

RATING ACTION COMMENTARY

Fitch Affirms Snohomish County (WA) PUD No. 1's Elec Sys Revs at 'AA-'; Outlook Revised to Positive

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Fitch Ratings - Austin - 21 Apr 2025: Fitch Ratings has affirmed Snohomish County (WA) Public Utility District No. 1's (the district) Issuer Default Rating (IDR), as well as the ratings on following bonds issued by the district at 'AA-':

--\$339.1 million electric system revenue bonds series 2010A, 2015, 2020A, and 2021A;

--\$51.6 million generation system revenue bonds series 2010B and 2015.

The Rating Outlook has been revised to Positive from Stable.

RATING ACTIONS

| ENTITY / DEBT ↕ | RATING ↕ | | PRIOR ↕ |
|---|----------|-----------------------------|---------------------------------|
| Snohomish County Public Utility District No. 1 (WA) | LT IDR | AA- Rating Outlook Positive | AA- Rating Outlook Stable |
| | Affirmed | | |
| Snohomish County Public Utility District No. 1 (WA) /Electric | LT | AA- Rating Outlook Positive | AA- Rating Outlook Stable |

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The Positive Outlook reflects the prospect for stronger revenue defensibility following planned revisions in the district's power supply contract with the Bonneville Power Administration (Bonneville; AA/Stable). Bonneville provides most of the district's power supply. The district's decision to move to Bonneville's 'load following' option in its power supply contract from its current 'block and slice' contract effective Oct. 1, 2025, will reduce hydrological variability in the district's power supply, and should result in greater revenue stability going forward.

The revision will require the district to forego the opportunity for above budget wholesale revenues in the future but reduce the risk of below average water conditions to the district's power supply, and the costs associated with balancing supply with demand throughout the year. The changes to the contract would be expected to result in an improved Revenue Defensibility assessment to very strong, which could support a higher rating, assuming no change in the district's very low operating risk assessment and very strong financial profile.

Rating movement will also hinge on the district's ability to execute increased capex. Planned capex is estimated to increase to \$225 million in 2025 from \$155 million in 2024, with spending exceeding \$200 million annually over the next five years. The district implemented electric rate increases to bolster capital funding. The rating may remain at its current level, even with the planned contract change, if liquidity levels or revenue funding of capex lag the district's forecasted expectations.

The 'AA-' ratings continue to reflect the district's very strong financial profile in relation to its very low operating cost burden and strong revenue defensibility. The district has the independent ability to adjust retail electric rates as necessary across its exclusive service area, which has very strong demand characteristics and economic metrics.

SECURITY

The electric system revenue bonds are secured by electric system revenues, subject to the prior payments of operating expenses of the electric system (including generation system power costs).

Revenue Defensibility - 'a'

Very Favorable Service Area; Wholesale Revenue Variability to Decline

The majority of revenue comes from the monopolistic sale of electricity to a growing retail customer base with strong demographic indicators. However, a portion of operating revenue (5%-10%) has historically come from more variable wholesale sales into the competitive electric markets, which limits revenue source characteristics and overall revenue defensibility.

Wholesale revenues will likely decline moving forward to less than 5% of revenues following the contract change with Bonneville scheduled to occur on Oct. 1, 2025. This could improve Fitch's assessment of Revenue Defensibility by removing wholesale revenue variability. The district purchases most of its energy supply from Bonneville. Following the contract change, Bonneville is expected to provide 95% of the district's power supply in 2026.

The assessment also considers the district's independent ability to adjust rates in a strong and exclusive service area and very strong rate flexibility. The district has implemented a series of needed base rate increases over the last three years with the most recent increase of 4.6% occurring on April 1, 2025. Rate restructuring in 2023 included movement of greater amounts to the base rate charge, which improves revenue stability. Rate increases are designed to recover inflationary cost pressures, poor hydrology conditions in the previous two years, unexpected storm costs in 2024 and planned capex. Periodic wholesale rate increases from Bonneville are passed through to the district's retail customers as well.

Snohomish County is the third largest county in Washington State with very strong population growth over the past five years. MHI and unemployment metrics in the service area are very favorable compared to national averages and reflect the service area's proximity to Seattle's employment center. The district's top 10 customers are comprised of large corporations, state and local government entities, and healthcare. The Boeing Company (BBB-/Negative) is the district's largest customer, and the top 10 customers account for around 6% of total revenues, exhibiting no significant customer concentration.

Operating Risk - 'aa'

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The district's very low electric operating cost burden benefits from power supplied largely through a favorably priced long-term contract with Bonneville. Bonneville's energy portfolio is highly concentrated in hydro-based assets which results in a weaker operating flexibility assessment but does not constrain the operating risk assessment.

Operating costs increased in 2023 and 2024 to over 9.0 cents per kilowatt hour, primarily due to poor hydrology conditions experienced in the Pacific Northwest, as well as unusual weather events. The increase is expected to be temporary and decline in 2025. The district experienced extreme cold weather in January 2024 that resulted in greater power supply needs than resources and demanded market purchases at a time when the entire regional market was strained.

District costs for power supply that month were \$54 million, as compared to \$9.3 million in January 2023. An unusually strong windstorm in late 2024 caused around \$15 million in damages as well.

Capital spending is increasing to a projected \$1.13 billion over the next five year as compared to \$640 million over the previous five years. Capex will be primarily cash funded through rates and contributions, although around 20% of the spending is expected to be debt financed.

Financial Profile - 'aa'

Tightening of Financial Performance in 2024

Financial performance at the district is typically very strong. Performance remained strong but operating margin tightened to 2% in 2024 due to costs associated with the storm events. Cash balances declined slightly to unrestricted reserves and investments of \$344 million -- or 159 days cash on hand, from \$353 million (187 days) the year prior. These balances include the rate stabilization fund, which the district recharacterized in its 2024 audit as unrestricted short-term and long-term investments. Fitch's coverage of full obligations (COFO) in 2024 remains healthy at 1.5x but reduced from the typically strong levels at or above 1.7x.

Leverage has ranged between 4.3x and 5.4x over the past five years, which is expected to

increases, planned capex and debt spending, and the expected reductions in wholesale revenues and power supply costs anticipated to accompany the contract change.

Fitch's stress case, which is the rating case, assumes a two-year reduction in retail sales followed by a recovery. Leverage trends slightly higher, potentially up to 6.5x. These results are supportive of the rating and with the potential improvement in the Revenue Defensibility assessment, could be supportive of a higher rating.

Asymmetric Additional Risk Considerations

There are no asymmetric additional risk considerations associated with this rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Leverage consistently over 8.0x in Fitch's rating case scenario;

--Inability to maintain financial performance and liquidity during planned upward cycle of capital investment.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Improvement in the Revenue Defensibility assessment following the Bonneville contract change in late 2025 and sustained very low leverage below 6.0x in Fitch's rating case scenario.

PROFILE

The district is the largest public utility district in the state of Washington by number of customers, serving just over 380,000 electric customers and 23,000 water customers across 2,200 square miles coterminous with Snohomish County (the county). The district is headquartered in Everett, WA, which is home to The Boeing Company's (Boeing, BBB-/Negative) Everett Factory, the county's largest employer and the district's largest customer.

The district is composed of an electric distribution system, a generation system and a much

financial audit and does not distinguish the district's ratings based on security. Fitch's financial analysis and calculated metrics are based on the combined fund.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The ESG Relevance Score of '2' for GHG Emissions & Air Quality for Snohomish County PUD varies from the public power sector guidance score of '3' since carbon-free systems (hydro, wind, nuclear, biomass and biowaste, geothermal) are not significantly exposed to the generation of GHG emissions from operations.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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APPLICABLE CRITERIA

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 10 Jan 2025\) \(including rating assumption sensitivity\)](#)

[U.S. Public Power Rating Criteria \(pub. 24 Feb 2025\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria

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