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
Sale Amount	$58,625,000	
Expected Sale Date	01/13/15	
Rating Description	General Obligation	
Limited Tax General Obligation Refunding Bonds, 2015		Aa3
Sale Amount	$49,240,000	
Expected Sale Date	01/13/15	
Rating Description	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.moodys.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.

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