CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration

Date: June 9, 2020

Subject: GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) CERTIFICATE OF ACHIEVEMENT FOR FINANCIAL REPORTING 2018 & CITY DEBT CREDIT RATINGS ASSIGNED

RECOMMENDATION

Mayor Penny Sweet will present the Government Finance Officers Association (GFOA) Certificate of Achievement for Financial Reporting for the City's 2018 Comprehensive Annual Financial Report.

Council receive the latest report on the City's credit ratings assigned to the 2010 Build America Bonds (BAB's) refunding.

BACKGROUND DISCUSSION

GFOA Certificate of Achievement for Financial Reporting

The City has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Award for the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2018. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents significant accomplishment by the City thanks to the diligent work of Maggie Eid, Accounting Supervisor and all members of accounting staff and the support of City Management and City Council. The City of Kirkland has received this award annually since 2004. The Press Release and the GFOA Certificate of Achievement follow this memo as Attachments A and B.

Update on City's Credit Ratings

The City Council approved the refunding (refinancing) of the 2010 Build America Bonds which financed the purchase and construction of the Kirkland Justice Center at the April 7, 2020 Council meeting. The refunding will save over $4 million, about $235,000 each year, in interest costs for the remaining 20 year life of the debt. This is a net present value of over 15% of the refunded amount.

As part of the process, the City requested two nationally recognized statistical rating organizations, Standard & Poor's (S&P) and Moody's and to provide their credit rating for this debt refunding. Each agency has affirmed its current bond rating for the City: AAA from S&P and Aaa from Moody's, which are the highest ratings for each agency.

Here is an excerpt from the Standard & Poor's Rating Report:

"We view the city as showing very strong budgetary performance, with positive general fund and total governmental fund results in the past three audited years. Although the city will wrestle with the effects of the COVID-19 pandemic and recession on revenue and operations, we believe that the city's policies and practices have positioned it well to navigate what is likely to be near-term budgetary stress. The city has maintained a trend of very strong available reserves that we believe it will sustain, despite a challenging revenue environment."

Moody's Rating Action statement made similar positive statements:

"The Aaa issuer and GOLT ratings are driven by the city's strong financial management that has led to healthy reserves that will protect the city against expected revenue declines in the near term. Also considered were the city's modest debt burden and manageable pension liabilities."

"We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Despite being one of the first places to experience an outbreak in the United States, the City of Kirkland has put itself in a great position to absorb the negative impacts of the outbreak and government response."

"The stable outlook reflects our expectation that the city will maintain its strong financial profile despite the projected revenue declines from the coronavirus pandemic. The stable outlook also reflects our anticipation that after some near-term slowing that the city's local economy will return to growth in the long-run."

The rating action reports follow this memo as Attachment C – S&P and Attachments D and E – Moody's Rating Action and Credit Opinion.

Attachment A

GOVERNMENT FINANCE OFFICERS ASSOCIATION

NEWS RELEASE

FOR IMMEDIATE RELEASE

03/12/2020

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(Chicago, Illinois)--The Certificate of Achievement for Excellence in Financial Reporting has been awarded to **City of Kirkland** by Government Finance Officers Association of the United States and Canada (GFOA) for its comprehensive annual financial report (CAFR). The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

An Award of Financial Reporting Achievement has been awarded to the individual(s) or department designated by the government as primarily responsible for preparing the award-winning CAFR.

The CAFR has been judged by an impartial panel to meet the high standards of the program, which includes demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story and motivate potential users and user groups to read the CAFR.

Government Finance Officers Association (GFOA) advances excellence in government finance by providing best practices, professional development, resources and practical research for more than 20,500 members and the communities they serve.

Attachment B

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kirkland

Washington

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

December 31, 2018

Christopher P. Morrill

Executive Director/CEO

S&P Global
Ratings

RatingsDirect®

Kirkland, Washington; General Obligation

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Kirkland, Washington; General Obligation

Credit Profile		
US$26.9 mil ltd tax GO rfdg bnds ser 2020 dtd 07/01/2020 due 12/01/2040		
Long Term Rating	AAA/Stable	New
Kirkland ltd tax GO bnds		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Kirkland, Wash.'s $26.9 million limited-tax refunding general obligation (LTGO) refunding bonds, series 2020. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's GO debt outstanding. The outlook is stable.

The bonds are secured by the city's full faith and credit, including the obligation to levy ad valorem taxes subject to statutory limitations that include a maximum regular levy rate of $3.49 per $1,000 of assessed value (AV) under current conditions (the city's regular levy rate in 2020 is $0.99), and a limitation on property tax revenue growth to 1% per year, excluding new construction). The rating is equal to our view of the city's general creditworthiness, as obligor, because the limitations do not narrow the tax base or limit the fungibility of property tax revenue for different uses.

Credit profile

We view the city as showing very strong budgetary performance, with positive general fund and total governmental fund results in the past three audited years. Although the city will wrestle with the effects of the COVID-19 pandemic and recession on revenue and operations, we believe that the city's policies and practices have positioned it well to navigate what is likely to be near-term budgetary stress. The city has maintained a trend of very strong available reserves that we believe it will sustain, despite a challenging revenue environment.

S&P Global Economics reports that the COVID-19 pandemic has caused the national economy to fall into a recession (see "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020 on RatingsDirect) and "All U.S. Public Finance Sector Outlooks Are Now Negative" (published April 1, 2020). S&P Global Economics now forecasts U.S. GDP will contract 5.3% in 2020 and a historic (annualized) decline of almost 35% in the second quarter 2020, given U.S. economic activity has effectively stopped.

The city has a plan to address an estimated revenue shortfall of $10.8 million or 7% of projected expenditures for fiscal 2020, and an estimated shortfall of $5.2 million or 3% of estimated expenditures for fiscal 2021. After discussions with management, we believe that the city's plan to address this anticipated shortfall is reasonable and that it can adopt it quickly without the need to reduce staff or existing services.

The city, incorporated in 1905, has experienced significant growth as a residential community linked to the Seattle-Tacoma-Bellevue metropolitan statistical area (MSA). Kirkland is a suburban city with a population of 88,940 near several major transportation routes including Interstate 405 (I-405), State Route 520, and I-5. Overall, the

Washington State economy continued to expand in 2018, adding jobs, growth in sales tax, and increases in permitting activity. For fiscal 2018, the city finished the year with a surplus of 10.1% or about $10 million. Sales tax performance strengthened in 2018 due to improved economic conditions. The city benefits from a 10-year state annexation sales tax credit, which generates about $4 million annually through 2021. For fiscal 2019, the city finished with a surplus of 17% based on the city's estimated actuals. For fiscal 2020, the city has identified expenditure contingencies to make up for any shortfall and expects to continue to support its very strong financial position throughout the near-term. The stable outlook reflects our view of the city's improved financial performance, and our expectation the city will maintain credit quality in the near term, given its prudent management and significant reserve and liquidity position.

The rating further reflects our opinion of the city's:

- Very strong economy, with projected per capita effective buying income (EBI) at 215% and market value per capita of $354,892, that is gaining advantage from access to a broad and diverse MSA;
- Good management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2018, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with available reserves at more than 30% of general fund expenditures for the past three years, which we anticipate will continue;
- Very strong liquidity, with total government available cash at 64.5% of total governmental fund expenditures and 21.6x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.0% of expenditures and net direct debt that is 21.4% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Adequate institutional framework score.

Our outlook reflects our view that the COVID-19 pandemic's impact on the city's economy and budgetary performance is a social rating factor that is an elevated risk relative to the sector standard. Absent the implications of COVID-19, we consider the city's ESG risk to be in line with our view of the sector standard although Western Washington State faces elevated wild fire risks.

Stable Outlook

Downside scenario

Should the city's budgetary performance and flexibility materially weaken or should the city experience a significant weakening in the economy, including an elevated unemployment rate, we could lower the rating.

Credit Opinion

Very strong economy

The city serves an established suburban area 18 miles northeast of Seattle, along the jobs-rich I-405 corridor and near the main Microsoft campus, and participates in the broad and diverse Seattle regional economy. The city's 88,940-resident economic base has a projected per capita EBI of 215% of the national level, which we view as extremely high and a positive credit factor and per capita market value of $354,542. Overall, the city's market value grew 17.0% over the past year to $29.5 billion in 2018. The county unemployment rate was 2.8% in 2019, but is likely to rise significantly in 2020 due to the recession. The city does not have a concentration in its top 10 taxpayers.

Good management

We have revised our opinion of city's management practices to good from strong under our FMA methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. The revision reflects our view that although the city's long-term financial planning practice is quite supportive of credit quality, the city's long-term financial plan doesn't provide enough disclosure about the individual line items and evidence was insufficient to support that the city uses more than straight line assumptions (i.e., putting percentage growth each year) in developing its plan. Highlights include:

- Use of trend analysis of the last three-to-five years for each source, coupled with economic factors, and the use of an outside firm to look at sales taxes generated in each different sector and by geography;
- The council is updated formally with budget-to-actual results every quarter and can request to be updated monthly on the entire financial operations or in specific areas;
- Annual updates to a five-year financial forecast;
- In annually updated six-year capital improvement plan, which is guided by formal capital management policy and identifies available funding sources for projects;
- Adherence to a formal investment policy, with review of investment holdings and earnings at least quarterly by the city council;
- Formal, comprehensive debt management policies; and
- A formal reserve policy requiring a 5% stabilization fund balance reserve, with which the city has historically remained in compliance.

Adequate budgetary performance

The City of Kirkland's budgetary performance is adequate, in our opinion, with operating results that we expect could deteriorate in the near term relative to fiscal 2018, which closed with an operating surplus in the general fund and at the total governmental fund level. The city had operating surpluses the past three audited fiscal years, and surplus results across all governmental funds of 9.2% in fiscal 2018 and, based on estimated 2019 actuals using a cash basis of accounting, the city finished the fiscal year with an operating surplus of 17.1% for all governmental funds. Our assessment accounts for the fact that we expect budgetary results could deteriorate from 2018 results in the near term.

The original fiscal 2020 budget called for positive general fund operations, however, due to the COVID-19 pandemic and related stay-at-home orders, we expect significant changes from the original budget although we believe the city will maintain positive operations. City management has been updating its revenue projections as new information becomes available. The city expects revenue declines in both fiscal years 2020 and 2021, which officials forecast may be down $10.8 million or 7% of estimated expenditures for the year. The city projects a shortfall of $5.2 million or 3% of estimated expenditures for fiscal 2021. Management was swift to act in reducing its expenditures by implementing measureable cost savings strategies such as the use of previous years unallocated fund balance and implementing a hiring freeze. We believe that the city has additional capacity to reduce expenditures given if needed without the need to reduce services given its extremely strong budgetary flexibility.

Very strong budgetary flexibility

Kirkland's budgetary flexibility is very strong, in our view, with available reserves at more than 30% of general fund expenditures for the past three years, which we anticipate will continue. The 2018 available general fund balance was approximately $54.3 million, or 54% of adjusted general fund expenditures. The overall general fund revenues increased due to sales tax, permit fees, and investment interest increases.

The city has seen its reserves grow considerably over the past decade and currently has very high reserve balances when compared with those of its peers. Given past performance and discussions with management, we believe available reserves will exceed 30% of expenditures in the next several years, but we think reserves could decline in the near term as the city contends with recessionary revenue effects.

Very strong liquidity

In our opinion, Kirkland' s liquidity is very strong, with total government available cash at 64.5% of total governmental fund expenditures and 21.6x governmental debt service in 2018. Not included in this calculation are significant additional resources that would likely be liquid in practice, as they are invested in treasuries and agencies.

We expect the current liquidity levels will not likely fall below our very strong liquidity thresholds in the coming years even if performance weakens. In our view, the city has strong access to external liquidity if necessary due to its track record in the past 20 years of issuing bonds. Finally, the city's excess cash and investments are held in high-grade securities regulated by the city's investment policy, and we do not consider its investment exposure aggressive.

Very strong debt and contingent liability profile

In our view, Kirkland's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.0% of total governmental fund expenditures, and net direct debt is 21.4% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, which is in our view a positive credit factor.

The city is currently considering placing fire-levy ballot measures for the November 2020 election cycle and may include an excess levy to pay for debt service in unlimited-tax GO bonds, which would be issued in the approximate amount of $70 million to pay for costs related to building and upgrading various city fire stations and apparatus. Kirkland is also considering issuing approximately $7.5 million in LTGO bonds to pay for costs related to infrastructure improvements at The Village at Totem Lake.

In our analysis, we account for the city's future debt plans, which are dependent on voters' approval. We do not believe that future debt plans will materially weaken the city's financial or budget flexibility, especially given the fact that the city's overall debt burden is low.

Pension and other postemployment benefits

- We do not believe that pension and other postemployment benefits (OPEB) liability present a significant budgetary pressure at this time, as carrying charges remain manageable.
- The pension plans that the city participates in are relatively well funded, and we believe this could lead to cost pressures, even as the city consistently fully funds its required contributions.
- City employees participate in a cost-sharing multiple-employer defined benefit health insurance premium benefit plan and long-term disability plan (OPEB), which the city funds on a pay-as-you-go basis.

The city participates in the following plans funded as of June 30, 2018:

- Public Employees' Retirement System (PERS) Plan 1: 95% funded and net pension liability of $11.0 million;
- PERS Plan 2/3: 95% funded and net pension liability of $5.0 million;
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2/3, which have surplus funded ratios; and
- The Western Conference of Teamsters Pension Plan (WCTPP), which does not report a net pension liability, but represents a modest portion of the city's annual pension contributions.

Kirkland's combined required pension and actual OPEB contributions totaled 4.4% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

Despite being below the actuarially determined contribution (ADC), 2019 PERS 2/3 and LEOFF 2 contractually required contributions (CRCs) exceeded both static-funding and minimum-funding progress, indicating our view of timely progress in reducing pension liabilities. The CRCs, which are developed using the same approach as the ADCs, are not updated following passage into law biennially and so can diverge from the annually updated ADCs. However, because CRCs determine funding requirements using an approach that approximates 10-15 year level percent open amortization, timely progress on reducing liabilities is still made even when ADCs increase above CRCs and so we believe costs will likely remain stable. However, the plan's 7.4% discount rate increases contribution volatility.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to Kirkland, WA's 2020 LTGO refunding bonds; outlook stable

02 Jun 2020

New York, June 02, 2020 -- Moody's Investors Service has assigned a Aaa rating to the City of Kirkland, Washington's Limited Tax General Obligation Refunding Bonds, 2020 in the expected amount of $23.8 million. Moody's maintains a Aaa issuer rating and Aaa ratings on the city's $33.9 million in outstanding general obligation debt. The outlook is stable.

RATINGS RATIONALE

The Aaa issuer and GOLT ratings are driven by the city's strong financial management that has led to healthy reserves that will protect the city against expected revenue declines in the near term. The Aaa also reflects the city's large and affluent Puget Sound tax base that we anticipate will continue to expand in the long-term. Also considered were the city's modest debt burden and manageable pension liabilities.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Despite being one of the first places to experience an outbreak in the United States, the City of Kirkland has put itself in a great position to absorb the negative impacts of the outbreak and government response. We do not see a current material credit risk though longer-term impacts will become clearer as the outbreak continues and if our view of the credit impact changes will update our opinion at that time.

The lack of rating distinction between the issuer and GOLT bonds reflects the strength of full faith and credit pledges in Washington, which Moody's generally rates at the same level as the issuer, or GOULT-equivalent, rating.

RATING OUTLOOK

The stable outlook reflects our expectation that the city will maintain its strong financial profile despite the projected revenue declines from the coronavirus pandemic. The stable outlook also reflects our anticipation that after some near-term slowing that the city's local economy will return to growth in the long-run.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- N/A

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Material deterioration of the city's reserve position

- Contraction of the city's tax base

LEGAL SECURITY

The issuer rating is equivalent to a rating that we would assign to a typical general obligation unlimited tax (GOULT) debt issue and is used as a reference rating for other securities.

The outstanding GOLT bonds are secured by the city's pledge of its full faith, credit and resources to repayment of the bond.

USE OF PROCEEDS

The 2020 bonds will be used to refunding, for savings, the city's outstanding limited tax general obligation bonds, series 2010 (Taxable Build America Bonds - Direct Payment).

PROFILE

Kirkland is an affluent community in King County (Aaa stable) on the eastern shore of Lake Washington northeast of Seattle (Aaa stable) and north of Bellevue (Aaa stable). The city covers 18 square miles and serves approximately 89,000 residents.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in September 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1191097. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
3 June 2020

Rate this Research

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Kirkland (City of) WA

Update to credit analysis

Summary

Kirkland, WA (Aaa stable) is supported by a rapidly expanding tax base that benefits from its inclusion in the greater Puget Sound economy. The city socioeconomic profile is healthy with high wealth levels and low unemployment. The city's well-managed finances have resulted in consistently positive operations and growing reserves that supply considerable operational flexibility and security. Debt and pensions are modest and manageable, and positively the city contributes above our calculated tread water indicator, or the amount of contributions required to maintain the same net pension liabilities under reported assumptions.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Despite being one of the first places to experience an outbreak in the United States, the City of Kirkland has put itself in a great position to absorb the negative impacts of the outbreak and government response. We do not see a current material credit risk though longer-term impacts will become clearer as the outbreak continues and if our view of the credit impact changes will update our opinion at that time.

Credit strengths

» Strong financial profile characterized by strong reserve levels

» Robust financial policies

» Large Puget Sound tax base

» Strong socioeconomic indicators

Credit challenges

» Near term declines in revenue

» Economic turmoil driven by the coronavirus pandemic

Rating outlook

The stable outlook reflects our belief that the city has positioned itself well to weather the expected negative impacts from the coronavirus pandemic. Additionally, we believe that in the long term the city will continue to see healthy tax base and economic growth and that they will maintain their historically strong financial position.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Material deterioration of the city's reserve position

» Contraction of the city's tax base

Key indicators

Exhibit 1

Kirkland (City of) WA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$18,457,292	$20,253,433	$22,212,373	$25,234,643	$29,518,466
Population	83,320	84,721	85,812	86,772	88,079
Full Value Per Capita	$221,523	$239,060	$258,849	$290,816	$335,136
Median Family Income (% of US Median)	168.8%	170.2%	173.1%	176.2%	178.2%
Finances					
Operating Revenue ($000)	$102,167	$105,864	$115,669	$119,172	$134,858
Fund Balance ($000)	$37,321	$39,020	$46,308	$49,021	$58,752
Cash Balance ($000)	$41,477	$43,380	$49,466	$52,560	$70,953
Fund Balance as a % of Revenues	36.5%	36.9%	40.0%	41.1%	43.6%
Cash Balance as a % of Revenues	40.6%	41.0%	42.8%	44.1%	52.6%
Debt/Pensions					
Net Direct Debt ($000)	$41,755	$44,285	$42,178	$40,004	$37,786
3-Year Average of Moody's ANPL ($000)	$95,858	$135,057	$164,096	$171,454	$159,961
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.1%
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.4x	0.3x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.5%	0.7%	0.7%	0.7%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.9x	1.3x	1.4x	1.4x	1.2x

Source: City of Kirkland and Moody's Investors Service

Profile

Kirkland is an affluent community in King County (Aaa stable) on the eastern shore of Lake Washington northeast of Seattle (Aaa stable) and north of Bellevue (Aaa stable). The city covers 18 square miles and serves approximately 89,000 residents.

Detailed credit considerations

Economy and tax base: Large and growing Puget Sound tax base; strong socioeconomic indicators

The city's tax base is a credit strength despite our expectation for some near-term weakness because of the coronavirus. Kirkland's large Puget Sound area tax base has grown at a rapid rate over the past several years, and though we anticipate some slowdown in the face of the coronavirus pandemic in the long term the city's growth is likely to continue. The city of Kirkland was the epicenter for the first known outbreak of the coronavirus, but the city's quick response to curtail the outbreak should help in the recovery process. Located northeast of downtown Seattle across Lake Washington, the city is predominantly residential with a developing commercial presence. Downtown Kirkland has seen major development over the last several years with the large Kirkland Urban mixed use development, the building of Wave Broadband's headquarters and a major Google office. These companies are adding high value employment to the city which has traditionally seen the majority of its residents commute to Redmond (Aa1), Bellevue and Seattle for work.

Socioeconomic indicators are well above average within the city with a median family income of 178.2% of the US and full value per capita of $358,000 in 2020.

We expect full value growth may slow or decline in over the next few years because of economic turbulence created by the coronavirus though we expect growth to resume over the long-run. Full value grew to $31.5 billion in 2020 which represents a healthy 7.1% growth over 2019 and has approximately tripled in size since 2011. Growth has been driven by a mix of both residential and commercial development. The city's tax base is diverse, with the 10 largest taxpayers representing just 5.1% of 2019 assessed value.

Financial operations and reserves: strong budget management and robust reserves will sustain city through pandemic

The city of Kirkland has a very strong financial profile that has been bolstered over the last few years by strong policies and fiscal management. Despite expected declines in revenue, we anticipate that the city has ample resources and capable management to weather the current crisis while maintaining its strong financial profile.

Total available operating fund balance (general, special revenue and debt Service funds) improved in fiscal 2018 to $58.8 million or 43.6% of revenue as a result of the year end surplus of $17.5 million (2.7% of revenue). The operating surplus is net of a $8.7 million transfer out to various reserve and contingency funds as well as put reserves away from one-time capital needs. The city maintains robust reserves outside of the general fund that could be available for operations should the need arise. Current fiscal year 2018 projections point to further additions to fund balance conservatively projecting $2 million in the general fund. The positive year end results stem from the conservative budgeting and management's disciplined commitment to adhere to stated policies. Unaudited fiscal year 2019 general fund results we positive showing a $16.4 million surplus resulting in a very robust 61.8% total general fund balance. The city's policy of putting aside excess revenue for one-time purposes has led to a very robust reserve position.

Despite expectations of revenue declines in fiscal year 2020, the city has begun to make expenditure adjustments and expects to end the year without relying in reserves to balance its budget. In response to a projected shortfall of $10.8 million in revenue in 2020 the city has begun a hiring freeze and deferral of some nonessential capital spending. Along with these expenditure reductions, the city's conservative policy of modified two year lag sales tax revenue budgeting should blunt some of the anticipated revenue declines. The city is expecting revenue to continue to come in weak in 2021 but believes that it has enough expenditure flexibility limit the need to use reserves. The city has traditionally been diligent about matching ongoing revenue to expenditures thus future budgets will not rely on new revenue to offer the same level of services. The city's adherence to its budget principals should allow it to maintain its healthy financial position even with the expectation of a weakened revenue picture.

The overall revenue picture is diverse with the city collecting 27.6% from charges for services, 21.9% sales tax (including the annexation sales tax that sunsets in 2021) and 20.8% from property taxes.

LIQUIDITY

The city has a strong cash position with current liquidity levels at $45.2 million or 40.2% of operating revenue. Cash levels will remain at similar levels going forward as the city continues to prudently manages its cash flow.

Debt and pensions: Modest debt burden and pension liability

The city's debt burden is modest at 0.1% of 2019 full value and 0.2 times operating revenue and we anticipate it will stay relatively modest given limited future debt plans. Current plans call for approximately $13.0 million of debt with a portion expected to be paid from real estate excise taxes. Future debt for fire department capital is also being discussed but would only be issued if the city passes a proposed fire department levy in the next election.

DEBT STRUCTURE

All of the city's debt is fixed rate and matures in 2040.

DEBT-RELATED DERIVATIVES

The city has no debt-related derivatives.

PENSIONS AND OPEB

The city has a modest and manageable pension liability that should not be a major drag on the city's future credit profile. The city participates in the Department of Retirement Systems (DRS) a cost-sharing, multiple-employer and defined benefit retirement plan sponsored by the state. According to Moody's approach to evaluating pension liabilities, the district's three year adjusted net pension liability (ANPL) is modest at $159.96 million, representing 0.5% of full value or 1.2 times operating revenue.

The city favorably contributed more to their pension system in fiscal 2018 than would be required to maintain the same level of liabilities according to our calculation of the “tread water” indicator. This indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions. Contributions above this level cover all net pension liability interest plus the pay down of some principal; this is stronger from a credit perspective compared to contributions below this level.

The city has a modest adjusted OPEB liability of $15.2 million which will remain manageable going forward.

ESG considerations

Environmental

Environmental considerations are not material drivers of the city's credit rating.

Social

Social considerations are generally positive for Kirkland, including above-average wealth and income and a growing population. We regard the coronavirus outbreak as a social risk as it relates to health and safety, though we expect minimal long-term risk overall for Kirkland compared to peers.

Governance

Washington cities have an institutional framework score of “Aa,” or strong. Although cities depend on economically sensitive tax revenue (sales, business and occupation), post-recession collections have been strong, making revenue moderately predictable. Cities have a moderate ability to increase property taxes by 1% annually, subject to state statutory limits. Expenditures primarily consist of public safety costs, which are highly predictable. Expenditure-reduction ability is moderate because of modest fixed costs. Cities also have the ability to make midyear budgetary reductions not related to public safety.

We consider the city's management team to be strong and adds considerable credit strength. City management has implemented strong financial policies and conservative budgeting that have led to the currently strong financial profile. The city has adopted robust reserve policies that protect the city against revenue fluctuations and provides resources for future one-time needs

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits

Exhibit 2

Kirkland (City of) WA

Scorecard Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$31,533,000	Aaa
Full Value Per Capita	$358,008	Aaa
Median Family Income (% of US Median)	178.2%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	43.6%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	17.4%	Aa
Cash Balance as a % of Revenues	52.6%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	25.0%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.1%	Aaa
Net Direct Debt / Operating Revenues (x)	0.2x	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.5%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.2x	A
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: US Census Bureau; Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454