

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa2 GOULT and Aa3 GOLT to Spokane, WA; stable outlook

---

Global Credit Research - 06 Jan 2015

#### \$200.7 million of debt affected

SPOKANE (CITY OF) WA  
Cities (including Towns, Villages and Townships)  
WA

#### Moody's Rating

ISSUE	RATING
Unlimited Tax General Obligation Bonds, 2015	Aa2
<b>Sale Amount</b> \$58,625,000	
<b>Expected Sale Date</b> 01/13/15	
<b>Rating Description</b> General Obligation	

Limited Tax General Obligation Refunding Bonds, 2015	Aa3
<b>Sale Amount</b> \$49,240,000	
<b>Expected Sale Date</b> 01/13/15	
<b>Rating Description</b> General Obligation Limited Tax	

#### Moody's Outlook STA

NEW YORK, January 06, 2015 --Moody's Investors Service has assigned a Aa2 rating to Unlimited Tax General Obligation Bonds, 2015 in the amount of \$58.6 million and a Aa3 rating to Limited Tax General Obligation Refunding Bonds, 2015 in the estimated amount of \$49.2 million. At this time, Moody's affirms the Aa2 rating on the city's GOULT debt outstanding in the amount of \$69.8 million, post-refunding, and the Aa3 rating on the city's GOLT outstanding in the amount of \$23.1 million. The outlook on the city is stable. The GOULT bonds will finance improvements to Riverfront Park and are secured by the city's full faith, credit, and unlimited tax pledge. The GOLT bonds will refinance certain maturities of the city's outstanding GOULT Series 2004 and Series 2007 bonds and are secured by the city's full faith and credit within the constitutional and statutory limitations of non-voted debt.

#### RATING RATIONALE

The Aa2 GOULT rating reflects Spokane's stability as a regional center buoyed by a large healthcare presence, collegiate institutions, and the military. The tax base is large and declined only modestly in the recent downturn. Spokane's financial position remains healthy, although reserves remain modest compared to many similarly rated peers, but does benefit from prudent management. The city's debt position remains manageable especially given no plans for new-money issuance, and its pension burden is manageable compared to other larger cities.

The Aa3 GOLT rating reflects the nature of the city's full faith and credit pledge and Spokane's strong overall credit characteristics.

#### OUTLOOK

The stable outlook reflects our expectation of continued though modest growth in the city's economy and tax base. Also, the city's financial position continues to improve slowly with current management's prudent budgetary planning and earnest efforts to continue building reserves.

## STRENGTHS

- Relatively stable service area supported by institutional presences
- Large, resilient tax base
- Conservative financial management

## CHALLENGES

- Still moderate reserves compared to similarly rated peers and national medians
- Somewhat rural location

## DETAILED CREDIT DISCUSSION

### SIZABLE REGIONAL CENTER OF INLAND NORTHWEST

Spokane is the economic center of the Inland Northwest, providing a stabilizing effect across economic cycles. The area serves around 1.9 million people in eastern Washington, northern Idaho, western Montana, and British Columbia. The local economy includes a large healthcare services hub, an ongoing military presence at Fairchild Air Force Base and several higher education institutions. The unemployment rate was 6% as of September 2014 and mildly above state and nationwide levels. Socioeconomic measures are modest for the city and include median family income of 84.4% of U.S. levels as of the 2012 American Community Survey, which somewhat reflects the area's otherwise rural location but is somewhat mitigated by relative affordability compared to some other metro areas.

The city's large tax base continues to demonstrate relative stability, even through the recent downturn. Assessed value (AV) as of 2014 was nearly \$15 billion and returned to slow annual growth after only modest declines that totaled only 5.4% amid the nationwide housing downturn. Also, the tax base is not concentrated with the ten largest property taxpayers comprising only 6.8% of AV as of 2014. Preliminary figures for 2015 indicate that AV will continue to grow at a steadily modest pace to nearly \$15.4 billion.

### HEALTHY FINANCIAL POSITION SUPPORTED BY PRUDENT MANAGEMENT

Spokane's financial position remains overall healthy and is supported by sound management. Available reserves were consistently just over 20% of revenues for each of the past five years and indicative of stability, but nevertheless below national medians for similarly rated peers. The city's codified target for balance in the general fund totals 25% of revenues, including: 11.5% undesignated balance, 10% contingency, and 3.5% revenue stabilization reserve for times of revenue volatility. Leaders elected in 2012 and long-serving management continue working to build reserves to reach this target level. For FY2014, estimates indicate unrestricted reserves of at least 20% of budgeted general fund revenues (\$33.5 million) with support from slow growth in property taxes and sales tax collections above expectations according to mid-year data.

Projections for the city's financial position continue to demonstrate a commitment to balanced operations and conservative assumptions. Continued economic recovery and one-time moneys will benefit reserves in the immediate term, including a \$2 million telecomm settlement to be received around January 2015 and additional interest earnings on city cash of around \$1 million will fall to reserves early in FY2015. Also of note, the general operating budget for FY2015 is balanced and assumes that taxes will grow at their long-time averages around 3% and be just above contracted labor costs, the drivers of expenses, which will grow at just under 3%.

Looking forward, projections to FY2021 indicate that finances will at least remain stable with no structural budget gaps for the general fund. Officials noted that prior leadership realized small annual budget gaps, and occasional operating deficits, due to reported reliance on uncertain budgetary carryovers. Current management relies on use of only long-term growth projections and balanced budgeting to maintain a healthy financial position. It is expected that one-time resources would prudently be used to grow reserves or for only one-time projects.

The city's largest revenue streams are operating property taxes (23% of general fund revenues in FY2013) and sales taxes (20%) as well as utility taxes and departmental charges (34%). The long-time average growth for these combined streams has been over 3% per year and is used to guide financial planning and budgets.

### MANAGEABLE DEBT AND PENSION BURDENS

Spokane's direct debt burden of 1.3% of AV is relatively low with full payout of GOULT and GOLT debt within

twenty years. The city currently has no plans to issue additional tax supported debt in the next several years, except uncertain opportunistic refunding transactions. The current GOLT offering will refund outstanding GOULT debt issued for streets purposes and be supported by a dedicated property tax for streets that was recently approved by voters for the next twenty years. The city most recently charged \$0.57 per \$1,000 of AV as a GOULT streets-related bond repayment levy but, going forward, will spend only \$0.29 for debt repayment with \$0.28 available for projects. Officials anticipate that this restructuring adds flexibility and increases available funding for street improvements with savings on debt service costs.

The city's pension burden is manageable and not uncharacteristic for a larger city. Moody's adjusted net pension liability (ANPL) over FY2011-13 averaged 2.5 times operating revenues and 2.7% of AV. Pension benefits for the city's general employees are administered by the city's single-employer SERS plan while public safety employees following the 1970s participate in the state's multi-employer LEOFF plans.

#### WHAT COULD CHANGE THE RATINGS UP

- Significant and sustainable growth in reserves
- Appreciation in socioeconomic measures

#### WHAT COULD CHANGE THE RATINGS DOWN

- Deterioration of the city's financial position
- Large tax base declines

#### KEY STATISTICS

Full value of tax base, 2014: \$15 billion

Full value per capita: \$70,970

Median family income, 2012 American Community Survey: 84.4% of U.S.

Available operating reserves, FY2013: 21.3% of revenues

5-year change in available operating reserves, FY2008-13: -1%

Available net cash, FY2013: 13.3% of operating revenues

5-year change in available net cash, FY2008-13: -4.6%

Institutional framework: Aa

5-year average of operating revenues to expenditures, FY2009-13: 1 times

Net direct debt to full value: 1.3%

Net direct debt to operating revenues: 1.25 times

3-year average of Moody's ANPL to full value, FY2011-13: 2.7%

3-year average of Moody's ANPL to operating revenues, FY2011-13: 2.5 times

#### RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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 rating action on the support provider and in relation to each particular 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](http://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.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

#### **Analysts**

Patrick Liberatore  
Lead Analyst  
Public Finance Group  
Moody's Investors Service

Travis George  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

Andrea Unsworth  
Additional Contact  
Public Finance Group  
Moody's Investors Service

#### **Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
USA

**MOODY'S**  
INVESTORS SERVICE

© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN**

**ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.