MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa/P-1 to King County, WA's LTGO notes (additionally payable from sewer revenue)

10 Dec 2020

New York, December 10, 2020 -- Moody's Investors Service has assigned Aaa/P-1 ratings to King County, Washington's Limited Tax General Obligation Notes (Payable from Sewer Revenues) (Commercial Paper), Series A and Series B (Taxable). The Aaa/P-1 ratings apply only to the notes when they are in the commercial paper mode. Up to a combined $250 million in notes will be issued.

RATINGS RATIONALE

The Aaa/P-1 rating assignments for the Series A and Series B commercial paper mode (CP) notes reflect the county's strong, long-term Aaa credit quality, able treasury management and sufficient self-liquidity to support the notes in the commercial paper mode. The notes will be used as an interim financing vehicle, adding a modest component of debt subject to relatively frequent rate resets, with accompanying interest rate and remarketing risks, into the leverage profile. However, given substantial liquidity and relatively modest interest rate exposure, these risks remain manageable.

The Aaa long-term ratings reflect King County's large and wealthy tax base that includes the City of Seattle (Aaa stable). The coronavirus pandemic has significantly disrupted economic activity in the region, but the Puget Sound region remains the economic engine for the State of Washington (Aaa stable) and is supported by multi-national businesses in technology, aviation, retail, and consumer goods. The county is experiencing revenue declines as well as increased costs for measures to address the pandemic's health and economic effects, some of which will be offset by substantial federal government support, primarily through the CARES Act. Given the county's historically strong financial management team, we anticipate that the county's financial profile will recover and its long-term financial results will remain solid. The county's debt and pension liabilities are manageable and supportive of the high ratings.

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.

The P-1 ratings are supported by the extremely high liquidity coverage with liquid holdings of approximately $5.3 billion at the end of the September 2020 compared to the $250 million of notes in the commercial paper mode, providing more than 21x coverage. During the commercial paper rate mode each period may be from one day to 270 days as determined by the remarketing agent, and the notes are subject to mandatory tender at the end of each period. Along with an experienced management team, the county maintains conservative goals of having no more than $25 million of notes be subject to mandatory tender on any given day and no more than $50 million in any given week.

The mechanics for payment of the mandatory tender of the notes in the event of a failed remarketing rely heavily upon the availability of an internal line of credit from US Bank (P-1(cr)) for daylight overdrafts; by contract US Bank must provide a minimum of $440 million of overdraft protection, and has demonstrated a willingness and ability to provide substantially more. Under the county's commercial paper dealer agreement, the Dealer shall notify the county and its paying agent (also US Bank) by 9 AM (Pacific) of any failed remarketing. By 9:30 AM the agent will transfer sufficient funds to cover the funding amount from the county's Treasury Section Main Account (or from the internal line of credit, if necessary) into an account designated as the repository of the fund earmarked to pay the mandatory tender of the notes, with funds applied to pay the owners of the notes by no later than 11:30 AM. Concurrently, the county's Investment and Debt Management unit will reduce investment balances or sell securities to replenish the Treasury Main Account by no later than 2:30 PM.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

-Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

-Substantial degradation of the county's general credit profile

-Failure of the county to comply with adopted policies and procedures

-Decline in the daily liquidity coverage ratio

-Weakening in the credit quality of the bank overdraft provider

LEGAL SECURITY

The notes are general obligations of the county, secured by its full faith and credit including a pledge of property taxes subject to the limitations of taxes levied without a vote of the people in the State of Washington. The notes are additionally secured by a pledge of net revenues of the county's sewer enterprise (Aa1 stable) on a subordinate lien basis from which we anticipate the debt will be repaid. Prior to the issuance of these notes, the sewer enterprise had $546.9 million in outstanding variable rate debt, or about 15.1% of total outstanding debt. By policy, the county limits variable rate debt to 20% of total outstanding sewer obligations.

USE OF PROCEEDS

The note proceeds will be used for any capital purposes, including the refunding of outstanding sewer enterprise debt.

PROFILE

King County includes the City of Seattle (Aaa stable), a major city and the economic hub of the Pacific Northwest, and constitutes a large share of the Puget Sound area economy. The county serves a large population approaching 2.2 million residents which amounts to almost one-third of the State of Washington's population. The county delivers a broad range of services to both incorporated and unincorporated areas; depending upon the jurisdiction, the county provides public safety, public transportation, wastewater and solid waste services, road construction and maintenance, public health and a vast array of other services.

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 1.8 million residents in the Puget Sound region. 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 long-term ratings was US Local Government General Obligation Debt published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. The principal methodology used in the short-term ratings was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1210749 . 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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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