

## **FITCH RATES KING COUNTY, WASHINGTON'S, \$49.3MM LTGO BANS 'F1+'**

Fitch Ratings-San Francisco-15 October 2008: Fitch Ratings assigns a 'F1+' rating to King County, Washington's (the county) \$49.3 million limited tax general obligation (LTGO) bond anticipation notes (BANs), 2008.

Fitch also affirms the following ratings:

- \$251.4 million in outstanding unlimited tax GO bonds at 'AAA';
- \$1.4 billion in outstanding LTGO bonds at 'AA+';
- \$44 million in outstanding 2007 BANs (to be refunded fully by the 2008 BANs).

The 2008 BANs are expected to sell competitively on Oct. 20, 2008 and mature on March 1, 2009. The BANs are secured by the county's ad valorem tax pledge.

The above ratings reflect the county's sound economic base due to its role as a regional economic center, and its above-average wealth indicators, strong assessed valuation (AV) growth, and low taxpayer concentration. Management is excellent, as evidenced by sound fund balance levels, adherence to strong council-adopted financial management policies, and low debt burden. The rating also considers the county's property-tax dependence in a state with restrictive property tax levy growth limits.

While King County's employment base is dominated by the Boeing Company and Microsoft, increasing employment diversification is reducing the area's vulnerability to Boeing's cyclicality. Manufacturing is a declining percentage of total employment, while education, health, and leisure and hospitality services are increasing. Greater employment base stability was evidenced during the last recession when the county's unemployment rate peaked at 6.2% in 2003, well below levels experienced in prior economic downturns. Since then, the unemployment rate has improved markedly, remaining consistently below the state and national unemployment rates. However, in line with both the state and the nation, county unemployment rates have increased over the last year, rising to 4.4% in August 2008.

The county's financial operations benefit from strong management policies and practices, including the requirement that the undesignated fund balance equal at least 6% of estimated annual revenues. In fact, the county has consistently maintained higher balances. The fiscal 2007 ending general fund balance totaled \$140.6 million, a high 22% of total expenditures, transfers, and other uses. The unreserved and undesignated portion, \$90.0 million, also was strong at 14% of spending. There have been no general fund operating deficits in the last 10 years.

While fiscal 2008 results are projected to be lower than originally budgeted, the county continues to demonstrate its ability to constrain expenditure growth when necessary, budget conservatively, implement proactive budget initiatives to deal with future revenue pressures, and maintain prudent reserve policies. The county's solid financial management approach offsets much of Fitch's concerns about the statewide property tax levy limitation imposed by law following the Supreme Court ruling that Initiative 747's 1% annual property tax levy limit was unconstitutional. Also, Fitch notes that the county's dependence on property tax revenues declined to 40% of general fund revenues in fiscal 2007, from nearly 48% in fiscal 2003.

King County's debt burden is low, largely the result of the county's history of using cash funding over debt. Net direct debt is a low \$901 per capita or 0.5% of AV. Including overlapping debt, the burden remains moderately low at \$3,672 per capita or 2.0% of AV. The county plans to issue \$150 million of new LTGO bonds through the end of fiscal 2009. The county's debt ratios would remain affordable after such issuances.

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Fitch issued an exposure draft on July 31, 2008 proposing a recalibration of tax-supported and water/sewer revenue bond ratings which, if adopted, may result in an upward revision of the LTGO bond rating (see Fitch Research 'Exposure Draft: Reassessment of the Municipal Ratings Framework'). At this time, Fitch is deferring its final determination on municipal recalibration. Fitch will continue to monitor market and credit conditions, and plans to revisit the recalibration in the first quarter of 2009.

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Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, '[www.fitchratings.com](http://www.fitchratings.com)'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.