

# KING COUNTY, WASHINGTON

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## **Bond Ratings Overview**

March 27, 2012



## King County's Bond Ratings: Sustaining Fiscal Excellence

### The County enjoys very strong bond ratings

- Highest rating of any county in the State of Washington
- Less than 10% of counties nationwide have a AAA rating
- The County's rating is higher than that of the State of Washington and the US Government

### Why are top ratings so important?

- Allows the County to borrow funds at lowest possible costs
- Translates to tangible savings for taxpayers or ratepayers
- Reflects County's commitment to strong fiscal stewardship in Strategic Plan

## Rating Scales

	Credit Quality	Moody's	Standard & Poor's	Fitch
Investment Grade	Highest Quality	Aaa	AAA	AAA
	High Quality	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-
	Upper Medium Grade	A1 A2 A3	A+ A A-	A+ A A-
	Medium Grade	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
Non-Investment Grade	Somewhat Speculative	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
	Speculative	B1 B2 B3	B+ B B-	B+ B B-
	Highly Speculative	Caa	CCC	CCC
	Most Speculative	Ca	CC	CC
	Imminent Default	C	C	C
	Default	D	D	D

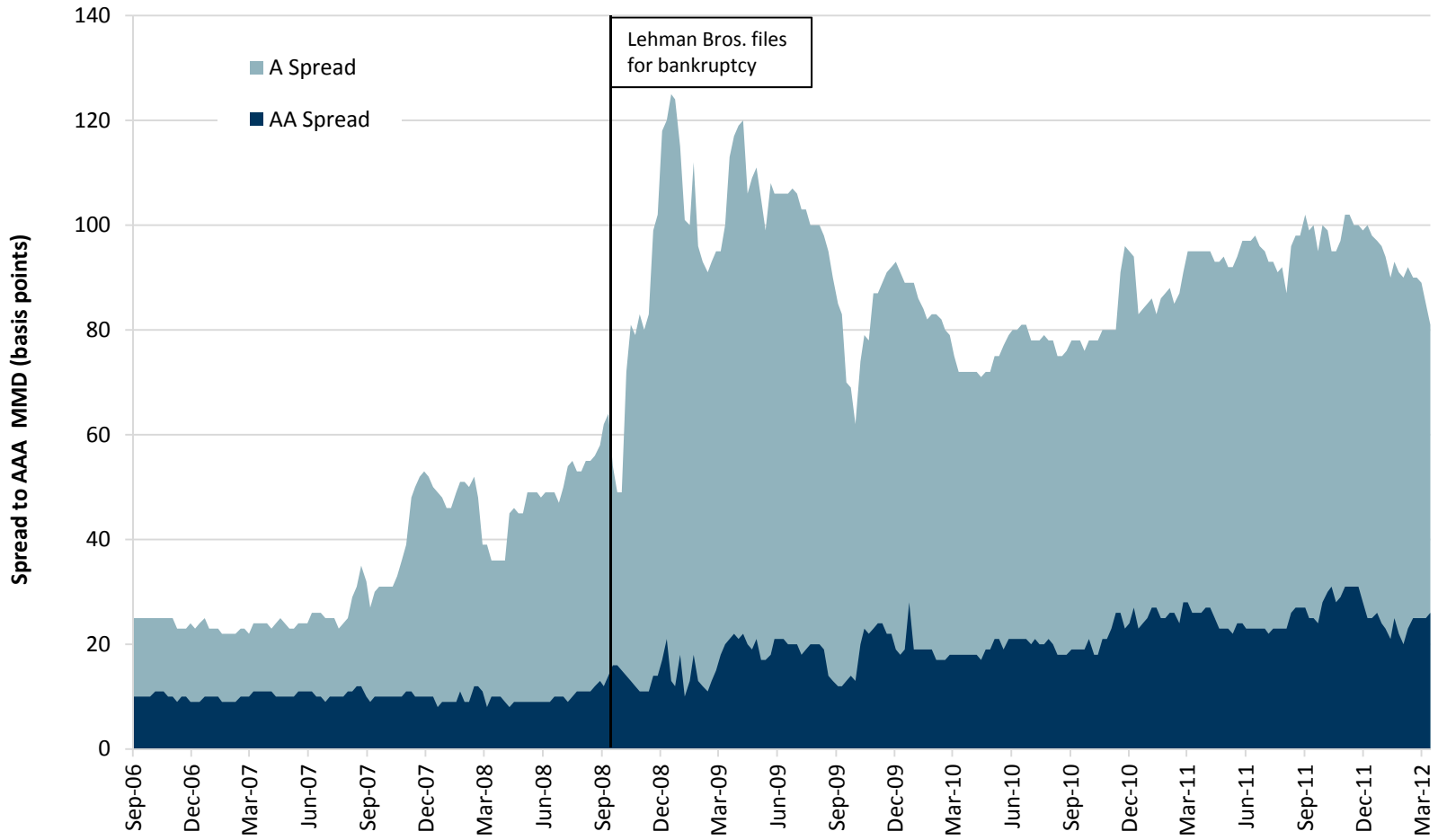
## King County's Bond Rating History (as of March 27, 2012)

	Moody's	Standard & Poor's	Fitch
UTGO	Aaa	AAA	AAA
LTGO	Aa1	AAA	AA+
Senior Lien Sewer Revenue	Aa2	AA+	Not rated

## Rating changes over the last 10 years:

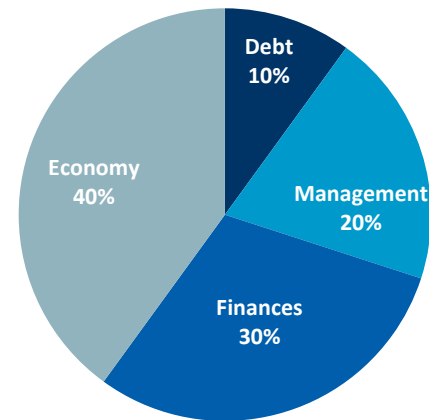
- UTGO
  - Moody's: No change
  - S&P: Upgraded from AA+ to AAA in October 2005
  - Fitch: Rating first assigned in 2005, no change
- LTGO
  - Moody's: No change
  - S&P: Upgraded from AA+ to AAA in October 2005
  - Fitch: Rating first assigned in 2005, no change
- Senior Lien Sewer Revenue
  - Moody's: Upgraded from A1 to Aa3 in July of 2008, Global Scale change to Aa2 in April of 2010
  - S&P: Upgraded from AA- to AA in April of 2006, upgraded to AA+ in July of 2008

# Value of a Rating - Historic Credit Spreads (20yr MMD)



- What is a credit rating?
  - Measurement of the risk to a debt holder of not receiving timely payment of principal and interest on a debt security.
- Moody's categorizes rating factors into four primary categories: economic strength, financial strength, management and governance and debt profile.
  - These categories are analyzed using a weighted average approach to develop a rating range. Relative weightings are shown in the chart to the right.
  - Specific rating is based on peer comparison, interactions of the individual factors and additional considerations not covered by the four primary factors.

**Primary Credit Factors**



Source: Rating Methodology (October 2009) Moody's U.S. Public Finance – General Obligation Bonds Issues by U.S. Local Governments

**Factor 1: Economic Strength (40%)****Economic Strength Subfactors:**

## A. Size and growth trend

- Tax base size
- Historic growth trend
- Future growth potential

## B. Type of economy

- Industry concentration
- Stability
- Taxpayer concentration

## C. Socioeconomic and demographic profile

- Population trend
- Poverty level
- Full value per capita
- Income

## D. Workforce profile

- Unemployment rate

*Source: Rating Methodology (October 2009) Moody's U.S. Public Finance – General Obligation Bonds Issues by U.S. Local Governments*

## Factor 2: Financial Strength (20%)

### Financial Strength Subfactors:

- A. Balance sheet/liquidity
  - General fund balance as a % of General Fund revenues
  - Liquidity trend
  
- B. Operating flexibility
  - Revenue raising flexibility
  - Local control over expenditures
  
- C. Budgetary performance
  - Trend of structurally balanced operations
  - Exposure to volatile revenue streams
  - Property tax collection rates
  - Exposure to state aid reductions
  - Exposure to Federal expenditure cutbacks

*Source: Rating Methodology (October 2009) Moody's U.S. Public Finance – General Obligation Bonds Issues by U.S. Local Governments*



**Factor 3: Management and Governance (20%)****Management and Governance Subfactors:**

- A. Financial planning and budgeting
  - Trend of budget-to-capital performance
  - Existence of and adherence to policies and procedures
  - Multi-year budgeting practices
  
- B. Debt management and capital planning
  - Multi-year capital planning practices
  - Management of risk related to variable rate debt and derivatives
  - Existence of and adherence to debt policies
  
- C. Economic forecasting and monitoring
  - Monitoring of economic performance
  
- D. Governance structure
  - Constructive relationship with elected officials
  
- E. Disclosure
  - Timely disclosure of key documents

*Source: Rating Methodology (October 2009) Moody's U.S. Public Finance – General Obligation Bonds Issues by U.S. Local Governments*

**Factor 4: Debt Profile (10%)****Debt Profile Subfactors:**

## A. Debt burden

- Net direct debt as % of full value
- Overall net debt as % of full value

## B. Debt structure and composition

- Amortization rate (10 years)
- Liquidity and budgetary risk related to variable rate debt or derivatives

## C. Debt management and financial impact/flexibility

- Debt service as % of total operating expenditures

## D. Other long-term commitments and liabilities

- Pension funding ratio
- Other post-employment benefits (OPEBs)

*Source: Rating Methodology (October 2009) Moody's U.S. Public Finance – General Obligation Bonds Issues by U.S. Local Governments*

## New Developments

### Rating agencies are reacting to pressure to increase rating transparency

- **Standard & Poor's**
  - Proposed new GO rating methodology and request for comments released earlier this month
  
- **Moody's**
  - Updated GO methodology scheduled for later in 2012
  - Water/Sewer methodology: Expect update to methodology in 2012