S&P Global
Ratings

RatingsDirect®

Summary:
Kirkland, Washington; General Obligation

Primary Credit Analyst:
Treasure D Walker, Englewood + 303-721-4531; treasure.walker@spglobal.com

Secondary Contact:
Brian Phuvan, San Francisco + 1 (415) 371 5094; brian.phuvan@spglobal.com

Table Of Contents

Summary:

Kirkland, Washington; General Obligation

Credit Profile		
US$37.595 mil ltd tax GO bnds ser 2024 dtd 04/11/2024 due 12/01/2044		
Long Term Rating	AAA/Stable	New
Kirkland ltd tax GO bnds		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its long-term 'AAA' rating on Kirkland, Wash.'s anticipated $37.5 million 2024 limited tax general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's existing GO debt.
- The outlook is stable.

Security

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 $3.34 per $1,000 of assessed value (AV) under current conditions (the city's regular levy rate in 2024 is $0.98159) and a limitation on property tax revenue growth to 1% per year, excluding new construction). The reduced limit from $3.60 per $1,000 of AV is due to the King County Rural Library District's 2024 levy of 26 cents per $1,000 of AV. 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. Proceeds from the 2024 LTGO bonds will finance or reimburse the city for the costs of acquiring, designing, constructing, developing, improving, equipping and furnishing certain transportation projects and city fire and public safety facilities.

Credit overview

Kirkland is an established suburban area 11 miles northeast of Seattle, along the jobs-rich Interstate 405 corridor and near the main Microsoft campus and participates in the broad and diverse Seattle regional economy. The local economy has continued to experience commercial, industrial, and residential development, but management officials report that there has been a slowdown in development as a result of elevated interest rates and inflation. However, officials confirm that the city has over 4,000 residential units and 2,200,000 square feet commercial space either in construction or in the permitting process. Recent major economic development projects include the expansion of Google office space and a multi-family mixed use development. While we recognize that elevated interest rates could create downward pressure on housing values and make it more difficult for developers to finance projects, we believe the city will continue to participate in the region's long-term housing demand growth.

Inclusive of our quantitative adjustments for one-time interfund transfers, the city finished fiscal 2022 with a deficit in the general fund and across the total governmental fund, largely due to a one-time transfer out related to capital projects and rising personnel costs. For fiscal 2023, we expect the city to finish the year with near balanced operations based on its six-year general fund forecast and conservative assumptions. The city's largest revenue sources include property taxes (34%), sales taxes (32%), and excise taxes (12%). We note that the city's sales tax modified two-year lag policy, sets 2023 and 2024 budgeted sales tax revenues equal to 2022 estimates.

General fund revenues have exceeded budgeted revenues by 3% for fiscal 2023 according to the city's latest financial management report. Based on the city's six-year forecast, the city is expected to finish fiscal year 2023 with a surplus while finishing fiscal 2024 with a deficit of 1.8%.

The city's reserves have grown considerably over the past decade, and it has very high reserve balances when compared with peers. Given past performance and discussions with management, we believe available reserves will exceed 30% of expenditures for several years.

In addition, we expect that cash and liquid investments will remain very strong and note that the city has private-placement debt in the form of its 2015 limited tax general obligation bonds; we have reviewed the documentation and the events of default and payment provisions are standard, so we do not believe they represent significant liquidity risk.

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

- Very strong local economy with employment opportunities throughout the Seattle-Tacoma-Bellevue metropolitan, with household incomes above the national average;
- Adequate budgetary performance, with operating results we believe will improve in the near term relative to fiscal 2022, as a result of increased tax revenues and the maintenance of very strong general fund reserves and liquidity;
- Strong management, with good financial policies and practices, including the use of trend analysis, coupled with economic factors to build budget assumptions; budget-to-actual reports provided to the council quarterly; six-year financial forecast; annually reviewed comprehensive capital improvement plan; updates on investment holdings and performance to the council quarterly; a formal reserve policy requiring a 5% stabilization fund balance reserve, with which the city has historically complied; and an adequate institutional framework score; and
- Very strong debt-and-contingent-liability profile, with no significant medium-term debt plans and manageable pension liabilities.

Environmental, social, and governance

We assessed the city's environmental, social, and governance factors relative to its economy, management, financial measures, and debt and liability profile and consider them to be neutral within our credit analysis. We view the city as facing elevated physical risk due to earthquakes, which could directly affect local economic activity. We believe seismic risks are partially mitigated by the state's strong building codes. We consider the city's social and governance factors neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that the city's economic fundamentals will remain very strong, and that its financial profile will remain stable supported by a strong management team that strives to maintain budgetary stability resulting in maintenance of the city's very strong reserves. Therefore, we do not expect to change the rating in the two-year outlook horizon.

Downside scenario

We could lower the rating if the city's budgetary performance becomes imbalanced, resulting in a material drawdown of its available reserves or liquidity.

Ratings above the sovereign

Kirkland is eligible for a rating higher than the sovereign because we think the city can maintain strong credit characteristics relative to the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the city has predominantly locally derived revenue with independent taxing authority and treasury management from the federal government.

Kirkland, Washington--key credit metrics

	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	233			
Market value per capita ($)	453,415	518,352	396,729	349,228
Population	96,920	93,570	92,900	92,175
County unemployment rate(%)		2.9	4.3	7.5
Market value ($000)	43,944,955	48,502,177	36,856,102	32,190,057
Ten largest taxpayers % of taxable value	5.2	4.0	5.2	5.9
Adequate budgetary performance				
Operating fund result % of expenditures		-1.3	4.7	5.2
Total governmental fund result % of expenditures		-8.8	5.2	-1.8
Very strong budgetary flexibility				
Available reserves % of operating expenditures		48.7	56.2	52.2
Total available reserves ($000)		69,589	74,076	66,095
Very strong liquidity				
Total government cash % of governmental fund expenditures		37	50	42
Total government cash % of governmental fund debt service		1322	2384	1638
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		2.8	2.1	2.6

Kirkland, Washington--key credit metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Net direct debt % of governmental fund revenue	60	39	37	24
Overall net debt % of market value	1.0	0.9	1.4	1.4
Direct debt 10-year amortization (%)	47	50	47	58
Required pension contribution % of governmental fund expenditures		3.1	3.3	3.7
OPEB actual contribution % of governmental fund expenditures		0.0	0.0	0.0
Adequate institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022