

RatingsDirect®

Summary:

Sedro-Woolley, Washington; General Obligation

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Credit Profile

Sedro-Woolley GO

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' rating on Sedro-Woolley, Wash.'s existing unlimited-tax general obligation (UTGO) refunding bonds, based on its local GO criteria released Sept. 12, 2013. The outlook is stable.

The GO bonds are full faith and credit obligations of the city, including the obligation to levy ad valorem property taxes without limitation as to rate or amount.

The rating reflects our opinion of the following factors:

- We view the city's economy as adequate, with projected per capita income at 86.6% of the U.S. level and market value per capita at \$132,650. The city serves a 10,600-resident community just east of Interstate 5 and midway between Seattle (60 miles to the south) and Vancouver (80 miles to the north). The city's local economy is somewhat limited and historically based in wood processing. Assessed value grew 2.1% over the past year after declining about 3.8% in 2013.
- In our view, Sedro-Woolley's management conditions are strong with "good" financial practices under our Financial Management Assessment methodology, indicating our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Strengths include monthly budget-to-actual reports, monthly investment reports, and a formal reserve policy of 8% of beginning year's cash. However, the city has neither a formal debt management policy nor formal ongoing long-term financial planning.
- Sedro-Woolley's budgetary flexibility is, in our opinion, adequate when taking into account the city's cash accounting basis and possible draw on reserves for 2014, which we view as a credit weakness. However, its available fund balance for fiscal 2013, based on unaudited actuals, has strengthened to \$1 million or 22% of operating expenditures, up from 18% in 2012 and 13% in 2010 mitigating some of our concerns about the current budget.
- What we view as very strong liquidity supports Sedro-Woolley's finances, with total government available cash to government fund expenditures and cash to debt service above 15% and over 120% of 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.
- In our view, Sedro-Woolley's budgetary performance is adequate overall, with a surplus of 3.9% for the general fund and a surplus for the total governmental funds in fiscal 2013. While performing with surpluses for 2013, the 2014 budget shows a deficit and management notes that several expenditures in 2014 are higher than in previous years. According to management, the results for 2015 are expected to be balanced if the economy should continue its current performance. In our opinion, given the possibility that deficits could continue depending on revenue brings us to our assessment of adequate budgetary performance.

- Sedro-Woolley's debt and contingent liabilities profile is, in our view, adequate. Net direct debt is 40% of total governmental funds revenue and total governmental funds debt service is 7.3% of total governmental funds expenditures.
- The city participates in the Washington State Department of Retirement Systems, cost-sharing, multiple-employer, defined-benefit and defined-contribution public employee retirement plans. Last year, Sedro-Woolley contributed 100% of its annual required pension contribution. The annual pension and other postemployment benefit costs account for 7.5% of the total government expenditures in fiscal 2013.
- We consider the Institutional Framework score for Washington cities adequate.

Outlook

The stable outlook reflects our opinion of Sedro-Woolley's sound financial flexibility, further supported by its very strong liquidity position. We do not expect to change the rating within the outlook's two-year period, but should management be unable to maintain balanced operations and draw reserves down, leading to significantly weakened budgetary performance, we could lower the rating. Conversely, although unlikely, if the economy were to diversify, coupled with additional comfort that financial operations and reserves remain at levels we consider very strong, we could raise the rating.

Related Criteria And Research

Related Criteria

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

Related Research

- Institutional Framework Overview: Washington Local Governments

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