

ISSUER COMMENT

15 December 2017

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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City of Federal Way, WA

Annual Comment on Federal Way

Issuer Profile

The City of Federal Way is located in King County in northwestern Washington, bounded on the north by Puget Sound, just northeast of the Tacoma metro area and 20 miles south of Seattle. The county has a population of 2,045,756 and a moderate population density of 962 people per square mile. The county's median family income is \$96,853 (1st quartile) and the September 2017 unemployment rate was 3.9% (2nd quartile) ². The largest industry sectors that drive the local economy are professional/scientific/technical services, health services, and retail trade.

Credit Overview

Federal Way has a very good credit position, and its Aa2 rating is a little stronger than the median rating of Aa3 for cities nationwide. The notable credit factors include a robust financial position, a large tax base and a healthy socioeconomic profile. It also reflects an exceptionally light debt burden and a mid-ranged pension liability.

Finances: The financial position of the city is robust and is relatively favorable in comparison to the assigned rating of Aa2. Federal Way's cash balance as a percent of operating revenues (40.5%) approximates the US median, but decreased from 2012 to 2016. Also, the fund balance as a percent of operating revenues (40.1%) is a little stronger than the US median.

Economy and Tax Base: Overall, the city has a very healthy economy and tax base, which are in line with its Aa2 rating position. The total full value (\$9.5 billion) is well above the US median, and saw an impressive increase between 2012 and 2016. Additionally, Federal Way's full value per capita (\$101,307) is stronger than other Moody's-rated cities nationwide. Yet, the median family income equates to 98.6% of the US level.

Debt and Pensions: The debt burden of the city is exceptionally light and is a credit strength in relation to the assigned rating of Aa2. The net direct debt to full value (0.4%) is materially lower than the US median, and remained flat between 2012 and 2016. That said, the pension liability of Federal Way is mid-ranged and is unfavorable relative to city's Aa2 rating. The Moody's-adjusted net pension liability to operating revenues (1.6x) is roughly equivalent to the US median.

Management and Governance: Washington cities have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are economically-sensitive sales taxes and property taxes. Cities can increase property tax collections 1% over the prior year, subject to state statutory limits on property tax rates. Unpredictable revenue fluctuations tend to be minor, or under 5% annually.

Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Washington has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Washington Cities

Washington cities have generally recovered from the recession and are likely to experience steady economic growth over the near-term. Sales tax and other economically sensitive revenues should improve as unemployment levels remain low, particularly in the Puget Sound region. Strong improvement in the housing market will continue to boost assessed valuation growth and property tax collections. Pension costs are not a significant source of credit weakness, but remain a longer-term challenge.

EXHIBIT 1

Key Indicators [4](#) [5](#) Federal Way

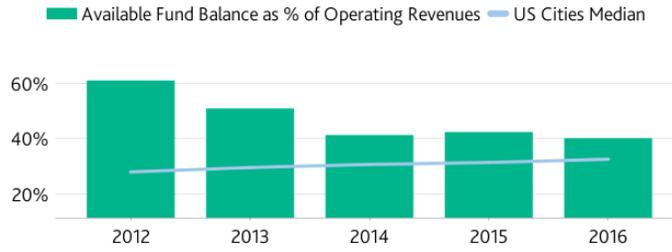
	2012	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$7,086M	\$7,087M	\$8,375M	\$8,319M	\$9,489M	\$1,787M	Improved
Full Value Per Capita	\$79,015	\$78,126	\$91,362	\$89,588	\$101,307	\$88,380	Improved
Median Family Income (% of US Median)	104%	100%	98%	99%	99%	113%	Weakened
Finances							
Available Fund Balance as % of Operating Revenues	60.9%	50.8%	41.2%	42.3%	40.1%	32.5%	Weakened
Net Cash Balance as % of Operating Revenues	47.4%	47.5%	38.8%	42.1%	40.5%	35.4%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	0.4%	0.4%	0.4%	0.4%	0.4%	1.2%	Stable
Net Direct Debt / Operating Revenues	0.59x	0.55x	0.71x	0.67x	0.69x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N/A	0.5%	0.6%	0.8%	0.9%	1.7%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N/A	0.77x	1.02x	1.37x	1.64x	1.46x	Weakened
	2012	2013	2014	2015	2016	US Median	
Debt and Financial Data							
Population	89,691	90,720	91,676	92,859	93,670	N/A	
Available Fund Balance (\$000s)	\$29,299	\$25,041	\$20,105	\$21,208	\$20,777	\$7,221	
Net Cash Balance (\$000s)	\$22,810	\$23,373	\$18,927	\$21,097	\$20,971	\$7,930	
Operating Revenues (\$000s)	\$48,085	\$49,246	\$48,753	\$50,106	\$51,816	\$21,262	
Net Direct Debt (\$000s)	\$28,462	\$27,016	\$34,703	\$33,657	\$35,726	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	N/A	\$37,768	\$49,686	\$68,872	\$85,026	\$29,896	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 2

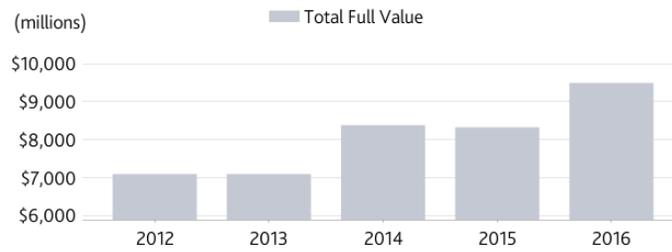
Available fund balance as a percent of operating revenues decreased from 2012 to 2016



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

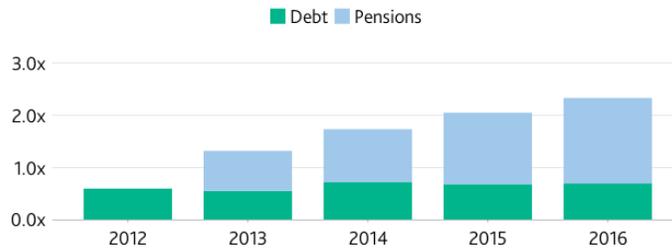
Full value of the property tax base increased from 2012 to 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2012 to 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax Base Growth Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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