FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Snohomish County, WA's PUD Electric System Revs 'AA'; Upgrades Parity Bonds

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Fitch Ratings - Austin - 07 Jul 2025: Fitch Ratings has assigned a 'AA' rating to the following bonds (approximate amounts) issued by the Snohomish County Public Utility District No. 1, WA (the district):

--$284.6 million electric system revenue and refunding bonds, series 2025A;

--$107.7 million electric system revenue refunding bonds, series 2025B;

--$10.9 million generation system revenue refunding bonds, series 2025A;

--$36.8 million generation system revenue refunding bonds, series 2025B.

Bond proceeds of the electric system revenue and refunding bonds, series 2025A are being issued to fund a portion of the district's capital plan, refund outstanding bonds, and pay costs of issuance. Bond proceeds of the other three series are being issued to refund outstanding bonds and pay costs of issuance. The refunding portions are subject to market conditions and par amounts listed above are approximate. All series are expected to price on July 24 2025.

In addition, Fitch has upgraded the district's Issuer Default Rating (IDR) to 'AA' from 'AA-'. Fitch has also upgraded the following parity bonds to 'AA' from 'AA-':

--$339.1 million electric system revenue bonds series 2010A, 2015, 2020A, and 2021A (pre-refunding amounts);

--$51.6 million generation system revenue bonds series 2010B and 2015 (pre-refunding amounts)

The Rating Outlook on all of the bonds is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Snohomish County Public Utility District No. 1 (WA)	LT IDR	AA	Upgrade	AA-
Snohomish County Public Utility District No. 1 (WA) /Electric System Revenues/1 LT	LT	AA	Upgrade	AA-

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VIEW ADDITIONAL RATING DETAILS

The upgrade to 'AA' reflects Fitch's expectation that recent changes to the district's power supply contract will reduce hydrological variability while improving revenue stability and defensibility. The district chose to move to Bonneville Power Administration's (Bonneville; AA/Stable) 'load following' option in its power supply contract, replacing the current 'block and slice' contract. The change will go into effect on Oct. 1, 2025. As a result, the district will 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, as well as the costs associated with balancing supply with demand throughout the year.

The rating upgrade also considers the district's ability to execute a larger capital spending plan. 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 has already begun to implement a series of expected electric rate increases to fund higher capital requirements and debt service costs. A recently adopted increase to the district's liquidity policy will also support execution of the capital plan.

The 'AA' ratings also continue to reflect the district's very strong financial profile in relation to its very low operating cost burden and improved 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).

The generation system revenue bonds are payable from and secured solely by generation system revenue, which consist almost entirely of payments made by the electric system.

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

Improved Revenue Defensibility; Very Favorable Service Area

The majority of the district's 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 and has limited revenue source characteristics and overall revenue defensibility. In anticipation of the Bonneville contract change on Oct. 1, 2025 through the end of the current contract on Sept. 30, 2028, Fitch has raised its assessment of Revenue Defensibility to 'aa' from 'a'. Following the contract change, Bonneville is expected to provide 95% of the district's power supply in 2026, the first full year of the new contract terms. Bonneville and the district are working to finalize the terms of a subsequent long-term contract, with similar terms, to begin on Oct. 1, 2028.

The assessment also considers the district's very strong rate flexibility given its independent ability to adjust rates in a strong and exclusive service area. 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, following a 5.8% rate increase on April 1, 2024. A rate restructuring in 2022 also included movement of greater amounts to the base rate charge, which improves revenue stability. The 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 and projected annual load growth of 2.7%. 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 county's largest employer. The top 10 customers account for around 7% of energy sales revenue, exhibiting no significant customer concentration.

Operating Risk - 'aa'

Very Low-Cost Hydroelectric Power Supply; Large Capex Planned

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 costs are expected to 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, 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 increased to a projected $1.13 billion over the next five years, compared to $650 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; Improvement in 2025

Financial performance at the district is typically very strong. Performance remained very strong in 2024, but operating margin tightened to 2% due to costs associated with the storm events. Unrestricted cash and investment reserves declined slightly to $344 million or 159 days 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 remained healthy at 1.5x but fell from the typically stronger levels at or above 1.7x. Leverage has ranged between 4.3x and 5.4x over the past five years.

Fitch's forward-looking analysis considers the potential trend of key ratios in a base and stress scenario over a five-year period. The stress scenario is designed to impose a moderate load decline in the first two years from base case levels and evaluate potential variability in projected key ratios. The scenarios are informed by the district's own financial planning forecast and assumptions, including modest annual electric rate increases in 2025-2027, planned capex, no new debt issuance after the series 2025 bonds, and the Bonneville contract change as currently scheduled. Assumptions include conservative hydrology assumptions, although this will have less of an impact on the district's financial performance beginning in 2026.

In the base case scenario, leverage is expected to remain in the current range of between 4.0x and 5.0x in the initial three years before load growth and rate increases increase operating margins to push leverage below 4.0x. In the stress scenario, which is considered Fitch's rating case, leverage could be slightly higher, between 5.0x and 6.0x, conservatively assuming no additional rate movement or changes to capex in response to the lower load scenario. These leverage levels provide comfortable headroom at the 'AA' rating level.

Fitch expects the district's liquidity profile (cash levels and coverage) to remain neutral over the five-year horizon. The district projects increases to its unrestricted cash balances to meet the recently increased reserve policy of 180 days cash on hand of budgeted operating expenses. Management expects to be in compliance by 2027, although cash balances are not that far below the new target.

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 6.0x in Fitch's rating case scenario;

--Inability to maintain very strong financial performance and liquidity during planned upward cycle of capital investment;

--Although unlikely given the pending contract revisions, continued reliance of wholesale revenue and a weakening of revenue defensibility.

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

--Sustained very low leverage below 3.0x in Fitch's rating case scenario.

PROFILE

The district is the largest public utility district in the state of Washington by number of customers. It serves 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 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 smaller water system that accounts for less than 2% of system revenues. The three utilities are accounted for individually and issue separately secured debt. However, Fitch views the three systems as a consolidated utility, as presented in the combined fund in the district's financial audit and does not distinguish the district's electric system and generation system bond 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 DIVER by Solve.

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 Public Utility District 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, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

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 providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Snohomish County Public Utility District No. 1 (WA)	EU Endorsed, UK Endorsed

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