Summary:

Bellingham, Washington; General Obligation

Credit Profile		
Bellingham ltd Tax GO bnds (QECBs)		
Long Term Rating	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AA+' from 'AA' on Bellingham, Wash.'s limited-tax general obligation (GO) bonds based on the application of our recently released local GO criteria. The outlook is stable.

The limited-tax GO bonds are secured by the city's full faith and credit, including the obligation to levy ad valorem taxes, subject to statutory limitations on annual property tax revenue growth without a voter override and on the city's levy rate per $1,000 of assessed value (AV).

The rating reflects our assessment of the following factors for the city:

- We consider Bellingham's economy to be strong in light of projected per capita effective buying income at 89.1% of the national level and market value per capita of $101,429. The city is located in far northern Washington State near the Canadian border and is within a one-hour drive of the 2.4 million-resident Vancouver, B.C., metropolitan region. The city participates in a broad and diverse regional economy that benefits from cross-border trade flows. The Whatcom County unemployment rate for calendar 2012 was 7.5% and has been historically consistent with state and nation's rates.
- We view the city's management conditions as very strong. We consider the city's financial management practices to be "strong" under our financial management assessment (FMA) methodology, indicating our view that practices are strong, well embedded, and likely sustainable.
- In our opinion, the city's budgetary flexibility is strong with reserves above 15% of expenditures for the past few years. Audited fiscal 2012 available reserves were $12.9 million or 15.6% of expenditures. Management has planned for draw downs, including a $2 million one-time use of reserves in 2014, but we understand that reserves will likely remain close to the city's 12% reserve target.
- The city's budgetary performance is strong, in our view, with a surplus of 4.3% for the general fund in 2012 and a corresponding surplus of 2.2% for the total governmental funds when smoothing for capital expenditures. The city has budgeted for a slight use of reserves for 2013 and 2014, but historically, the city has performed better than budgeted. We understand that the city's 2013-2014 operations will outperform the city's budget because of improved revenue trends and continued monitoring of expenses. Management reports that the city has seen recovery in its tax base and anticipates modest revenue growth.
- Supporting the city's finances is its liquidity, which we consider very strong, with total government available cash of more than 15% of total governmental fund expenditures and more than 120% of debt service at the end of 2012. We

believe the city has strong access to external liquidity as it has issued public debt during the past 10 years.

- In our opinion, the city's debt and contingent liability profile is very strong, with total governmental fund debt service at 2.3% of total governmental fund expenditures and net direct debt of 26.3% of total governmental fund revenue. Approximately 57% of principal debt will be repaid over the next 10 years and the overall net debt burden is less than 3% of market value. We understand that the city has no plans to issue additional GO debt in the near future. We note that the city has contingent loan agreements with its Public Facilities District and its Housing Authority; however, we understand that the city currently estimates no potential loss from these agreements.
- The city funds its annually required contributions (ARC) under the state-managed pension plans in which its employees participate and the city-managed plans for qualifying public safety employees, which are closed to new members. The city also provides other postemployment benefits to a closed pool of former public safety employees. The combined ARC pension and pay-as you-go other postemployment benefit costs for fiscal 2012 were 5.8% of total governmental noncapital expenditures, and we do not anticipate that these costs will increase substantially in the near term.
- We consider the Institutional Framework score for Washington cities to be adequate. See the Institutional Framework score for Washington.

Outlook

The stable outlook reflects our view of the city's willingness to adjust operations to maintain structural balance during a period of stagnant or declining tax revenues. This has enabled it to sustain what we view as strong budgetary flexibility and very strong liquidity levels. The city's strong economy and participation in a broad and diverse metropolitan area supported by strong management practices, which enhance stability. For these reasons, we do not anticipate changing the rating in the next two years.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Related Research

Institutional Framework Overview: Washington Local Governments

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