Moody's
INVESTORS SERVICE

New Issue: Moody's assigns underlying Aa3 rating to city of Edmonds, Washington's G.O. limited tax bonds

Global Credit Research - 09 Oct 2012

Aa2 unlimited tax G.O. rating affirmed

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

Moody's Rating

ISSUE	RATING
Limited Tax General Obligation Refunding Bonds, 2012	Aa3

Sale Amount	$9,145,000
Expected Sale Date	10/18/12
Rating Description	General Obligation Limited Tax

Moody's Outlook NOO

Opinion

NEW YORK, October 09, 2012 --Moody's Investors Service assigns a Aa3 rating to the City of Edmonds, Washington's Limited Tax General Obligation Refunding Bonds, 2012. At this time, Moody's affirms the City's outstanding limited tax general obligation bonds outstanding in the amount of $5.3 million and affirms the city's Aa2 rating on $4.3 million of unlimited tax general obligation bonds. The current offering is secured by the full faith and credit of the city within the constitutional and statutory limitations of non-voter approved debt. Proceeds will be used to refund certain maturities for debt service savings with some extension of maturities to match non-pledged revenue sources.

SUMMARY RATING RATIONALE

The Aa3 rating primarily reflects the city's general credit characteristics including a moderately-sized tax base in close proximity to the Seattle Metro area and above average socioeconomic measures, sound financial position and modest debt burden.

STRENGTHS

-Somewhat large tax base in close proximity to Seattle; above average socioeconomic indices

-Improved general fund reserve levels

-Low debt burden

CHALLENGES

- Sales tax revenues recovering, but remain below peak levels

- Some exposure to risks related to PFD

DETAILED CREDIT DISCUSSION

SOLID BALANCE SHEET; RESERVES GRADUALLY INCREASED DESPITE CHALLENGED REVENUES

Over the last three audited fiscal years, the city has made positive strides in rebuilding reserves to sound levels primarily through conservative budgeting measures. In fiscal 2008 although the city slowed increases in general fund expenditures the general fund balance declined to 17.1% of revenues ($5.2 million). The decline was due in large part to sales tax revenues coming in under budget as the local auto and construction sectors were impacted by the recession. The following year, the city increased both the property tax rate attributable to emergency services and the utility tax rate while also generating savings from continued furloughs and vacant positions which, combined, improved the fiscal 2009 general fund balance to 18.0% of general fund revenues ($6.0 million). Management continued to generate solid operating surpluses in the two subsequent years aided in part by a slight improvement in sales and use tax collections and controlled spending. The fiscal 2011 general fund balance ended at a healthy 28.6% of general fund revenues ($9.6 million). For the current fiscal year (2012) management estimates reserves will improve again and comply with a recently enacted reserve policy; the policy requires a minimum general fund balance equal to 16% of general fund expenditures. Going forward, the city has preliminarily identified a relatively small budget gap ($1.5 million) and does not anticipate significant challenges in closing the gap and expects reserve levels will again improve.

CITY SUPPORTING A PORTION OF PUBLIC FACILITY DISTRICT DEBT SERVICE

Since June 2011, the city has been covering a portion of debt service payments for the Edmonds Center of the Arts - a public facilities district (PFD) which is an independent municipal corporation and an independent tax district - per a contingent loan agreement with the PFD. Long-term debt related to the PFD totals approximately $9.0 million of combined limited tax G.O. bonds (Series 2002) and sales tax bonds (Series 2008) outstanding. The City's Series 2002 LTGO Bonds were issued by the City with the expectation that a majority of debt service would be paid from dedicated sales tax revenues from both the PFD and the Snohomish County Public Facilities District. The Series 2008 Sales Tax Obligation and Refunding Bonds are payable from the PFD's general revenues and sales tax revenues and further supported by the city's absolute and unconditional obligation, under a contingent loan agreement, to provide funds to the district for debt service payments. Both bonds are long-term, fixed-rate obligations and do not include any derivatives or swaps features.

As a result of reduced economic activity in the region, dedicated sales tax revenue collections have steadily declined and combined with slim net operating results at the Center for the Arts, the PFD notified the City of the need to borrow funds in order to make its June 1, 2011 debt service payment ($83,185) related to the Series 2008 bonds. The debt service on the Series 2008 bonds escalates through maturity in 2025, but maximum annual debt service would still only represent only 1.3% of fiscal 2011 expenditures. Given the Series 2002 LTGO are already incorporated into the city's debt profile, the additional burden from the Series 2008 bonds is viewed as modest. Going forward, Moody's will monitor sales tax performance and its ability to pay annual debt service as well as the potential enterprise risk the PFD's operations poses to the city.

LOW DEBT BURDEN; NO NEAR TERM BORROWING PLANS

The city's direct debt burden is low relative to peers at 0.4% and consists of $4.3 million of UTGO debt and $14.4 million of LTGO debt. Debt service on outstanding LTGO bonds declines gradually and 2013 annual debt service comprises a manageable 4.3% of fiscal 2011 expenditures. Payout of debt is above average with nearly 70% of bonds repaid in ten years. The city does not plan to issue additional debt in the near term.

CITY LOCATED NORTH OF SEATTLE; ASSESSED VALUE EXPECTED TO DECLINE AGAIN NEXT YEAR

The City of Edmonds is located in western Snohomish County (Aa1/Stable Issuer rating) Washington, 17 miles north of the City of Seattle (Aaa/Stable GO rating). The local employment base is base on retail and service activity, healthcare and waterfront activity with a majority of residents commuting to nearby metro centers for employment.

The city's full market value is moderately sized at $5.79 billion (2012), but similar to other municipalities in western Washington has experienced steady declines in taxable values in recent years. Between 2007 and 2012, the city's taxable values declined 2.8% on average with the last three years declining an average of 9.1% annually. The city estimates 2013 taxable values will decline another 4.6%. Socioeconomic indicators are moderately strong and above national norms. The city's June 2012 unemployment rate of 7.2% is below the state (8.2%) and nation (8.4%).

WHAT COULD MOVE THE RATING UP

- Significant increases in assessed valuation and improvement in socioeconomic indices

- Long-term trend of substantially increased and maintained reserve levels

WHAT COULD MOVE THE RATING DOWN

- Increased subsidization of PFD debt and operations

- Substantial increase in limited tax supported debt

- Reduced general fund balance to levels below similarly-rated peers

KEY INDICATORS

Estimated population: 39,800

2012 full valuation: $5.79 billion

2012 full value per capita: $145,594

1999 Per capita income: $30,076 (139.3% of U.S.)

1999 Median family income: $66,126 (132.1% of U.S.)

Direct debt burden: 0.4%

Overall debt burden: 2.2%

Payout of principal (10 years): 81.3%

Fiscal 2011 general fund balance: $9.5 million (29.0% of revenues)

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Dan Steed
Lead Analyst
Public Finance Group
Moody's Investors Service

Bryan A. Quevedo
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