

CREDIT OPINION

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City of Kirkland, WA

Update to credit analysis

Summary

[The City of Kirkland, WA](#) (Aaa) benefits from a very strong and growing economy with high property wealth, a robust financial position that is supported by a capable management team, growing diverse revenue streams, sound reserves and low leverage.

Credit strengths

- » Strong financial position demonstrated by robust reserves
- » Growing local economy with high resident incomes and property wealth
- » Low leverage

Credit challenges

- » Expenditure pressure associated with inflation
- » Moderate reliance on economically volatile sales tax revenue

Rating outlook

Moody's does not assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » N/A

Factors that could lead to a downgrade

- » Sustained decline in reserves below 40% of operating revenue
- » Increased leverage represented by a long-term liabilities ratio above 200%
- » Significant economic slowdown relative to the U.S. GDP

Key indicators

Exhibit 1

Kirkland (City of) WA

	2019	2020	2021	2022	Aaa Medians
Economy					
Resident income ratio (%)	165.9%	158.8%	154.4%	158.7%	170.6%
Full Value (\$000)	\$29,518,466	\$31,533,000	\$32,190,057	\$36,856,102	\$8,680,662
Population	89,438	91,146	91,656	92,015	36,119
Full value per capita (\$)	\$330,044	\$345,961	\$351,205	\$400,544	N/A
Annual Growth in Real GDP	5.6%	0.4%	7.6%	2.3%	4.9%
Financial Performance					
Revenue (\$000)	\$219,993	\$218,718	\$240,426	\$233,169	\$101,733
Available fund balance (\$000)	\$189,121	\$193,079	\$240,319	\$183,477	\$62,520
Net unrestricted cash (\$000)	\$247,344	\$246,850	\$301,681	\$281,711	\$88,880
Available fund balance ratio (%)	86.0%	88.3%	100.0%	78.7%	61.7%
Liquidity ratio (%)	112.4%	112.9%	125.5%	120.8%	91.1%
Leverage					
Debt (\$000)	\$44,879	\$43,054	\$76,077	\$73,359	\$68,781
Adjusted net pension liabilities (\$000)	\$155,062	\$220,417	\$161,322	\$102,672	\$105,726
Adjusted net OPEB liabilities (\$000)	\$16,008	\$15,091	\$13,550	\$11,677	\$11,674
Other long-term liabilities (\$000)	\$4,336	\$5,213	\$5,081	\$5,302	\$3,903
Long-term liabilities ratio (%)	100.1%	129.7%	106.5%	82.8%	258.2%
Fixed costs					
Implied debt service (\$000)	\$3,095	\$3,272	\$3,083	\$5,336	\$4,899
Pension tread water contribution (\$000)	\$2,091	\$1,602	\$1,855	-\$2,442	\$3,333
OPEB contributions (\$000)	\$603	\$760	\$612	\$588	\$503
Implied cost of other long-term liabilities (\$000)	\$299	\$316	\$373	\$356	\$262
Fixed-costs ratio (%)	2.8%	2.7%	2.5%	1.6%	11.2%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Seattle-Tacoma-Bellevue, WA Metropolitan Statistical Area [issuer specific] Metropolitan Statistical Area.

Sources: *US Census Bureau, Kirkland (City of) WA's financial statements and Moody's Ratings, US Bureau of Economic Analysis*

Profile

Kirkland is located 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 92,000 residents.

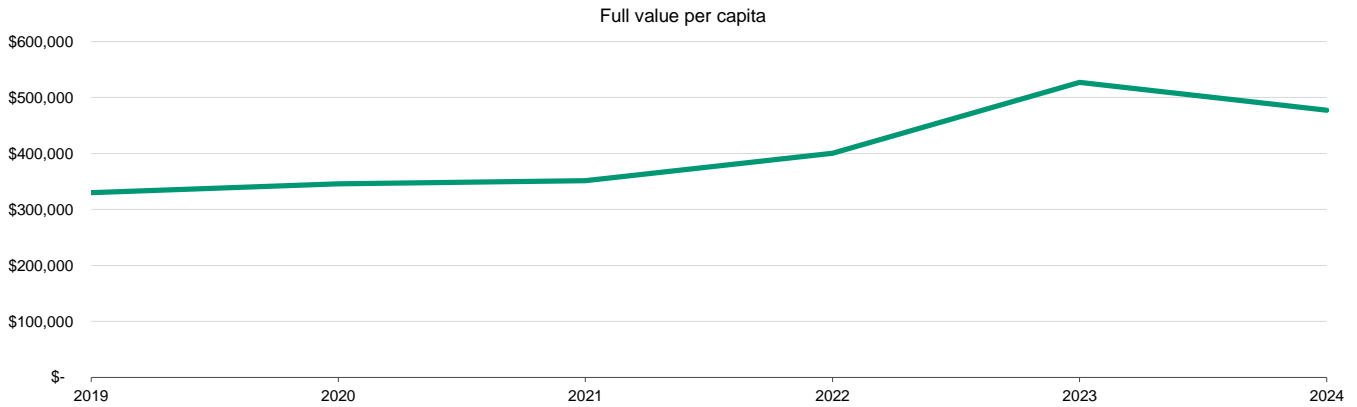
Detailed credit considerations

Kirkland's local economy is a credit strength that we anticipate will continue to grow with 4,000 residential units and 2.2 million square feet of commercial space either under construction or in the permitting process. Located northeast of downtown Seattle across Lake Washington, the city is predominantly residential with a developing commercial presence. Median household income is above-average at 158.7% of the US and full value per capita of about \$478,000 reflects significant property wealth.

The city's strong financial position will remain sound, supported by a capable management team, growing revenue streams and solid reserves. Management anticipates a general fund surplus of about \$8 million in fiscal 2023 and a similar result in fiscal 2024. As of fiscal 2022 the city had an available fund balance of \$183.5 million across governmental and business-type funds, equal to a strong 78.7% of revenue. Leverage is modest and will remain so given a lack of near-term capital needs requiring additional debt following the current issuance.

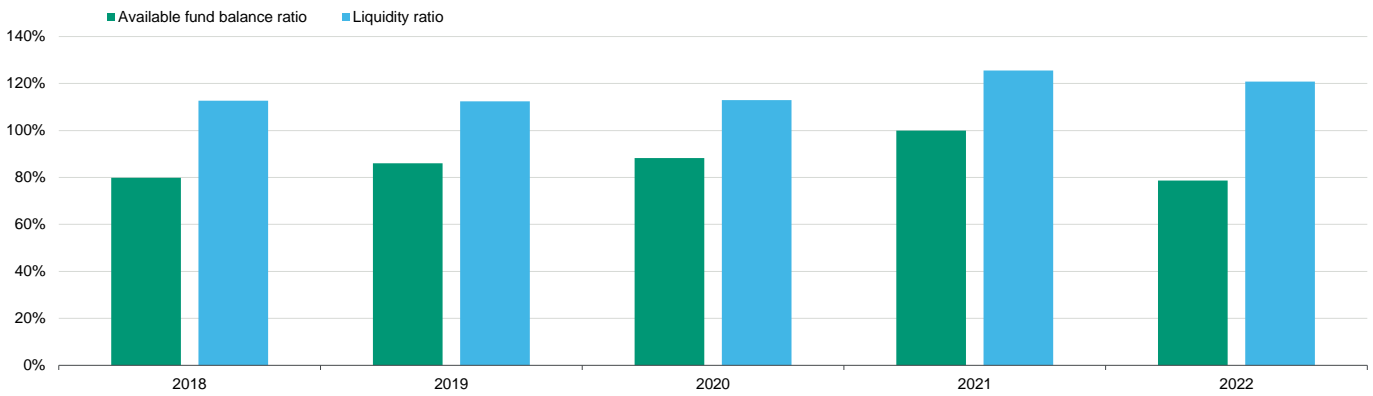
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

Exhibit 2
Full value per capita has increased with growth of residential and commercial property values



Source: Moody's Ratings

Exhibit 3
Reserves are very strong and will remain stable

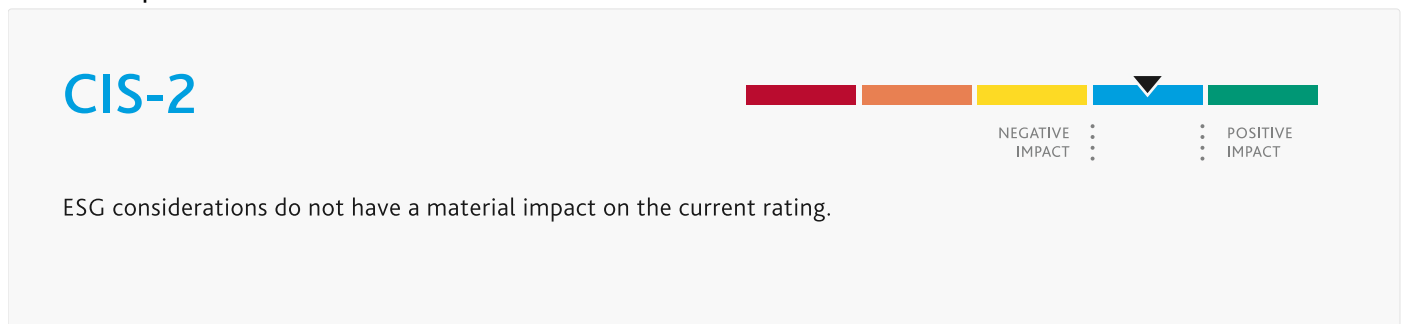


Source: Moody's Ratings; Issuer financial statements

ESG considerations

Kirkland (City of) WA's ESG credit impact score is CIS-2

Exhibit 4
ESG credit impact score

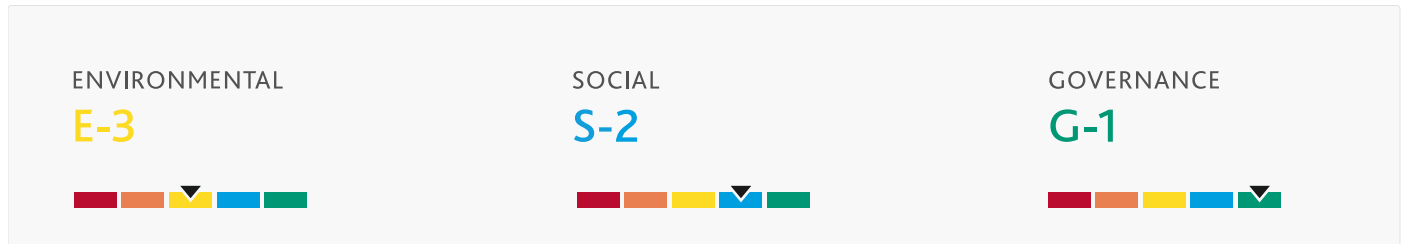


Source: Moody's Ratings

Kirkland's **CIS-2** indicates that ESG considerations are not material to the city's ratings, incorporating moderate exposure to environmental risks, solid social attributes and positive governance.

Exhibit 5

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The **E-3** score reflects moderate exposure to physical climate risks. Given its wooded location in central King County, the city's most pressing long-term environmental challenges are wildfire risk and heat stress, which could increase the risk of prolonged wildfire seasons.

Social

The **S-2** score indicates low exposure to social risks. The city benefits from strong net migration and the high educational attainment of its residents.

Governance

The **G-1** score reflects the strong institutional framework for the state's local governments, demonstrated policy effectiveness and solid budget management. Transparency and disclosure practices are typical as financial reporting is done on an annual basis.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

Kirkland (City of) WA

	Measure	Weight	Score
Economy			
Resident income ratio	158.7%	10.0%	Aaa
Full value per capita	477,585	10.0%	Aaa
Economic growth metric	2.5%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	78.7%	20.0%	Aaa
Liquidity ratio	120.8%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	82.8%	20.0%	Aaa
Fixed-costs ratio	1.6%	10.0%	Aaa
Notching factors			
Additional Strength in Local Resources	0.5		
Scorecard-Indicated Outcome			Aaa
Assigned Rating			Aaa

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Seattle-Tacoma-Bellevue, WA Metropolitan Statistical Area [issuer specific] Metropolitan Statistical Area to the five-year CAGR of real GDP for the US

Sources: US Census Bureau, Kirkland (City of) WA's financial statements and Moody's Ratings

Appendix

Exhibit 7

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Ratings

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