

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aaa/Aa1 ratings to King County, WA's Sewer Enterprise LTGO (payable from sewer revenues)/senior lien sewer revenue bonds; outlook stable

15 Jul 2021

New York, July 15, 2021 -- Moody's Investors Service has assigned Aaa ratings to King County, Washington Sewer Enterprise's \$232.9 million Limited Tax General Obligation and Refunding Bonds (Payable from Sewer Revenues), 2021 Series A and \$102.6 million Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2021 Series B (Taxable). Concurrently, we have assigned a Aa1 rating to the enterprise's \$231 million Sewer Revenue Refunding Bonds, 2021 Series A (Taxable). Moody's maintains Aaa and Aa1 ratings on the sewer enterprise's outstanding limited tax general obligation (LTGO) bonds and senior lien sewer revenue bonds, as well as Aa2 ratings on junior lien revenue bonds. Post issuance, debt outstanding totals \$3.6 billion. The outlook is stable.

RATINGS RATIONALE

The Aa1 senior lien ratings reflect the county's large service territory in the Puget Sound region that includes the City of Seattle (Aaa stable) and the City of Bellevue (Aaa stable). Combined debt service coverage is solid for the large system size and will likely remain stable over the next few years supported by a rate increase in 2022 and prudent expenditure management. The system was minimally impacted by the coronavirus pandemic given the mandatory service provision for its municipal wholesale customers, the delayed and smoothed structure of its primary revenue stream, as well as a willingness by management to adjust rates as necessary. Debt leverage is high relative to similarly rated peers and will likely remain elevated. The rating also incorporates the system's seniority in the flow of funds relative to a typical municipal retail service provider, where the system's revenue is considered an operations and maintenance charge of wholesale customers and has priority to each customer's revenue debt. Finally, the rating reflects satisfactory legal provisions, which includes a rate covenant of 1.15x for senior lien bonds, and a common debt service reserve funded at maximum annual debt service subject to springing amendments, satisfied by a mix of cash and sureties.

The Aaa county GOULT long-term rating reflects its large and wealthy tax base and strong resident incomes supported by a vibrant regional economy. The county maintains a consistent financial performance and we anticipate the long-term results will remain solid given its strong financial management team. Recent revenue softening and increased costs from the coronavirus pandemic have been offset by substantial one-time federal coronavirus relief funding. The county's overall leverage is manageable.

The zero-notch rating distinction between the county's unlimited tax general obligation bonds and limited tax general obligation bonds ratings reflects our positive view of the strength of the county's full faith and credit pledge.

RATING OUTLOOK

The stable outlook incorporates our expectation that the system will continue to maintain solid debt service coverage and liquidity levels supported by strong financial management despite modest operational disruptions from the coronavirus pandemic. The outlook also reflects the expectation of prudent rate increases to support operations and its large capital plan.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained improvement in the system's revenue and expenditures including strengthened debt service coverage levels and liquidity
- Significant reduction in debt leverage

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Prolonged economic recovery in the region resulting in lower than projected water use

-Deterioration in financial position, including a sustained period of weaker debt service coverage or material declines in liquidity

-Unwillingness to implement service rate increase

LEGAL SECURITY

The Sewer Revenue Refunding Bonds, 2021 Series A (Taxable) are secured by a senior lien ("parity") on the net revenues of the sewer enterprise. The bonds are additionally secured by a common debt service reserve funded equal to maximum annual debt service for outstanding parity bonds satisfied by a mix of cash and sureties.

The Limited Tax General Obligation and Refunding Bonds (Payable from Sewer Revenues), 2021 Series A and the Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2021 Series B (Taxable) are backed by the county's full faith and credit and its pledge to levy taxes annually within the constitutional and statutory tax limitations for non-voted debt, payable from any legally available resources.

USE OF PROCEEDS

The Sewer Revenue Refunding Bonds, 2021 Series A (Taxable) proceeds will be used to advance refund a portion of the callable outstanding maturities of the outstanding Sewer Revenue Refunding Bonds 2015, Series A for debt service savings.

Limited Tax General Obligation and Refunding Bonds (Payable from Sewer Revenues), 2021 Series A and the Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2021 Series B (Taxable) proceeds will be used for various capital improvements and to refund certain state revolving fund (SRF) loans as well as to advance refund a portion of the callable maturities of the LTGO Refunding Bonds (Payable from Sewer Revenues) 2015 Series A for debt service savings.

PROFILE

The King County Sewer Enterprise is a division of King County's Department of Natural Resources and Parks. The enterprise provides wastewater treatment services to 34 municipal participants and three non-municipal participants that collectively serve 2 million residents in the Puget Sound region. The county is responsible for construction, operation and maintenance of main trunk, interceptor sewers, pumping stations and treatment plants on behalf of its participants, while collection is managed by each participant's system. The sewer enterprise operations include three major secondary treatment plants, 397 miles of conveyance lines, 48 pump stations and 25 regulator stations. The enterprise also manages four combined sewer overflow treatment plants, four CSO storage facilities, 39 CSO outfall locations and secondary treatment plants on Vashon Island and in Carnation.

METHODOLOGY

The principal methodology used in the general obligation ratings was US Local Government General Obligation Debt published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260094 . The principal methodology used in the revenue rating was US Municipal Utility Revenue Debt published in October 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1095545 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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