

Summary:

**Lakewood, Washington; General
Obligation**

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Credit Profile

US\$7.45 mil ltd tax GO bnds ser 2019 due 12/01/2038

<i>Long Term Rating</i>	AA/Stable	New
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Lakewood GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA' long term rating to Lakewood, Wash.'s 2019 limited-tax general obligation (GO) bonds. At the same time, we affirmed our 'AA' long-term rating on the city's outstanding GO debt. The outlook is stable.

The city's full faith and credit secures the bonds, including the obligation to levy ad valorem property taxes within statutory limitations. We do not rate any of the city's unlimited-tax GO debt; however, given the fungibility of the city's resources, and because pledged revenue is not measurably narrower or subject to disproportionate risks relative to the obligor's overall revenue, we rate the limited-tax GO debt on par with our view of the city's general creditworthiness. The city has approximately \$15.6 million in direct debt outstanding inclusive of the \$7.4 million series 2019 bonds. We understand bond proceeds will be used for various transportation projects.

The ratings reflect our assessment of the following factors:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2017, which closed with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 24% of operating expenditures;
- Very strong liquidity, with total government available cash at 43.9% of total governmental fund expenditures and 21.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.1% of expenditures and net direct debt that is 26.3% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 66.2% of debt scheduled to be retired in 10 years; and
- Adequate institutional framework score.

Strong economy

We consider Lakewood's economy strong. The city, with an estimated population of 59,350, is located in Pierce County in the Seattle-Tacoma-Bellevue MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 93.7% of the national level and per capita market value of \$116,761. Overall, the city's market value grew by 15.4% over the past year to \$6.9 billion in 2019. The county unemployment rate was 5.4% in 2017.

The city is located in Pierce County and is the second largest in the county covering an area of roughly 19 square miles. The city has benefitted from its strategic location between SeaTac International Airport and Olympia with the location spurring robust growth in the Puget Sound Area. In addition, the city has benefitted from military installation Joint Base Lewis-McChord and Camp Murray, which has an estimated 120,000 civilian and military personnel between both locations.

Some of the leading employers within the city include, Western State Hospital (2,300 employees), Clover Park School District (1,667), and Pierce College (1,131). We understand all leading employers within the city are stable. Overall, the city has seen robust growth in terms of assessed valuations over the last four years, increasing by 45.9%, or by a compound annual growth of 9.9% to current valuations in 2019. Management attributes the growth in recent years primarily to increase commercial developments. We understand that the city continues to see both residential and commercial developments and is expecting to see continued growth in assessed valuation in the upcoming years. Based on the trend, stabilizing military presence, and continued economic development, we view these expectations as likely.

Strong management

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key highlights include:

- A budget formation process that incorporates an internal analysis of historical revenue and expenditure trends;
- A biannual budget process with budget-to-actual reports produced every quarter and presented to the city council four times a year, with updated provided as needed throughout the biennium, though it is informally reviewed on a monthly basis;
- A six-year financial forecast--updated at least annually--that incorporates historical information as well as current economic activity to project revenues and expenditures;
- A six-year rolling capital improvement plan, updated annually as part of the budget process, that identifies all known revenue sources to support potential projects in the current year;
- A formal investment policy that details permitted instruments and portfolio objectives and includes monitoring requirements with quarterly presentation to council;
- A formal debt policy that includes some qualitative guidelines but lacks robust quantitative benchmarks; and
- A minimum reserve and fund balance policy of 12% of general fund and streets operations fund revenue, which partially includes a portion for cash flow purposes.

Strong budgetary performance

Lakewood's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 3.3% of expenditures, but a slight deficit result across all governmental funds of negative 1.3% in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could improve from 2017 results in the near term.

Based on historical performance and budgeting practices of the city, we believe it will likely maintain strong budgetary performance since it has consistently been able to outperform the budget and end with favorable operating results.

For fiscal 2017 (Dec. 31), the city's primary sources of revenue include taxes (70.4%) and license and permit revenues (12.8%). We made adjustments for annually recurring transfers out of the general fund as expenditures, and annually recurring transfers in as revenues. The city's final budget for 2017 depicted a negative net result of \$1.1 million, but ended with better-than-budgeted results and a positive net result of \$1.2 million in its general fund (after adjustments for transfers), though it had a negative net result across total governmental funds of 304,000. Management attributes the positive variance in the general fund primarily to conservative budgeting practice of the city across various expenditure line items. Across total governmental funds, we understand that the net result was primarily due to capital expenditures. For fiscal 2018, the city's general fund obtained essentially balanced operations and across total governmental funds is expected to be breakeven after adjusting for one-time capital expenditures.

For the city's 2019-2020 biennial budget, the city calls for balanced operations after adjustments for one-time capital expenditures and year to date for fiscal 2019 are trending positively and are likely to end the year with favorable operating results. From a total governmental standpoint, we expect the city to report break-even net result after adjustments for one-time capital expenditures.

Very strong budgetary flexibility

Lakewood's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 24% of operating expenditures, or \$9.1 million.

The city has adopted a formal policy to maintain 12% of general fund and street operations fund revenue. The policy goal, combined with other improvements to the city's management policy, has led to several years of positive year-end results. Based on the current budget for fiscal 2019 and our expectations for fiscal 2018, we believe the city's available fund balance as a percentage of expenditures will remain very strong.

Very strong liquidity

In our opinion, Lakewood's liquidity is very strong, with total government available cash at 43.9% of total governmental fund expenditures and 21.2x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

We believe that the city has strong access to external liquidity since it has recently issued GO debt. We do not expect its cash position, with respect to its total governmental expenditures and debt service, to change much during the next two years. Rather, we believe it will remain very strong. We understand that the city currently does not have any potential contingent liabilities that could have an adverse impact on its cash position. The city invests primarily in CDs, and various highly rated securities. Therefore, we do not consider the city's investments aggressive.

The city issued a privately placed limited tax general obligation bonds on Apr. 19, 2016, in the original amount of \$1.9

million outstanding, with a final maturity of Dec. 1, 2028. Based on our review of the documents, which do not contain acceleration provisions and do not include events of default we view as permissive, we do not believe this transaction will pose a contingent liquidity risk.

Very strong debt and contingent liability profile

In our view, Lakewood's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.1% of total governmental fund expenditures, and net direct debt is 26.3% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, and approximately 66.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

We understand that the city plans to issue an additional roughly \$10 million over the next two years, we do not expect this to have a material impact on the city's debt profile.

Lakewood's pension contributions totaled 1.1% of total governmental fund expenditures in 2017. The city made 100% of its annual required pension contribution in 2017. The city participates in two defined contribution plans and one cost-sharing, multiple-employer public employee defined-benefit plan managed by the Law Enforcement Officers and Firefighters (LEOFF) System. Using updated reporting standards in accordance with Governmental Accounting Standard Board (GASB) Statement No. 67 and 68, the city's net pension asset of \$1.9 million measured as of June 30, 2016, since the systems is more than 100% funded.

The city does not provide any OPEB benefits.

Adequate institutional framework

The institutional framework score for Washington municipalities is adequate.

Outlook

The stable outlook reflects our opinion of the city's stable, if somewhat limited, local economy as well as our expectation that the city will maintain very strong fund balances and balanced to positive general fund operations. We do not anticipate changing the ratings in the next year.

Upside scenario

We could raise the ratings if the city experiences a significant increase in income and wealth metrics to levels comparable with those of peers.

Downside scenario

We could lower the rating if the city's financial performance declines, significantly deteriorating available reserves.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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