

Summary:

Kittitas County, Washington; General Obligation

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Credit Profile		
US\$10.69 mil ltd tax GO and rfg bnds ser 2010 due 12/01/2030		
Long Term Rating	AA-/Stable	New
Kittitas Cnty GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term ratings, and stable outlook, to Kittitas County, Wash.'s limited tax general obligation (GO) and refunding bonds, series 2010. Standard & Poor's also affirmed its underlying rating on the county's existing limited tax GO bonds.

The rating reflects our view of the county's:

- Very strong historical growth in total assessed value (AV), although growth rates have moderated in fiscal 2010;
- Strong historical general fund position and voted sales tax streams that reduce criminal justice encroachment on the general fund; and
- Low debt burden.

Partially tempering factors, in our opinion, include:

- Recent declines in the county's major revenue sources and reserve position; and
- The county's adequate, though below-average, income indicators.

The bonds are secured by Kittitas County's full faith and credit. The county has irrevocably covenanted in the bond ordinance that, for as long as the bonds are outstanding, each year it will include in its budget and levy an ad valorem tax within the constitutional and statutory tax limitations provided by law without a vote by residents. Kittitas County will primarily use bond proceeds to finance an expansion and for repairs of the county jail, as well as other county facility upgrades. The county will also use a portion of bond proceeds to refund its existing series 2001 limited tax GO bonds.

Kittitas County is levying about 99 cents per \$1,000 of AV for general county purposes, well below the state maximum allowable rate of \$1.80 per \$1,000 of AV. State law generally limits increases in the levy on existing taxable property to 1% per year. According to the county, because it has been taxing below the maximum levy, it has about \$473,000 in banked levy capacity for general purposes; however, officials indicate they intend to maintain the levy at historical levels.

The county serves 40,000 residents in central Washington, about 110 miles east of Seattle and 40 miles north of Yakima; the county seat of Ellensburg is the largest city in Kittitas County. The county's tax base has grown by a

large cumulative 92% in the past five years to total \$6.4 billion in fiscal 2010. In fiscal 2011, officials expect the tax base to decline slightly due to value reassessments for the leading taxpayer, a destination resort that represented 3.65% of the fiscal 2010 tax base. According to officials, the property tax collection rate in 2009 declined to 94% as of June 30, 2010, primarily due to a late payment by the leading taxpayer. Median household effective buying income, at 86% of the U.S. median, is what we view as adequate. The primary economic activities in the local economy consist of agriculture, forestry, tourism, and wind energy generation. Major local employers include Central Washington University, Kittitas Valley Community Hospital, Ellensburg School District, and the county itself. The unemployment rate in June 2010 was 8.0%, lower than the state rate of 8.8% and the national rate of 9.5%.

Kittitas County designates the proceeds of three different voted sales tax streams passed in 1995, 1996, and 2006 for costs associated with the jail, criminal justice, and police officers within the general fund. It has maintained what we view as very strong unreserved general fund balances, including designated balances, representing about 20%-50% of expenditures in at least the past five years. Although the fiscal 2009 unreserved general fund balance fell by \$3.9 million to \$4.2 million, it still represented what we consider a very strong 19.6% of expenditures, at the fiscal year-end; more than \$2 million of the drawdown was due to one-time costs associated with the planned purchase of a building for sheriff administration. Included within the \$4.2 million general fund balance is a designated rainy-day fund that represents about 3% of budget. Officials also designate portions of the unreserved general fund balance for law and justice sales tax reserves. The county has experienced declining building permit and sales tax revenue in the past few years due to the economic slowdown. In fiscal 2010, Kittitas County reduced its budget by more than \$2 million to temper declining revenues. Despite these budget adjustments, officials project another drawdown of the unreserved general fund balance in fiscal 2010 to \$3.3 million, or what we view as a still very strong 17% of budgeted expenditures, due to larger than budgeted revenue declines, and increasing costs of housing prisoners outside the county, as well as one-time construction and engineering costs associated with the jail expansion projects; officials expect series 2010 bond proceeds will reimburse the general fund for a portion of the drawdown.

The county's management practices are considered "standard" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of standard indicates that the finance department maintains adequate policies in some, but not all, key areas. Significant components are an investment management policy that includes monthly reporting to the board, and a long-term capital improvement plan that identifies capital needs but not funding sources for all projects. The county also maintains a formal reserve policy to build 10% of the previous year's general fund operating expenses. In addition, in previous years, the county has set aside 1% of previous year's general fund operating expenses toward a rainy-day fund within the general fund, although it did not contribute to this fund in fiscals 2009 and 2010. Kittitas County does not produce long-term operational forecasts. Although officials indicate the board has maintained a philosophy to identify and budget specific revenue for debt service and operating costs of new projects, it does not maintain a formal debt management policy.

The county's overall debt is what we view as low at \$1,387 per capita, or about 1% of market value. Including pro forma debt service on the 2010 bonds, amortization is average, with 52% of principal retired in 10 years. The annual debt service carrying charge in fiscal 2009 was also what we consider a low at 1.7% of governmental expenditures, less capital outlay. Although the legal pledge is limited ad valorem taxes of the county, officials intend to use various revenue streams, including real estate excise taxes, sales taxes, lodging taxes and rental income, to pay debt service on the bonds. The county has no plans to issue additional debt.

Outlook

The stable outlook reflects Standard & Poor's view of Kittitas County's continued strong financial position and the minimal capital needs. The outlook also reflects our expectation that the county will continue to adjust its budget to maintain good reserves. Should it fail to maintain reserve levels in line with its policies, the rating could be pressured.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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