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ISSUER COMMENT
12 May 2021

RATING

General Obligation (or GO Related) [1]	
Aa1	No Outlook

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City of Bothell, WA

Annual Comment on Bothell

Issuer Profile

The City of Bothell is located in King and Snohomish Counties in northwest Washington. It is a suburb within the Seattle metro area, approximately 10 miles northeast of downtown. The county has a population of 2,195,502 and a high population density of 1,033 people per square mile. The county's median family income is $118,292 (1st quartile) and the March 2021 unemployment rate was 5.4% (2nd quartile) [2] . The largest industry sectors that drive the local economy are professional/scientific/technical services, health services, and retail trade.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Bothell. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Bothell changes, we will update our opinion at that time.

Credit Overview

Bothell's credit position is excellent. Its Aa1 rating is stronger than the median rating of Aa3 for cities nationwide. The notable credit factors include a robust financial position, a very strong wealth and income profile and a substantial tax base. It also reflects a light debt burden and a moderate pension liability.

Finances: Bothell has a robust financial position, which is slightly favorable when compared to the assigned rating of Aa1. The city's cash balance as a percent of operating revenues (33.5%) falls just short of the US median. Also, the fund balance as a percent of operating revenues (33.6%) approximates the US median.

Economy and Tax Base: The economy and tax base of the city are exceptionally strong and are slightly favorable when compared to its Aa1 rating. Bothell's full value per capita ($253,200) is above the US median, and increased dramatically from 2015 to 2019. Moreover, the median family income is a robust 157% of the US level. Lastly, the total full value ($11.4 billion) is much stronger than other Moody's-rated cities nationwide.

The coronavirus caused an unprecedented economic slowdown. We currently forecast US GDP to gradually recover in 2021. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could have a much slower recovery.

Debt and Pensions: The debt and pension liabilities of Bothell are affordable overall. The net direct debt to full value (0.9%) is roughly equivalent to the US median. Yet, it fell modestly between 2015 and 2019. Moreover, the Moody's-adjusted net pension liability to operating revenues (1.4x) is on par with the US median.

Management and Governance: Washington cities have an institutional framework score [3] of "Aa," or strong. Although cities depend on economically sensitive taxes (sales, business and occupation) in addition to property taxes, revenue tend to be highly stable and predictable. Cities have a moderate ability to increase property taxes by 1% annually, subject to state statutory limits. Expenditures primarily consist of public safety costs, which are highly stable and predictable. Expenditure-reduction ability is moderate due to modest fixed costs. Cities can also make mid-year budgetary reductions not related to public safety.

Sector Trends - Washington Cities

Washington cities are likely to experience steady economic growth over the near-term. Sales tax and other economically sensitive revenues should improve as unemployment levels remain low, particularly in the Puget Sound region. Strong improvement in the housing market will continue to boost assessed valuation growth and property tax collections. Pension costs are not a significant source of credit weakness, but remain a longer-term challenge.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 1

Key Indicators [4] [5] Bothell

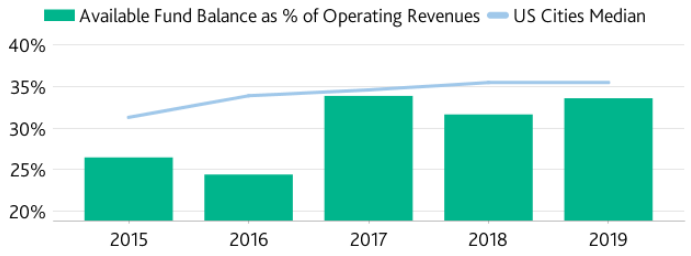
	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	$7,651M	$8,296M	$8,783M	$9,900M	$11,392M	$2,024M	Improved
Full Value Per Capita	$185,677	$192,248	$199,252	$220,049	$253,200	$97,657	Improved
Median Family Income (% of US Median)	154%	158%	157%	157%	157%	114%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	26.5%	24.4%	33.9%	31.7%	33.6%	35.5%	Improved
Net Cash Balance as % of Operating Revenues	27.2%	26.2%	33.6%	31.3%	33.5%	40.0%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.2%	1.1%	1.0%	0.9%	0.9%	1.1%	Stable
Net Direct Debt / Operating Revenues	1.97x	1.79x	1.34x	1.39x	1.53x	0.82x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.0%	1.1%	1.1%	0.9%	N/A	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.55x	1.77x	1.40x	1.41x	N/A	1.57x	Stable

	2015	2016	2017	2018	2019	US Median
Debt and Financial Data						
Population	41,207	43,153	44,082	44,994	44,994	N/A
Available Fund Balance ($000s)	$12,792	$12,556	$22,530	$19,531	$23,305	$8,489
Net Cash Balance ($000s)	$13,131	$13,451	$22,322	$19,332	$23,228	$9,759
Operating Revenues ($000s)	$48,309	$51,416	$66,488	$61,700	$69,354	$36,135
Net Direct Debt ($000s)	$95,134	$91,962	$88,779	$85,993	$106,374	$19,137
Moody's Adjusted Net Pension Liability (3-yr average) ($000s)	$74,806	$91,137	$93,026	$86,943	N/A	$38,399

Source: Moody's Investors Service

EXHIBIT 2

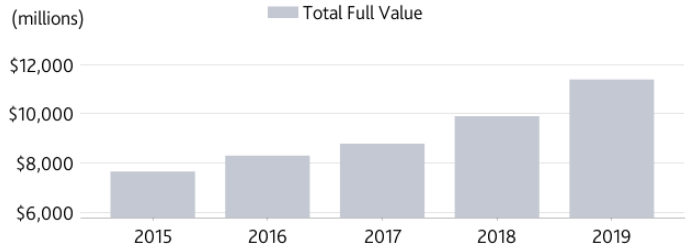
Available fund balance as a percent of operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

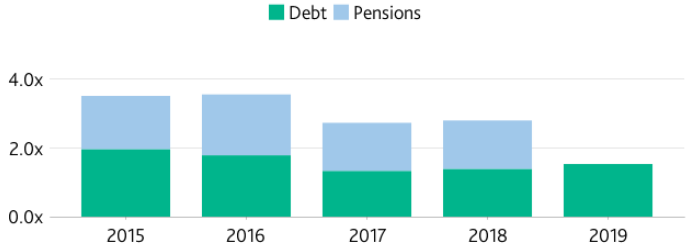
Full value of the property tax base increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues decreased from 2015 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.

2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (July 2020) methodology report for more details.

4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014) . Metrics represented as N/A indicate the data were not available at the time of publication.

5 The medians come from our most recently published local government medians report, Medians - Tax base expansion bolsters revenue, but pensions remain a hurdle (May 2020) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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