

# RatingsDirect®

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**Summary:**

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

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## Summary:

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

### Credit Profile

US\$69.135 mil ltd tax GO rfdg bnds (taxable) ser 2020B due 12/01/2034		
<i>Long Term Rating</i>	AAA/Stable	New
US\$55.125 mil ltd tax GO bnds ser 2020A due 12/01/2050		
<i>Long Term Rating</i>	AAA/Stable	New

## Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to King County, Wash.'s \$55 million series 2020A limited-tax general obligation (GO) refunding bonds and its 'AAA' long-term rating to the county's \$69 million series 2020B taxable limited-tax GO 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) and its 'AAA/A-1+' rating on the county's series 2019B obligations that include a standby bond purchase agreement with TD Bank N.A. The outlook is stable.

The county will have about \$4.7 billion in direct debt outstanding at the end of 2020, and after our adjustments for revenue-supported debt and GO debt we consider self-supporting we calculate the county's net direct governmental debt at \$1.2 billion.

Proceeds of the series 2020A will fund open space and property acquisitions, technology projects, and bus transit infrastructure. Proceeds of the series 2020B will refund previously issued GO debt for interest expense savings.

The series 2020A and 2020B are full faith and credit obligations of the county, including ad valorem property taxes within 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 obligor's overall revenue, we rate the county's limited-tax GO debt, including the series 2020A and 2020B, on par with our view of the county's general creditworthiness.

The county's 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. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, U.S. local governments are considered moderately sensitive to country risk. County-derived revenue and state grants are the primary revenue sources for the county, and the institutional framework in the U.S. is predictable, with significant local government autonomy and flexibility, as demonstrated by independent treasury management.

## **Credit overview**

We see King County as coming into the recent recession and what we think will be a prolonged weak recovery with considerable credit strengths, including a dynamic and diverse economic base that includes Seattle; effective, performance-oriented management; and robust fiscal performance. The region was one of the first to experience an outbreak related to the COVID-19 pandemic, but we see no signs that the information technology and biotech industries are dispersing employees to more affordable parts of the country and local residential values continue to be strong, with remote workers mostly staying put. The county also had a strong record of identifying and weathering changing economic conditions, and 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, with access to a broad and diverse metropolitan statistical area;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2019, which closed with an operating surplus in the general fund but an operating deficit at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 131% of total governmental fund expenditures and 31.7x governmental debt service, and access to external liquidity we consider exceptional;
- Very strong debt and contingent liability position, with debt service carrying charges at 4% of expenditures and net direct debt that is 36% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Adequate institutional framework score.

## **Environmental, social, and governance factors**

We believe that the county has elevated exposure to environmental risks, with earthquakes and wildfires the most prominent. We believe the county's maintenance of an emergency management office, which handled the county's pandemic response this year, and robust state building codes largely mitigate these risks. We consider the county's social and governance risk in line with our view of the sector standard.

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.

## **Stable Outlook**

### **Downside scenario**

We could lower the ratings if the county's budgetary flexibility as measured by its available general fund balance deteriorates to a level approaching our adequate threshold of 8% of expenditures, which we think could occur if U.S. economic performance turns out to be weaker than we expect, particularly if the local revenue effects are markedly

acute and the county is unable to identify and implement offsetting budget-balancing actions.

## **Credit Opinion**

### **Very strong economy**

King County continues to be one of the leading economic engines for the nation, with multiple metrics showing heretofore strong growth on an already ample base that benefits from a deep reservoir of human capital, exposure to export markets, and large regional employers that are major players in their respective markets. Chief among these metrics has been assessed value (AV), which increased by 5.9% in 2020 to \$642.5 billion. With home values holding up, property tax delinquencies low, and commercial development continuing in some form--social media giant Facebook recently swooped in to buy REI's nearly completed headquarters in Bellevue after the pandemic darkened the retailer's near-term sales outlook--we think that AV will continue to grow in the medium term, although retail sales could show a loss this year and the county's economist forecasts that 2021 AV (for collection year 2022) will show a 2% decline. The 2.3 million-resident county has a projected per capita effective buying income of 165% of the national level and per capita market value of \$284,200.

Major employers such as Microsoft and Amazon appear to be retaining local employees even as their campuses remain largely closed to manage pandemic risk. The weak national economic environment and downturn in air travel have downside implications for employment at aircraft manufacturer Boeing, which recently announced it will migrate production of its 787 model to South Carolina from plants in the county to the north and has yet to receive regulatory authorization to resume production of its 737-Max model, which is produced in the county.

### **Very strong management**

We view the county's management as very strong, with strong financial policies and practices under our financial management assessment methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

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 minimum general fund balance policy of 8% of expenditures, to which the county has adhered and which is based

on cash flow to meet debt service obligations.

### **Adequate budgetary performance**

King County's budgetary performance is adequate, in our opinion. The county had a surplus operating result in the general fund of 2.1% of expenditures but a slight deficit result across all governmental funds of 1.8% in 2019. General fund operating results pre-recession hovered within a narrow range of 2% to 3% of expenditures during the prior four years, and we anticipate that weaker economic performance partly offset by new revenue and service reductions will lead to general fund results approaching break-even, while cutbacks in discretionary expenditures could lead to slight improvement in governmental funds expenditures.

General fund revenue is a mix of property taxes, user fees, and sales and use taxes, which, for the upcoming biennium covering 2021-2022, are budgeted to account for 41%, 30%, and 16% of the county's general fund revenue, respectively. We have adjusted general fund expenditures upward and the corresponding net transfers downward to reflect ongoing transfers out to various special funds to support maintenance and operations.

Management reports that the county's transit enterprise has experienced a plunge in ridership and revenue--the county suspended fare collections during March to September--but that a multiyear buildup in reserves and the ability to defer capital projects means that the enterprise is positioned well to maintain service quality without requiring additional resources such as support from the county's general fund. Likewise, federal grants have absorbed the bulk of pandemic-related costs to date.

### **Very strong budgetary flexibility**

King County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 22% of operating expenditures, or \$198.4 million, and inclusive of the county's "rainy day" fund, which is classified as committed in the county's audited financial statements, and its employee benefits and risk management internal service funds, which function as operating reserves. Based on our expectation of adequate budgetary performance, we anticipate that the county's available reserves will remain above 15% of expenditures in the intermediate term but that revenue performance related to weak economic performance could lead to weakening in some form. The county executive's biennial budget recommendation anticipates that the county's undesignated general fund balance would decline by the equivalent of 1.7% of annual expenditures by the end of 2022.

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.

### **Very strong liquidity**

In our opinion, King County's liquidity is very strong, with total government available cash at 131% of total governmental fund expenditures and 32x governmental debt service in 2019.

In our view, the county has exceptional access to external liquidity based on debt issuance of a variety of security types during the past 15 years. The county's investment pool is managed under a comprehensive policy and on behalf of other agencies, with 68% of holdings consisting of U.S. Treasuries, agencies, and the state-managed investment pool. We do not anticipate changing our view of the county's liquidity as very strong in the near future, based on our expectation of strong financial performance.

The county has extended its contingent loan pledge and credit enhancement agreement to about \$312 million in debt, most of which has been issued by the housing authority. While acceleration of the bonds is allowed under the trust indenture, the bonds are allowed to accelerate only to the extent that money to make such payment is on hand with the trustee in the relevant bond funds. Therefore, the amount due by the county at any given time under the agreements would be only the current debt service, which we consider well within the county's ability to pay with its available liquidity. To date, the county has not had to make any payments pursuant to these agreements.

### **Very strong debt and contingent liability profile**

Total governmental fund debt service is 4% of total governmental fund expenditures, and net direct debt is 36% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, which is, in our view, a positive credit factor. These ratios could rise in the coming years should voters approve in November 2020 a \$1.7 billion proposal to expand and modernize the county's main public hospital, but we anticipate that our view of the county's profile will remain very strong in the intermediate term, as debt issuances under the authorization would be unlikely to occur all at once. Separately, the county is planning for about \$1 billion of limited-tax GO debt during 2021 to 2022, much of which its transit and solid waste enterprises would directly support.

We consider debt outstanding backed by the county contingent loan agreement and credit enhancement agreements as direct debt. But because the county has not had to make any payments under these contingent guarantees, we view these issuances as self-supporting.

### Pension and other postemployment benefit (OPEB) liabilities

- In our view, the county has no large pension or OPEB liabilities that are leading to credit pressure.
- While some of the county's pension plans are poorly funded, several are overfunded, creating an overall funding situation that is not likely to lead to dramatic cost escalations. This strong funding is largely due, in our view, to the short amortization periods employed to determine funding requirements.
- The county's sole OPEB plan provides benefits for police and firefighters hired in 1970 to 1977; given the limited scope of eligible beneficiaries, we don't believe this obligation will lead to credit pressure, despite the county's pay-as-you-go approach to funding.

The county participated in the following major pension plans funded as of Dec. 31, 2019:

- Public Employees Retirement System (PERS) plan 2/3: \$97.7 million in net pension liability, or 98% funded
- Public Employees Retirement System plan 1: \$317.3 million in net pension liability, or 67% funded
- Law Enforcement Officers and Fire Fighters plans 1 and 2, both of which are overfunded, at 149% and 119%.

King County's required pension and actual OPEB contributions totaled 7.1% of total governmental fund expenditures in 2019, with 0.2% consisting of OPEB costs. Despite being below the actuarially determined contribution (ADC), 2019 PERS 2/3 and LEOFF 2 contractually required contributions (CRCs) exceeded both static funding and minimum funding progress, indicating our view of timely progress in reducing pension liabilities. The CDCs, 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. 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 increase above CDCs, and so we believe costs will likely remain stable. However, the plan's 7.4% discount rate increases contribution volatility.

### 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.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- U.S. Local Government Mid-Year Sector View: Unprecedented And Unpredictable, July 29, 2020
- The U.S. Economy Reboots, With Obstacles Ahead, Sept. 24, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 9, 2020)		
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty multi-modal ltd tax GO rfdg bnds (Payble From Sewer Revs)		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
King Cnty multi-modal ltd tax GO rfdg bnds (Payble From Sewer Revs)		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
King Cnty GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

**Ratings Detail (As Of October 9, 2020) (cont.)**

King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
King Cnty GO (ASSURED GTY) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
King Cnty GO (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>King Cnty Hsg Auth, Washington</b>		
King Cnty, Washington		
King Cnty Hsg Auth (King Cnty) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty Hsg Auth (King Cnty) GO equiv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty Hsg Auth (King Cnty) GO equiv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty Hsg Auth (King Cnty) GO equiv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
King Cnty Hsg Auth (King Cnty) GO equiv		



Ratings Detail (As Of October 9, 2020) (cont.)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>NJB Properties, Washington</b>		
King Cnty, Washington		
NJB Properties (King Cnty) GO equiv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
NJB Properties (King Cnty) GO equiv		
<i>Long Term Rating</i>	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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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