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Summary:

Sedro-Woolley, Washington; General Obligation

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Credit Profile

Sedro-Woolley GO

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' underlying rating (SPUR) on Sedro-Woolley, Wash.'s outstanding series 2005 unlimited-tax general obligation refunding bonds. In our view, the rating reflects:

- A somewhat limited economic base with adequate to good income indicators and strong market value per capita at \$77,549;
- Good historical financial performance with very strong reserve levels on a cash basis; and
- Low overall debt levels with limited debt plans.

The bonds are general obligations of the city and are secured by an unlimited ad valorem property tax pledge.

The city serves a 10,036-resident community located just east of Interstate 5 and midway between Seattle (60 miles to the south) and Vancouver (80 miles to the north). Its population grew at a moderate 2.1% average annual rate between 2000-2007, and the city has planned for an ultimate buildout population of about 25,000.

The city's local economy is somewhat limited and historically based in wood processing. Income indicators are what we consider adequate to good, with median household effective buying income (EBI) and per capita EBI at 97% and 84% of the U.S. levels, respectively. County unemployment rates have tracked higher than national averages, and measured 5.2% in 2006. In our opinion, per capita market value, a measure of wealth, is strong at \$77,549. The city's assessed value (AV) has continued to grow, increasing at a strong 11.9% average annual rate during the past five years to \$778.3 million in 2008.

We believe the city's financial performance has been good in recent years, with strong unreserved general fund balances that have averaged 35% of expenditures (cash basis) during the past three audited years. In 2007, the city reduced its cash balance by 12% to fund computer system improvements and some fire department equipment purchases. The city finished with a \$1.3 million cash general fund balance, which represented 29% of expenditures. According to management, the city expects to end 2008 with balanced general fund operations and similar general fund balance levels.

The city's financial practices are considered to be 'good' under Standard & Poor's Financial Management Assessment (FMA). Under our framework, an FMA of 'good' indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Highlights include the use of third-party data for certain revenue and expenditure assumptions. The city council reviews budget-to-actual performance

monthly. In addition, the city has a policy to maintain a cash balance of at least 8% of beginning cash and monthly revenues, or about one month of operating expenditures. The city does not maintain long-term financial projections, nor does it have a formal debt management policy.

Overall debt levels are low at 1.2% of AV and \$931 per capita. We understand that the city does not have immediate plans for additional general fund-related debt.

Outlook

The stable outlook reflects our expectation that the city will maintain good general fund performance and healthy reserve levels.

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