

# RatingsDirect®

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## Summary:

# Spokane, Washington; General Obligation

### **Primary Credit Analyst:**

Kate R Burroughs, San Francisco (1) 415-371-5081; kathleen.burroughs@standardandpoors.com

### **Secondary Contact:**

Jennifer Hansen, San Francisco (1) 415-371-5035; jen.hansen@standardandpoors.com

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## Summary:

# Spokane, Washington; General Obligation

### Credit Profile

US\$59.95 mil unlted tax GO bnds ser 2015 due 12/01/2034

*Long Term Rating* AA/Stable New

US\$49.24 mil ltd tax GO rfdg bnds ser 2015 due 12/01/2034

*Long Term Rating* AA/Stable New

Spokane GO bnds (tax-exempt)

*Long Term Rating* AA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Spokane, Wash.'s series 2015 unlimited-tax general obligation bonds (UTGO) and limited-tax general obligation (LTGO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) on the city's existing UTGO and LTGO bonds.

The city's UTGO bonds are a full faith and credit obligation of the city and are secured by revenue from an unlimited ad valorem tax. Resources available for payments on the city's LTGO bonds are constrained by statutory restrictions on property tax revenue for operations, including a limit on annual property tax growth to 1% plus new construction, without a voter override, and a maximum levy rate. We understand that proceeds from the UTGO bonds will be used to finance improvements to Riverfront Park and that proceeds from the LTGO bonds will be used to refund the entirety of the city's existing series 2004 UTGO bonds and a portion of the city's existing 2007 UTGO bonds.

The rating reflects our assessment of the following factors for the city.

- Strong management, with good financial practices;
- Very strong budgetary flexibility with 2013 audited reserves at 21% of general fund expenditures;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Adequate budgetary performance;
- Adequate economy with below-average income indicators and a broad and diverse metropolitan statistical area;
- Weak debt and contingent liabilities position.

### Adequate economy

In our view, Spokane's local economy is adequate, with projected per capita effective buying income (EBI) at 91% of the national average and median household EBI at 86%. After several years of small declines, assessed value increased in fiscal 2014 and is projected to increase again in 2015 to an estimated \$15.4 billion, or \$72,425 per capita. We consider the Spokane metropolitan statistical area to be broad and diverse. The city is well-embedded in the health care and higher education fields and , with a population of 212,300, is the second-largest city in Washington, after Seattle. The city serves as a market center for an approximately 1.7 million-person area stretching into western

Montana, northeast Oregon, and southern British Columbia.

### **Strong management conditions**

We believe Spokane's management conditions are strong with good financial practices under our financial management assessment (FMA) methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Strengths, in our opinion, include long-term financial and capital plans, an investment management policy, and historically adhered-to reserve policies. The city does not currently have a debt management policy.

### **Adequate budgetary performance**

The city's budgetary performance is adequate overall in our view. Both the general fund and total governmental funds had deficits in fiscal 2013, at 1.5% and 4.3%, respectively. However, management estimates a 1.7% general fund surplus in fiscal 2014 and projects a 1.2% general fund surplus in fiscal 2015.

### **Very strong budget flexibility**

In our opinion, the city's budgetary flexibility is very strong, with reserves at 21% of expenditures in fiscal 2013. Included in these are the city's contingency reserve and revenue stabilization reserve. With the anticipated general fund surpluses over the next two years, we anticipate the city's budgetary flexibility will remain very strong.

### **Very strong liquidity**

We believe very strong liquidity supports Spokane's finances, with total government available cash at 20% of governmental fund expenditures and cash at 2.8x debt service. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.

### **Weak debt and contingent liability profile**

We view Spokane's debt and contingent liability profile as weak. Including this issuance, total governmental fund debt service is 7.2% of total governmental funds expenditures, and net direct debt is 78.8% of total governmental funds revenue. Amortization is slow in our opinion, with only 33% of principal retired in the next 10 years. We understand that the city does not anticipate issuing any new debt in the near future.

The city contributes to the Spokane Employee Retirement System (SERS), as well as the fire and police pension systems. The city's annual required contribution was \$12.8 million in fiscal 2013, or 4.9% of governmental expenditures. The city's actual overall contribution was slightly less -- \$12.5 million -- partly due to contributing significantly more than its annual required amount to its firefighters pension system in order to increase its funding level to 100%. However, the city only contributed 77% of the annual contribution to SERS, which is the largest plan, and is only funded at 69%. We understand that in September 2014, the city implemented changes to its benefits plans and increased employee and city contribution levels so as to increase the pension funded levels and decrease future liabilities.

### **Adequate institutional framework**

We consider the institutional framework for Washington municipalities to be "adequate." See the Institutional Framework score for Washington.

## Outlook

The stable outlook reflects our view that the city will not draw down its reserves to below a level we consider strong. The outlook also reflects our anticipation that the city will not issue significant debt in the near future and will address its current liabilities. If the city were to draw down its reserves, or if its recent changes to its pension plan fail to address its pension liabilities, and the low funded levels become exacerbated, we could lower the rating. Because of the city's only-adequate economy with below-average income indicators, we do not anticipate raising the rating during the two-year outlook horizon.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of January 7, 2015)		
Spokane GO (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Spokane GO</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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