S&P Global Ratings

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Summary:

Pierce County Fire Protection District No. 5, Washington; General Obligation

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Credit Profile		
US$44.205 mil ultd tax GO bnds ser 2022 due 12/01/2042		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Pierce County Fire Protection Dist. No.5 (Gig Harbor Fire & Medic One), Wash.'s series 2022 unlimited-tax general obligation (GO) bonds with a planned par amount of $44.2 million.
- The outlook is stable.

Security

The district's full faith and credit, including an irrevocable pledge to levy ad valorem taxes without limitation as to rate or amount, secures the series 2022 unlimited-tax GO bonds. We understand bond proceeds will be used to construct a new training facility and a fire station, renovate existing properties, and purchase new firefighting and emergency apparatus and equipment.

Credit overview

Just northwest of Tacoma, Gig Harbor Fire & Medic One's service area experienced continued construction and widespread growth over the past decade, which has, in turn, produced increased property tax revenues and incident calls. As a result, the district has posted five consecutive general fund surpluses, which have allowed it to incrementally build its reserves well above our very strong threshold. In addition, since 2012, the district benefitted from a permanent Emergency Medical Service (EMS) levy that has brought in approximately $4 million-$7 million (9% of expenditures) in extra revenue over that time. Furthermore, since 2019, the district also received additional revenue from the state's Ground Emergency Medical Transportation (GEMT) program, which is set to bring in $1.7 million (3% of expenditures) in fiscal 2022. The district is set to return to voters in November of 2022 to request a six-year levy lid lift that would restore the district's EMS levy to the maximum allowable taxable rate and bring in an additional approximate $2 million of extra revenue over that period. Given the expanded revenue portfolio, the district expects another general fund surplus in fiscal 2022 and 2023, which should result in a further bolstered reserve position.

The rating also reflects our view of the district's:

- Participation in the broad and diverse Seattle-Tacoma economic area;
- Strong economy, as evidenced by strong incomes, and extremely strong market value per capita;
- Consistent positive general fund results supported by a strong fund balance policy and a robust capital long-term

capital plan;

- Low debt relative to the district's tax base and well-funded pension and other postemployment benefits (OPEB) plan; and
- Financial reporting on a cash basis of accounting, which is similar to other Washington fire districts but provides less transparency on the district's financial position relative to local governments that use generally accepted accounting principles.

Environmental, social, and governance

In our view, the environmental risks facing the district are elevated, consistent with those of other similarly rated districts in the region. Strong state building codes partially mitigate significant seismic risk, but we think the district's extensive shoreline exposes it to natural disaster risks and long-term economic loss risks associated with sea level rise.

We view social and governance risks as comparable with those of national peers, but we see the state's financial disclosure framework as leading to weaker transparency and reporting standards for many local governments, including the district. Although an accessible public database of timely local government financial data using standardized cash-basis accounting principles is available, the state auditor's office, which conducts the vast majority of local government audits in the state, tends to produce audited financial reports on a less-than-timely, nonaccrual basis for smaller local governments, including this district. We understand that the district's audit reporting interval will move to an annual from biennial cycle starting with the 2021 year due to federal reporting requirements.

Outlook

The stable outlook reflects our view of the district's growing tax base and its ability to secure additional funding sources, as necessary to maintain financial performance and strong available fund balances. We do not expect to change the ratings within the two-year outlook horizon.

Downside scenario

Should the district experience a large reduction in reserves due to operational needs or one-time capital expenses, we could lower the rating.

Upside scenario

If we come to believe the district has maintained budgetary flexibility through the expected period of growth and anticipated increase in operational needs, we could raise the rating.

Credit Opinion

Near Tacoma, Gig Harbor Fire serves a growing and diverse community

The district's participation in the growing Tacoma region has positioned it to attract employers in the health care, military, education, and technology sectors. While the population has continued to increase over the past three years, the district's service area grew by an average rate of 10%. Management believes this will continue and as a result projects incident calls will rise by 2,000 over the next year. The current development pipeline within the district includes a mixture of residential and commercial projects including several waterfront locations, 12 new residential neighborhoods, and a 38-acre industrial park. Given the existing development pipeline, we believe the district's service area is poised for continued growth over the medium term despite nationwide economic concerns.

Very strong financial position supported by additional revenue streams and ambulance services

With a large portion of operating revenue derived from property taxes, the district benefits from a high degree of revenue stream stability and predictability. In addition to regular operating revenues tied to the district's growing tax base, the district's voters approved a permanent EMS levy, which brought in approximately $4 million-$7 million in revenue since 2012. Furthermore, in 2019, the district also began receiving additional revenue from the state's GEMT program, which brought in an additional $1.5 million-$2 million (5% of operating expenditures) since the program's origin. The GEMT program provides supplemental payments to publicly owned or operated qualified GEMT providers, like the district.

Based on fiscal 2022 estimates, the district expects to add to its general fund balance at year-end. For 2023, the district is budgeting for an additional surplus and is currently on track to meet those budgeted figures. Its growing tax base, access to additional revenue streams, and robust financial policies have allowed the district to consistently post general fund surpluses and continue to build its reserves. We expect the district's reserves will continue to remain above our very strong threshold for the foreseeable future. This is despite an expected rise in labor cost tied to settled negotiations and a planned drawdown of reserves (approximately $800,000) to acquire equipment, which are set to occur in fiscal 2023 and 2024, respectively.

Planning ahead, the district expects to return to its constituents later this year to increase the EMS levy to its maximum allowable tax rate of 50 cents per $1000 assessed value (AV), which would bring in $2 million-$3 million (6% of all operating expenditures) annually through 2028. District officials have also begun discussing plans to seek an additional property tax override in 2023 that would also raise their regular levy rate. The size of that request is pending an operating needs analysis.

Financial policies highlighted by extensive capital plan

The district implemented several financial policies and practices that have supported positive operational results over the past three fiscal years. Those policies include a formal available fund policy of 17%, monthly financial reporting to the district's board of commissioners, and a debt policy that seeks to identify payment sources for all future debt projects. The district also maintains a robust capital plan that includes cost estimates and funding sources.

Low debt profile that includes slow amortization

At fiscal year-end 2023, the district will have approximately $48 million in direct debt outstanding. We consider the district's debt burden to be very low on a per-capita basis and low when compared with the district's market value. The district's amortization schedule is slow, but, given its tax base growth momentum, not a credit risk at this time, in our view. The district plans to exhaust the $80 million authorization in 2025 to continue adding to its new facilities. It has no private placement or direct purchase debt.

Pension plans that include open amortization and aggressive discount rate mitigated by budgetary capacity

The district participates in the following defined benefit plans:

- Law Enforcement Officers & Fire Fighters Retirement System (LEOFF) system 2: 142% funded using a 7.4% discount rate, with a net pension asset of $21.6 million; and
- Public Employees Retirement System (PERS) 2/3: 120% funded using a 7.4% discount rate, with a net pension asset of $1.0 million

While annual costs could rise due to market volatility by use of a discount rate above our 6% guideline as well as an open amortization, we believe that the district maintains the budgetary capacity to absorb moderate cost increases in the medium-term without material budgetary challenges.

Pierce County Fire Protection District No. 5, Wash.--Key Credit Metrics

	Characterization	Most recent	Historical information		
			2021	2020	2019
Economic indicators					
Population		51,677			
Median household EBI % of U.S.	Strong		160.0		
Per capita EBI % of U.S.	Strong		175.0		
Market value ($000)		15,384,235	13,528,953	12,466,923	11,489,618
Market value per capita ($)	Extremely strong	297,700			
Top 10 taxpayers % of taxable value	Very diverse	3.4			
Financial indicators					
Total available reserves ($000)			18,383	16,611	15,436
Available reserves % of operating expenditures	Strong		63.9	61.6	62.8
Total government cash % of governmental fund expenditures			63.9	61.6	62.8
Operating fund result % of expenditures			6.2	4.1	14.2
Overall net debt per capita ($)					
Debt service % of governmental fund noncapital expenditures	Low	0.3			
Direct debt 10-year amortization (%)	Very low	33			
Required pension contribution % of governmental fund expenditures			3.1		
OPEB actual contribution % of governmental fund expenditures	Slow		0.4		
Minimum funding progress, largest pension plan (%)			110.9		

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022 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.