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Summary:

King County Fire Protection District No. 16 (Northshore), Washington; General Obligation

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Credit Profile

King Cnty Fire Prot Dist No. 16 Northshore GO bnds

Long Term Rating

AA+/Stable

Affirmed

Rationale

S&P Global Ratings affirmed its 'AA+' long-term rating on King County Fire Protection District No. 16 (Northshore), Wash.'s unlimited-tax general obligation (GO) bonds. The outlook is stable.

The district's full faith and credit, including an unlimited ad valorem property tax pledge, secures the bonds.

The rating reflects our view of the district's:

- Taxing area in the Seattle region that shows very strong income and wealth indicators,
- Demonstrated voter approval for tax and fee overrides to support operations,
- Maintenance of very strong operating reserves and significant reserves for potential capital liabilities, and
- Use of a long-term forecasting model and minimum reserve policy to guide budgeting decisions.

Partially offsetting these strengths, in our view, is the district's financial reporting framework, with audits released every two years on a cash basis of accounting. We believe that less-than-annual reporting and the lack of accrual measures makes information on the district's financial condition less transparent than what is common among other public entities with debt that we rate in the U.S.

The district provides fire services to about 36,000 residents in an established suburban area located just northeast of Seattle, including the cities of Kenmore and Lake Forest Park. The district's economy is connected to the broad and diverse economic base of the Seattle-Tacoma metropolitan statistical area and has mirrored, to a certain extent, trends in population, employment, and assessed value (AV). As a result, we consider the district's income indicators to be very strong, as demonstrated by median household effective buying income (EBI) at 155% of the national level and per capita household EBI at 148%. In addition, the district's 2016 market value per capita of roughly \$170,000 is extremely strong, in our view. The county unemployment rate, which we believe is representative of the district's footprint, is trending lower than the Washington state and national level.

The district's tax base had been declining, with collection year 2013 the fourth consecutive year of contraction, by 1.8% to \$4.6 billion. The AV decline was connected to the economic recession and mirrored regional declines within the Seattle MSA. Since fiscal 2013, the district's property tax base posted significant growth as AV grew by 30% or \$1.4 billion. Most recently, the district posted a very strong 8.5% AV growth in fiscal 2016 to its current level of \$6 billion. Looking ahead, we expect the district's AV trend to be at least stable within our two-year outlook horizon as our U.S.

State And Local Government Credit Conditions Forecast calls for continued growth within urban environments similar to that of the district's tax base.

We view the district's financial position as very strong, reflecting a willingness to adjust expenditures and revenue flexibility stemming from a voter-approved fire benefits charge. The district's available financial position on a cash basis of accounting, including its reserve fund, is relatively stable around 146% of general fund expenditures, or about \$12 million. This is well above the district's policy of maintaining 50% of general fund expenditures in its general and reserve funds combined. The State Auditor's Office, which performs most local government audits in the state, releases audits on the district every two years about 14 months after the end of the reporting period, and we anticipate that the audit for 2015 will be released in about February 2017 as part of the audit of 2014 and 2015.

Supporting the district's strong performance is a revenue structure weighted toward property taxes, which accounts for about 60% of general fund revenues and fire benefit charges, which accounted for about 34% of general fund revenues. The district's property tax rate reached its maximum \$1 per \$1,000 of AV under state law in 2012 following a period of AV declines, a situation that could have positioned the district for potentially significant property tax revenue declines should AV had fallen. The district has more control over its fire benefit charges, which date from 1989 and for which voters approved a renewal in April 2013. Looking ahead, we expect the district's financial performance and budgetary flexibility to remain at least stable.

Combined direct and overlapping debt supported by district taxpayers is, in our opinion, moderate, at \$4,754 per capita and low at 2.8% of market value. Carrying charges are moderate, in our opinion, at 13.3% of government-wide noncapital expenditures for 2015. The district has no significant facility capital needs and does not plan to issue additional debt for the foreseeable future. The district participates in defined-benefit pension plans managed by the state's Public Employees' Retirement System and Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System. Its contributions in 2015 totaled \$261,000 (unaudited), or about 2.7% of total governmental fund expenditures.

Outlook

The stable outlook reflects our view that the district has entered a period of lessening budgetary pressure following lack of significant expenditures and rising AV levels, which have relieved downward pressure on property tax revenue.

Upside scenario

We could raise the rating within the two-year outlook horizon in the unlikely event that the district's underlying economy significantly grow, increasing cash basis available fund balances to higher-than-historical levels.

Downside scenario

Should the district post concurrent years of operating deficits, fall out of compliance with its minimum reserve policies, or engage in significant fund-supported spending programs, we could lower the rating.

Related Research

U.S. State And Local Government Credit Conditions Forecast, Oct. 25, 2016

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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