employees Retirement System (PERS) plan 1: $312.4 million in net pension liability, and 69% funded
- Public Employees Retirement System plan 2/3: $138.7 million in net pension liability, and 97% funded
- Public Safety Employees' Retirement System plan 2: overfunded, at 102%
- Law Enforcement Officers and Fire Fighters plans 1 and 2, both of which are overfunded, at 147% and 116%
- Seattle City Employees' Retirement System: $0.5 million in net pension liability, and 71% funded

The state systems' actuarially determined contributions (ADC) match the contractually required contributions (CRCs) and exceeded both static funding and minimum funding progress, indicating our view of timely progress in reducing pension liabilities. The CRCs, which are developed using the same approach as the ADCs, are not updated following passage into law biennially and so can diverge from the annually updated ADCs. And the plans' 7.4%-7.5% discount rates increase potential contribution volatility. However, because CRCs determine funding requirements using an approach that approximates 10- to 15-year level percent open amortization, timely progress on reducing liabilities is still made even when ADCs exceed CRCs, and so we believe costs will likely remain stable.

Adequate institutional framework

The institutional framework score for Washington counties is adequate, in our view, partly as a result of statutory discretion regarding the quality and timeliness of annual financial reporting.

Local ratings' relationship with U.S. sovereign

The GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. County-derived revenue and state grants are the primary revenue sources, and the institutional framework in the U.S. is predictable, with significant local government autonomy and flexibility, as independent treasury management demonstrates.

King County Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Very strong economy				
Projected per capita EBI as % of U.S.	169			
Market value per capita ($)	315,060			
Population	2,293,300	2,283,504	2,241,116	2,198,918
County unemployment rate (%)		7.5		
Market value ($000s)	722,527,904	642,490,491	606,623,698	534,662,435
Ten largest taxpayers as % of taxable value	3			
Adequate budgetary performance				
Operating fund result as % of expenditures		1.7	2.1	2.3
Total governmental funds result as % of expenditures		(3.4)	(1.8)	(1.5)
Very strong budgetary flexibility				
Available reserves as % of operating expenditures		21.5	21.6	21.1
Total available reserves ($000s)		213,854	197,520	179,678
Very strong liquidity				
Total government cash as % of governmental funds expenditures		126	131	122
Total government cash as % of governmental funds debt service		3,652	3,173	2,859
Very strong management				
Financial management assessment	Strong			
Strong debt and long-term liabilities				
Debt service as % of governmental funds expenditures		3.4	4.1	4.3
Net direct debt as % of governmental funds revenue	58			
Overall net debt as % of market value	1.3			
Direct debt 10-year amortization (%)	48			
Required pension contribution as % of governmental funds expenditures		6		
OPEB actual contribution as % of governmental funds expenditures		0.1		
Adequate institutional framework				

Note: Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

- Credit Outlook For U.S. Public Finance: Positive Momentum Continues, Jan. 26, 2022
- Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions, Nov. 19, 2013
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 11, 2022)		
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty commercial pap nts due 12/15/2050		
Short Term Rating	A-1+	Affirmed
King Cnty ltd tax GO and rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
King Cnty ltd tax GO and rfdg bnds 2021 ser B due 12/01/2029		
Long Term Rating	AAA/Stable	Affirmed
King Cnty ltd tax GO bnds 2021 (Taxable) ser C due 12/01/2041		
Long Term Rating	AAA/Stable	Affirmed
King Cnty ltd tax GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
King Cnty multi-modal ltd tax GO rfdg bnds (Payble From Sewer Revs)		
Long Term Rating	AAA/A-1+/Stable	Affirmed
King Cnty multi-modal ltd tax GO rfdg bnds (Payble From Sewer Revs)		
Long Term Rating	AAA/A-1+/Stable	Affirmed
King Cnty unltd tax GO bnds		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of March 11, 2022) (cont.)		
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO (AGM)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
King Cnty GO (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
King Cnty GO (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
NJB Properties, Washington		
King Cnty, Washington		
NJB Properties (King Cnty) GO equiv		
Long Term Rating	AAA/Stable	Affirmed
NJB Properties (King Cnty) GO equiv		
Long Term Rating	AAA/Stable	Affirmed
King Cnty Hsg Auth, Washington		
King Cnty, Washington		
King Cnty Hsg Auth, Washington		
King Cnty Hsg Auth (King Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
King Cnty Hsg Auth, Washington		
King Cnty, Washington		
King Cnty Hsg Auth, Washington		
King Cnty Hsg Auth (King Cnty) GO equiv		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of March 11, 2022) (cont.)		
King Cnty Hsg Auth, Washington		
King Cnty, Washington		
King Cnty Hsg Auth, Washington		
King Cnty Hsg Auth (King Cnty) GO equiv		
Long Term Rating	AAA/Stable	Affirmed
King Cnty Hsg Auth, Washington		
King Cnty, Washington		
King Cnty Hsg Auth, Washington		
King Cnty Hsg Auth (King Cnty) GO equiv		
Long Term Rating	AAA/Stable	Affirmed
King Cnty Hsg Auth, Washington		
King Cnty, Washington		
King Cnty Hsg Auth, Washington		
King Cnty Hsg Auth (King Cnty) GO equiv		
Long Term Rating	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.