



Report of Independent Auditors and Financial
Statements with Required Supplementary
Information and Other Information for

Seattle Public Utilities -
Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)

December 31, 2016 and 2015

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Director of Seattle Public Utilities
Drainage and Wastewater Fund
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities – Drainage and Wastewater Fund as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the schedule of Seattle Public Utilities’ proportionate share of the net pension liability and schedule of Seattle Public Utilities’ contributions, listed in the table of contents, be presented to supplement the financial statements. This information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other information on pages 49 – 52 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

Moss Adams LLP

Seattle, Washington
April 28, 2017

SEATTLE PUBLIC UTILITIES - DRAINAGE AND WASTEWATER FUND (An Enterprise Fund of the City of Seattle) MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Seattle Public Utilities (SPU), a department of the City of Seattle (the City), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Drainage and Wastewater Fund (the Fund) for the fiscal years ended December 31, 2016 and 2015. The revenues, expenses, assets, deferred outflows of resources, and liabilities of the City of Seattle's drainage and wastewater system are recorded in the Drainage and Wastewater Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The financial statements include Management's Discussion and Analysis and basic financial statements with accompanying notes.

Basic financial statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 14 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The statements of net position present information, as of December 31, 2016 and 2015, on all of the Fund's assets, deferred outflows of resources, and liabilities. The difference between assets combined with deferred outflows of resources and liabilities is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The statements of revenues, expenses, and changes in net position present changes in the Fund's net position for the years ended December 31, 2016 and 2015. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The statements of cash flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2016 and 2015. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

Notes to the financial statements – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 19 of this report.

**SEATTLE PUBLIC UTILITIES -
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(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2016 and 2015, the Fund's assets and deferred outflows of resources exceeded liabilities, resulting in a net position of \$332.5 million and \$329.9 million, respectively. In 2016, the Fund's overall position changed, with an increase in net position of \$2.6 million (0.8%) as compared to a increase in net position of \$52.1 million (18.8%) in 2015. The following summary statements of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities and net position used to acquire these assets and deferred outflows of resources:

STATEMENTS OF NET POSITION

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current assets	\$ 174,268,140	\$ 149,034,252	\$ 142,586,093
Capital assets, net	1,062,243,882	947,910,106	843,837,995
Other	114,404,535	90,597,273	163,283,878
Total assets	<u>1,350,916,557</u>	<u>1,187,541,631</u>	<u>1,149,707,966</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>28,026,276</u>	<u>15,269,200</u>	<u>6,478,895</u>
Total assets and deferred outflows of resources	<u>\$ 1,378,942,833</u>	<u>\$ 1,202,810,831</u>	<u>\$ 1,156,186,861</u>
LIABILITIES			
Current liabilities	\$ 77,643,284	\$ 72,687,751	\$ 67,827,554
Revenue bonds	717,709,100	625,904,638	646,693,450
Other	248,846,621	174,316,453	97,568,020
Total liabilities	<u>1,044,199,005</u>	<u>872,908,842</u>	<u>812,089,024</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,278,901</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	403,956,846	353,149,704	301,792,748
Restricted	21,787,088	21,666,747	21,201,195
Unrestricted	<u>(93,279,007)</u>	<u>(44,914,462)</u>	<u>21,103,894</u>
Total net position	<u>332,464,927</u>	<u>329,901,989</u>	<u>344,097,837</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,378,942,833</u>	<u>\$ 1,202,810,831</u>	<u>\$ 1,156,186,861</u>

**SEATTLE PUBLIC UTILITIES -
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS (continued)

2016 Compared to 2015

Assets – Current assets increased \$25.2 million (16.9%) over the prior year primarily due to increases of \$20.2 million of operating cash, \$3.3 million in due from other governments, \$1.6 million in due from other funds, \$0.7 million in unbilled revenues and \$0.1 million in interest and dividends. These increases were offset by decreases of \$0.5 million in notes and contracts, \$0.1 million in accounts receivable, net of allowance for doubtful accounts, and \$0.1 million in materials and supplies inventory.

Other assets increased \$23.8 million (26.3%) from 2015. This is mostly attributable to increases of \$26.5 million in restricted cash and equity in pooled investments and \$0.4 million in regulatory assets. The increases were offset by decreases of \$2.0 million in environmental costs and recoveries, \$0.7 million for other charges, \$0.3 for external infrastructure costs and \$0.1 million in notes and contracts receivable.

Deferred outflows of resources – Deferred outflows of resources increased by \$12.8 million (83.5%) from 2015. This increase is attributed to a \$8.7 increase for pension contributions and changes in assumptions related to pension accounting and by a \$4.0 million increase in unamortized loss on refunded debt.

Liabilities – Current liabilities increased \$5.0 million (6.8%) from 2015. This is attributable to increases of \$4.4 million in due to other funds, \$2.5 million in revenue bonds due within one year, \$1.2 million for interest payable, \$0.4 million in claims payable, \$0.1 million in taxes payable, \$0.1 million on other credits and \$0.1 million in due to other governments. These increases were offset by decreases of \$2.2 million in accounts payable, \$1.4 million in salaries, benefits and payroll taxes and a \$0.1 million decrease in environmental liabilities.

Other liabilities increased \$76.8 million (44.1%). The most significant factor affecting this change is the \$63.3 million increase to environmental liabilities (Note 10). Additional increases were \$10.6 million to net pension liability (Note 9), \$2.4 million of other noncurrent liabilities, \$0.9 million in vendor and other deposits and \$0.7 million for claims payable. These increases were offset by decreases of \$1.2 million in loans payable and \$0.1 million in compensated absences payable.

Net position – The largest portion of the Fund's net position (\$404.0 million or 121.5%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2016, net investment in capital assets increased \$50.8 million from 2015 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position (\$21.8 million or 6.6%) represent resources that are subject to restrictions on how they may be used. This portion of net position decreased \$0.1 million from 2015.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS (continued)

The remaining portion of the Fund's net position (a negative \$93.3 million or -28.1%) represents resources that are unrestricted. The unrestricted portion of net position decreased \$48.4 million from the prior year. The increase in the negative net position is primarily due to the recording of additional environmental liabilities (Note 10).

2015 Compared to 2014

Assets – Current assets increased \$6.4 million (4.5%) over the prior year primarily due to increases of \$4.0 million in due from other governments, \$1.8 million in accounts receivable, net of allowance for doubtful accounts, \$0.5 million in notes and other contracts, \$0.4 million in unbilled revenues and \$0.2 million in materials and supplies inventory. These increases were offset by decreases of \$0.4 million in operating cash and \$0.1 million in due from other funds.

Other assets decreased \$72.7 million (-44.5%) from 2014. This is mostly attributable to decreases of \$71.9 million in restricted cash and equity in pooled investments, \$0.4 million in other charges, \$0.3 million for external infrastructure costs and \$0.2 million in regulatory assets. The decreases were offset by an increase of \$0.1 million in environmental costs and recoveries.

Deferred outflows of resources – Deferred outflows of resources increased by \$8.8 million (135.7%) from 2014. This increase is attributed to a \$9.2 increase for pension contributions and changes in assumptions related to pension accounting offset by \$0.4 million reduction in unamortized loss on refunded debt.

Liabilities – Current liabilities increased \$4.9 million (7.2%) from 2014. This is attributable to increase of \$2.6 million in salaries, benefits and payroll taxes payable, \$1.1 in due to other governments, \$0.9 million in revenue bonds due within one year, \$0.9 million in claims payable, \$0.5 million increase in accounts payable and a \$0.4 million increase in environmental liabilities. These increases were offset by decreases of \$1.0 million in due to other funds, \$0.3 million in credits and other payables and \$0.2 million for interest payable.

Other liabilities increased \$76.7 million (78.7%). The most significant factor affecting this change is the \$77.0 million increase to record the net pension liability (Note 9). Additional increases include \$3.0 million in environmental liabilities (Note 10), and \$0.7 million in vendor and other deposits. These increases were offset by decreases of \$2.8 million in claims payable and \$1.2 million in loans payable.

Net position – The largest portion of the Fund's net position (\$353.1 million or 107.0%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2015, net investment in capital assets increased \$51.4 million from 2014 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

**SEATTLE PUBLIC UTILITIES -
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS (continued)

The Fund's restricted net position (\$21.7 million or 6.6%) represent resources that are subject to restrictions on how they may be used. This portion of net position decreased \$0.5 million from 2014.

The following summary statements of revenues, expenses, and changes in net position present the annual surplus of revenues over expenses (the change in net position):

SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 375,041,044	\$ 363,778,513	\$ 341,999,940
Operating expenses	<u>(320,406,157)</u>	<u>(302,120,829)</u>	<u>(284,220,570)</u>
Net operating income	54,634,887	61,657,684	57,779,370
Other income (expenses)	(16,090,245)	(14,938,228)	(15,118,084)
Fees, contributions, grants, special items and environmental remediation	<u>(35,981,704)</u>	<u>5,370,884</u>	<u>5,802,828</u>
Change in net position	<u>\$ 2,562,938</u>	<u>\$ 52,090,340</u>	<u>\$ 48,464,114</u>

2016 Compared to 2015

Current year operating revenues increased \$11.3 million (3.1%) from 2015. This is due to a \$5.4 million increase in wastewater revenues from an average rate increase of 3.6%. Drainage revenues increased \$5.9 million due to an average rate increase of 9.9%. Other operating revenues increased by \$0.5 million.

Operating expenses increased \$18.3 million (6.1%) from 2015. The largest operating expense increase was related to Wastewater treatment costs which increased by \$3.7 million due to a 5.5% increase in King County's treatment rate. The overall branch operations experienced a net increase in costs of \$8.9 million. The increases included \$8.1 million in general and administrative, \$0.8 million increase in utility systems management and planning and development, and a \$0.7 million in project delivery. These increases were offset by a decrease of \$0.7 in field operations. City and state business occupation tax increased by \$1.4 million as a result of the overall increase in taxable revenues. Depreciation and other amortization also increased \$4.0 million as a result of an increase in depreciable assets.

Nonoperating expenses increased by \$1.2 million (7.7%) as compared to 2015. This is primarily due to increases in interest expense, amortization of bond premiums and an increase in gain on sale of assets, offset by decreases in investment and interest income, and contributions and grants. In addition, the Fund had an increase in environmental remediation expenses of \$61.2 million (Note 10).

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS (continued)

Capital contributions and grants increased \$19.9 million (191.9%) mainly due to an \$13.4 million increase in donated assets and a \$10.2 increase in interlocal capital contributions. These increases were offset by a decrease of \$3.7 million in capital grants.

2015 Compared to 2014

Current year operating revenues increased approximately \$21.8 million (6.4%) from 2014. This is due to a \$12.9 million increase in wastewater revenues from an average rate increase of 5.2% and an increase in consumption of 3.7%. Drainage revenues increased \$9.3 million due to an average rate increase of 10%. Other operating revenues decreased by \$0.4 million.

Operating expenses increased \$17.9 million (6.3%) from 2014. The largest operating expense increase was related to Wastewater treatment costs, which increased by \$10.0 million due to a 5.6% increase in King County's treatment rate and a 3.7% increase in consumption. The overall branch operations experienced a net increase in costs of \$3.8 million. The increases included \$3.2 million in field operations, \$2.1 million in customer service, and \$1.7 million in project delivery. These increases were offset by decreases, which included, \$3.0 in general and administrative and \$0.2 million in utility systems management, and planning and development. City and state business occupation tax increased by \$2.6 million as a result of the overall increase in taxable revenues. Depreciation and other amortization also increased \$1.3 million as a result of an increase in depreciable assets.

Nonoperating expenses decreased by \$0.2 million (1.2%) as compared to 2014. This is primarily due to increases in interest expense, operating grants, and insurance recoveries offset by decreases in gain on sale of assets and environmental recoveries.

Capital contributions and grants decreased \$0.4 million (3.8%) mainly due to an \$2.9 million increase in capital grant revenue, offset by decreases of \$2.7 million in donated assets and \$0.6 million in other contributions.

**SEATTLE PUBLIC UTILITIES -
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category:

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2016	2015	2014
Land and land rights	\$ 22,490,142	\$ 22,490,142	\$ 19,766,808
Buildings	11,464,702	11,500,696	6,979,156
Structures	184,038,075	179,016,967	122,355,093
Machinery and equipment	635,252,032	584,855,750	502,706,765
Computer systems	22,897,845	10,096,112	12,106,000
Construction in progress	184,074,365	138,237,726	178,365,927
Other property	2,026,721	1,712,713	1,558,246
Capital assets, net of accumulated depreciation	<u>\$ 1,062,243,882</u>	<u>\$ 947,910,106</u>	<u>\$ 843,837,995</u>

Additional information about the Fund's capital assets can be found in Note 3 of this report.

2016 Compared to 2015

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2016 was \$1.1 billion. This represented an increase of approximately \$114.3 million (12.1%) compared to 2015. Highlights of the Fund's major capital assets placed in service during 2016 included the following:

- \$13.8 million to replace the customer service billing system.
- \$7.9 million to replace sewer pipelines throughout several locations within the City.
- \$7.4 million to reduce combined sewer overflows in the Leschi basin.
- \$6.7 million for implementation of the Ballard Natural Drainage System.
- \$6.0 million for improvements to the Delridge combined sewer overflow facilities
- \$5.6 million for construction of South Park sewer improvements.
- \$2.8 million to upgrade the mains from Alder St. to Yesler then along 8th Avenue and connecting with the I-5 combined sewer crossing.

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CAPITAL ASSETS (continued)

Highlights of the Fund's major construction projects in progress at the end of 2016 include the following:

- \$60.8 million for construction of combined sewer overflow storage facilities in Henderson North basins.
- \$34.3 million for construction of a CSO storage facility for the Ballard, Fremont, and Wallingford CSO basins as part of the Ship Canal Water Quality Project.
- \$16.8 million to construct new side sewers, collector sewers and connections as a result of the Seawall Replacement project.
- \$10.7 million to design and construct a new south operations center.
- \$7.5 million to build a pump station and a water quality facility near 7th Street and Riverside in South Park.
- \$4.9 million to construct a permanent drainage system in the area of Dallas Avenue South and 17th Avenue South.
- \$3.1 million to construct improvements to the sewer and storm water systems in the 12th Avenue NW and Broadview neighborhood.
- \$3.0 million for improvements to Taylor Creek downstream from Rainier Ave S.
- \$2.9 million for the bored tunnel portion of the Alaskan Way Viaduct and Seawall Replacement projects.
- \$2.6 million to construct sewer and storm water system improvements in the Dayton Avenue area.
- \$2.5 million for 1% for art.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSETS (continued)

2015 Compared to 2014

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2015 was \$947.9 million. This represented an increase of approximately \$104.0 million (12.3%) compared to 2014. Highlights of the Fund's major capital assets placed in service during 2015 included the following:

- \$59.4 million for construction of 2 million gallons of storage for the combined sewer system in the Windermere drainage basin.
- \$45.2 million for construction of two combined sewer overflow (CSO) facilities in the South Genesee area.
- \$9.0 million to replace sewer pipelines throughout several locations within the City.
- \$6.1 million to develop a natural drainage system at Venema Creek.
- \$2.6 million to implement a permanent solution to storm water flooding and side sewer backups in the Madison Valley area.

Highlights of the Fund's major construction projects in progress at the end of 2015 include the following:

- \$40.1 million for construction of combined sewer overflow storage facilities in Henderson North basins.
- \$23.2 million for construction of a CSO storage facility for the Ballard, Fremont, and Wallingford CSO basins as part of the Ship Canal Water Quality Project.
- \$11.2 million to construct new side sewers, collector sewers and connections as a result of the Seawall Replacement project.
- \$8.8 million to replace the customer service billing system.
- \$6.3 million to build a pump station and a water quality facility near 7th Street and Riverside in South Park.
- \$4.2 million for the bored tunnel portion of the Alaskan Way Viaduct and Seawall Replacement projects.

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CAPITAL ASSETS (continued)

- \$3.2 million for implementation of the Ballard Natural Drainage System.
- \$3.1 million for improvements to the Delridge combined sewer overflow facilities.
- \$3.1 million to reduce combined sewer overflows in the Leschi basin.
- \$3.1 million to construct a permanent drainage system in the area of Dallas Avenue South and 17th Avenue South.
- \$2.8 million to upgrade the mains from Alder St. to Yesler then along 8th Avenue and connecting with the I-5 combined sewer crossing.
- \$2.5 million to construct improvements to the sewer and storm water systems in the 12th Avenue NW and Broadview neighborhood.
- \$2.5 million for 1% for art.
- \$2.1 million for construction of South Park sewer improvements.
- \$2.1 million to construct sewer and storm water system improvements in the Dayton Avenue area.

DEBT ADMINISTRATION

The Fund's debt primarily consists of bonded debt and loans. Bonded debt is secured solely by drainage and wastewater system revenues and provides financing for capital improvements. Loans issued by various Washington State agencies for certain capital improvements are unsecured. The Fund's credit ratings on its bonds were AA+ by Standard and Poor's Rating Service and Aa1 by Moody's Investor Service.

2016 Compared to 2015

At the end of 2016, the Fund had \$673.9 million in bonded debt, as compared to \$600.7 million in 2015, all of which was secured solely by drainage and wastewater system revenues. This increase of \$73.2 million is attributed to the issuance of a new revenue and refunding bond, and the payment of debt principal.

At the end of 2016, the Fund had an outstanding loan balance of \$15.4 million compared to \$16.6 million in 2015. This decrease of \$1.2 million was the payment of loan principal.

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DEBT ADMINISTRATION (continued)

2015 Compared to 2014

At the end of 2015, the Fund had \$600.7 million in bonded debt, as compared to \$618.9 million in 2014, all of which was secured solely by drainage and wastewater system revenues. This decrease of \$18.2 million was the payment of debt principal.

At the end of 2015, the Fund had an outstanding loan balance of \$16.6 million compared to \$17.8 million in 2014. This decrease of \$1.2 million was the payment of loan principal.

REQUESTS FOR INFORMATION

The Fund's financial statements are designed to provide a general overview of the Fund's finances, as well as to demonstrate the Fund's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Seattle Public Utilities, Finance and Administration Branch, Finance Division, PO Box 34018, Seattle, Washington 98124-4018, telephone: (206) 684-3000.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION**

	December 31,	
	2016	2015
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	\$ 121,116,924	\$ 100,900,821
Receivables		
Accounts, net of allowance	19,802,960	19,878,760
Interest and dividends	503,812	426,619
Unbilled revenues	19,398,966	18,712,213
Notes, and other contracts	56,394	579,287
Due from other funds	2,496,651	864,687
Due from other governments	9,721,567	6,430,582
Materials and supplies inventory	1,136,351	1,206,768
Prepayments and other current assets	34,515	34,515
Total current assets	<u>174,268,140</u>	<u>149,034,252</u>
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	54,121,642	27,579,338
Prepayments long-term	622,076	656,591
Notes and contracts receivable	1,048,868	1,105,262
Environmental costs and recoveries	2,148,752	4,115,437
External infrastructure costs	18,742,355	19,035,204
Regulatory assets - bond issue costs	4,406,068	4,048,259
Other charges	33,314,774	34,057,182
Capital assets		
Land and land rights	22,490,142	22,490,142
Plant in service, excluding land	1,194,642,146	1,102,623,792
Less accumulated depreciation	(340,989,492)	(317,154,267)
Construction in progress	184,074,365	138,237,726
Other property, net	2,026,721	1,712,713
Total noncurrent assets	<u>1,176,648,417</u>	<u>1,038,507,379</u>
Total assets	<u>1,350,916,557</u>	<u>1,187,541,631</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	10,127,210	6,085,257
Pension contributions and changes in assumptions	17,899,066	9,183,943
Total deferred outflows of resources	<u>28,026,276</u>	<u>15,269,200</u>
Total assets and deferred outflow of resources	<u>\$ 1,378,942,833</u>	<u>\$ 1,202,810,831</u>

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION**

	December 31,	
	2016	2015
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 8,518,670	\$ 10,696,478
Salaries, benefits, and payroll taxes payable	3,611,312	5,009,848
Compensated absences payable	398,873	431,606
Due to other funds	12,637,024	8,249,919
Due to other governments	12,789,445	12,732,412
Interest payable	8,165,842	6,993,881
Taxes payable	404,814	309,586
Revenue bonds due within one year	21,570,000	19,080,000
Claims payable	3,172,153	2,811,856
Environmental liabilities	1,931,411	2,000,688
Loans payable, due within one year	1,223,366	1,212,401
Other	3,220,374	3,159,076
Total current liabilities	<u>77,643,284</u>	<u>72,687,751</u>
NONCURRENT LIABILITIES		
Compensated absences payable	4,459,219	4,566,723
Claims payable	4,636,144	3,908,906
Environmental liabilities	132,341,719	69,009,873
Loans	14,130,020	15,353,386
Vendor and other deposits payable	2,604,554	1,748,670
Unfunded other post employment benefits	2,718,526	2,580,253
Net pension liability	87,690,216	77,047,177
Other noncurrent liabilities	266,223	101,465
Revenue bonds	673,920,000	600,680,000
Less bonds due within one year	(21,570,000)	(19,080,000)
Bond discount and premium, net	65,359,100	44,304,638
Total noncurrent liabilities	<u>966,555,721</u>	<u>800,221,091</u>
Total liabilities	<u>1,044,199,005</u>	<u>872,908,842</u>
DEFERRED INFLOWS OF RESOURCES		
Pension contributions and changes in assumptions	<u>2,278,901</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	403,956,846	353,149,704
Restricted for		
External infrastructure costs	7,231,991	7,217,821
Other charges	14,555,097	14,448,926
Unrestricted	<u>(93,279,007)</u>	<u>(44,914,462)</u>
Total net position	<u>332,464,927</u>	<u>329,901,989</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,378,942,833</u>	<u>\$ 1,202,810,831</u>

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	Years Ended December 31,	
	2016	2015
OPERATING REVENUES		
Charges for services and other revenues	\$ 375,041,044	\$ 363,778,513
OPERATING EXPENSES		
Planning and development	1,493,543	1,749,701
Utility systems management	12,370,902	11,249,162
Field operations	28,859,854	29,592,633
Project delivery	10,494,398	9,789,617
Customer services	6,500,742	6,472,109
Wastewater treatment	154,000,792	150,325,985
General and administrative	30,135,237	22,064,168
City business and occupation taxes	44,311,317	42,876,271
Other taxes	4,836,487	4,548,906
Depreciation and other amortization	27,402,885	23,452,277
Total operating expenses	<u>320,406,157</u>	<u>302,120,829</u>
OPERATING INCOME	<u>54,634,887</u>	<u>61,657,684</u>
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	3,095,699	3,646,385
Interest expense	(22,779,050)	(22,156,241)
Amortization of bonds premiums and discounts, net	2,126,821	1,708,812
Amortization of refunding loss	(511,696)	(393,638)
Gain (loss) on sale of capital assets	147,382	(228,647)
Contributions and grants	1,053,743	1,481,900
Other, net	776,856	1,003,201
Total nonoperating revenues (expenses)	<u>(16,090,245)</u>	<u>(14,938,228)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS, AND SPECIAL ITEMS	38,544,642	46,719,456
CAPITAL CONTRIBUTIONS AND GRANTS	30,205,190	10,346,199
ENVIRONMENTAL REMEDIATION	<u>(66,186,894)</u>	<u>(4,975,315)</u>
CHANGE IN NET POSITION	2,562,938	52,090,340
NET POSITION		
Beginning of year	<u>329,901,989</u>	<u>277,811,649</u>
End of year	<u>\$ 332,464,927</u>	<u>\$ 329,901,989</u>

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 370,806,392	\$ 358,745,844
Cash paid to suppliers	(169,184,050)	(169,893,579)
Cash paid to employees	(66,268,885)	(57,018,604)
Cash paid for taxes	(48,702,216)	(47,181,031)
Net cash provided by operating activities	<u>86,651,241</u>	<u>84,652,630</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	1,796,005	799,214
Payments for environmental liabilities	(957,639)	(1,790,886)
Net cash used in noncapital financing activities	<u>838,366</u>	<u>(991,672)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sales of bonds and other long-term debt	183,722,951	-
Principal payments on long-term debt and refunding	(92,869,275)	(19,228,806)
Capital expenditures and other charges paid	(116,611,390)	(117,457,492)
Interest paid on long-term debt	(28,993,254)	(29,367,055)
Build America Bonds federal interest subsidy	1,757,422	1,752,707
Capital fees and grants received	11,360,903	5,772,780
Debt issuance costs	(556,250)	-
Proceeds from sale of capital assets	196,610	686,984
Net cash used in capital and related financing activities	<u>(41,992,283)</u>	<u>(157,840,882)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Gain on investments	<u>1,261,083</u>	<u>1,927,282</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	46,758,407	(72,252,642)
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	<u>128,480,159</u>	<u>200,732,801</u>
End of year	<u>\$ 175,238,566</u>	<u>\$ 128,480,159</u>
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	\$ 121,116,924	\$ 100,900,821
Noncurrent restricted cash and equity in pooled investments	<u>54,121,642</u>	<u>27,579,338</u>
Total cash at the end of the year	<u>\$ 175,238,566</u>	<u>\$ 128,480,159</u>

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (continued)**

	Years Ended December 31,	
	2016	2015
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 54,634,887	\$ 61,657,684
Adjustments to reconcile net operating income to net cash from operating activities		
Adjustment for net pension liability	10,643,040	1,577,046
Depreciation and amortization	27,402,885	23,452,277
Other receipts and payments	1,972,219	2,285,554
Changes in operating assets and liabilities		
Accounts receivable	601,260	(1,836,498)
Unbilled revenues	(686,753)	(440,203)
Due from other funds	(1,631,964)	118,872
Due from other governments	(3,656,949)	(3,855,793)
Materials and supplies inventory	70,417	(164,174)
Other assets	(8,626,781)	(414,567)
Accounts payable	(2,177,808)	518,180
Salaries, benefits, and payroll taxes payable	(1,398,535)	2,592,743
Compensated absences payable	(140,237)	(73,028)
Due to other funds	4,387,104	(971,001)
Due to other governments	57,033	1,143,590
Claims payable	1,087,535	(1,959,453)
Taxes payable	95,228	10,860
Other liabilities	4,018,660	1,010,541
Total adjustments	<u>32,016,354</u>	<u>22,994,946</u>
Net cash from operating activities	<u>\$ 86,651,241</u>	<u>\$ 84,652,630</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contributed infrastructure	<u>\$ 17,948,440</u>	<u>\$ 4,582,644</u>

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Operations and Summary of Significant Accounting Policies

Operations – The City of Seattle, Seattle Public Utilities – Drainage and Wastewater Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). The Fund was established to account for the drainage and wastewater activities of Seattle Public Utilities (SPU). Drainage activities include regulating storm water runoff, alleviating flooding, mitigating water pollution caused by runoff, and responding to federal storm water regulations, in addition to managing drainage utility assets. Wastewater activities consist of managing the City’s sewer system, including the operation of sewer utility facilities and pumping stations necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

On January 1, 1997, the City created SPU, which brought together under one administrative umbrella the water, solid waste, and drainage and wastewater functions of the City. The Fund (as well as SPU’s other funds) remains separate for accounting purposes.

SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City’s General Fund. During 2016 and 2015, the Fund paid \$13,221,969 and \$11,890,086, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$44,311,317 and \$42,876,271 to the City for business and occupation utility taxes in 2016 and 2015, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$3,583,824 in 2016 and \$3,158,159 in 2015 from the City for wastewater services provided. The Fund also collected \$7,893,879 in 2016 and \$6,359,998 in 2015 from the City for drainage services.

The utility billing function is co-managed by both SPU and Seattle City Light (SCL). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system. SPU and SCL bills and reimburses each other for these services. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of \$2,043,002 and \$1,950,713 in 2016 and 2015, respectively. The Fund paid \$186,283 and \$151,918 for the utility billing services in 2016 and 2015, respectively. These costs do not include reimbursements to SCL for the Fund’s share of capital costs to upgrade the Consolidated Customer Service System (CCSS) system to the new Customer Care and Billing System (CCB) completed in 2016.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the City Council. Financial reporting is reviewed by the Washington State Auditor’s Office and conforms to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Operations and Summary of Significant Accounting Policies (continued)

Basis of accounting – The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets, deferred outflows of resources, and liabilities associated with the Fund’s operations are included on the statements of net position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

Cash and equity in pooled investments – Cash resources of the Fund are combined with cash resources of the City in a pooled investment portfolio that is managed by the City’s Finance and Administration Services Department. The City’s investment portfolio consists of fixed income securities authorized by the Revised Code of Washington and other applicable law. The pool operates like a demand deposit account in that all City departments may deposit cash at any time and withdraw cash out of the pool without prior notice or penalty. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned. Cash and equity in pooled investments are reported at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 72, *Fair Value Measurement and Application*. The Fund’s share of the pool is included in the accompanying Statement of Net Position under the caption “cash and equity in pooled investments.” Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, bond reserve funds, vendor’s escrow deposits and a rate stabilization fund.

Receivables and unbilled revenues – Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Fund also accrues an estimated amount for services that have been provided but not billed.

Due from/to other funds and governments – Activity between other funds and governments that is outstanding at the end of the year, not related to the provision of utility services, is reported as due from or due to other funds and governments.

Allowance for doubtful accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2016 and 2015, the Fund’s allowance for doubtful accounts was \$519,036 and \$472,402, respectively.

Materials and supplies inventory – The Fund values its inventory based on a moving average method. The most recent total cost of an inventory item is divided by the total units of the item that remain in inventory to determine the moving average cost of the item. The moving average cost is then applied to all the units of the inventory item.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Environmental costs and recoveries – The Fund is involved in several remediation efforts around the City (Note 10). When estimated remediation costs are approved to be recovered through rates, the costs, net of recoveries, associated with these efforts are deferred when accrued as a regulatory asset and are amortized over the rate recovery period. Certain environmental remediation costs that are infrequent in occurrence are treated as a special item in the Statements of Revenues, Expenses, and Changes in Net Position.

External infrastructure costs – The Fund has contributed \$21,963,686 to a joint project with King County to expand one of their transmission lines to help alleviate sewer overflows in the area. These costs represent the portion of the project that did not result in a capital asset for the Fund. The project was completed in 2005. The Fund has deferred these costs and began amortizing them in 2006 over a 75-year period.

Regulatory assets – bond issue costs – GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated bond issues. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, would have required these costs to be expensed in the period incurred if the Fund had not utilized regulatory accounting for these costs.

Other charges – Other charges primarily include costs related to the Long Term Control Plan which direct the Fund's construction and monitoring of several Combined Sewer Overflow projects. The Fund amortizes these charges over a 5 to 30-year period.

Capital assets – Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU's policy is to generally capitalize assets with a cost of \$5,000 or more. The Fund received donated assets, such as sewer and drainage pipes, from developers and other government agencies. These donated assets are treated as a special item under capital contributions and grants in the statements of revenues, expenses, and changes in net position.

Construction in progress – Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Other property – Other property is stated at cost, or if contributed, the fair value at the date of contribution. Other property includes artwork and property held for future use. The artwork is acquired through the City’s “One Percent for Art” program, which supports the City ordinance established to direct the inclusion of works of art in public spaces within the City.

Depreciation – Capital assets in service are depreciated on the straight-line method over estimated useful lives as follows:

Buildings and fixtures	10 to 50 years
Laterals, mains, and outfalls	75 years
Detention structures	75 years
Pumping stations, equipment, and overflow structures	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 11 years

Composite rates based on year of addition are used for depreciating the laterals, mains, and outfalls asset group. For most assets, it is SPU’s policy to begin depreciation in the year following acquisition and to record a full year’s depreciation in the year of disposition. This does not apply to heavy equipment, for which depreciation begins in the month following the equipment’s in-service date to more accurately allocate equipment costs to various activities.

Deferred outflows/inflows of resources – In addition to assets, the Statement of Net Position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred outflows of resources for certain pension activities including, the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Note 9).

In addition to liabilities, the statement of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions. The Fund did not have any deferred inflows of resources as of December 31, 2015.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Environmental liabilities – The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 outlines five specific obligating events that give rise to estimating expected pollution remediation outlays. These outlays may be accrued as a liability and expensed, or if appropriate, capitalized.

- The Fund will accrue a liability if any of the following obligating events occurs:
- The Fund is compelled to take pollution remediation action because of an imminent endangerment.
- The Fund violates a pollution prevention-related permit or license.
- The Fund is named, or evidence indicates it will be named, by a regulator as a potentially responsible party (PRP) for remediation.
- The Fund is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The Fund commences or legally obligates itself to commence pollution remediation.

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. See Note 10 for site descriptions.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Seattle City Employees’ Retirement System (SCERS) are reported on the same basis as reported by SCERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated absences – Employees earn vacation based upon their date of hire and years of service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit.

Employees who submit the required documentation to be represented by the Coalition of City Unions are paid 35% of the value of unused sick leave upon retirement as part of the Health Reimbursement Arrangement – Voluntary Employees’ Beneficiary Association (HRA-VEBA) program. If the employee fails to submit the required documentation by their last working day of employment, their sick leave balance is forfeited.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Retiring employees who are not eligible to participate in the HRA-VEBA program may elect to receive 25% of the value of unused sick leave upon retirement or defer receipt of 35% of the value of their sick leave balance to the City's 457 Plan and Trust, subject to the year-to-date or life-to-date limitations on deferrals and contributions. If the 35% value of the sick leave balance exceeds the maximum amount deferred to the City's 457 Plan and Trust, the employee shall receive a taxable cash payment equal to the amount by which the 25% value of the sick leave balance exceeds the 35% that was allowed to be deferred. The Fund records a liability for estimated sick leave payments.

Operating revenues – Wastewater service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled wastewater service revenues in the financial statements for services provided from the date of the last billing to year end.

Drainage service charges are billed to the City's drainage residential and nonresidential customers twice a year through the service of King County's property tax billing system. These charges fund operations and maintenance of, and improvements to, the City's system of storm and drainage facilities.

Other operating revenues include revenues generated from wastewater and sewer permits, and engineering services provided to other City funds.

Operating expenses – Certain expenses of the Fund are reported on the Statement of Revenue, Expenses and Change in Net Position by functional category. The types of work performed within each category are as follows:

- **Planning and development** – Provides planning services and other related costs prior to the start of capital projects.
- **Utility systems management** – Accounts for the overall management of the Fund's infrastructure assets, assuring they are properly designed, constructed, operated, and protected.
- **Field operations** – Operates and maintains the Fund's drainage and wastewater systems.
- **Project delivery** – Provides project management and engineering services to the Fund and executes the Fund's capital projects from start to completion.
- **Customer services** – Invoices the Fund's customers for services provided and is the primary point of contact for customers.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Taxes – The Fund is charged a public utility tax by the City at a rate of 12.0% for Wastewater revenues and 11.5% for Drainage revenues, net of certain credits. In addition, the Fund paid a 3.85% public utility tax to the State on a certain portion of revenues identified as sewer collection revenues. The Fund also paid business and occupation tax to the State on certain drainage and other non-utility revenues at the rate of 1.5%.

Nonoperating revenues and expenses – This includes the non-operating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the Fund and are of a recurring nature. Major items are investment and interest income, interest expense, amortization of debt expenses, and sale of capital assets.

Net position – The Statement of Net Position reports all financial and capital resources. Assets and deferred outflows of resources minus liabilities and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints placed on net position use are either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2016 and 2015, are related to external infrastructure costs and certain other charges.

Unrestricted net position is the portion that is not “net investment in capital assets” or “restricted.”

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2016 and 2015.

Accounting standard changes – GASB has issued Statement No. 72, *Fair Value Measurement and Application*, to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement is effective for periods beginning after June 15, 2015. This statement was implemented in 2016.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, fair market value of cash and equity in pooled investments, accrued sick leave, capitalized interest, depreciation, environmental liabilities, risk liabilities, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Significant risks and uncertainties – The Fund is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, and federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

Reclassifications – Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation. Current year reclassifications had no effect on previously reported change in net position or net position.

Note 2 – Cash and Equity in Pooled Investments

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the Director of Finance and Administrative Services (FAS) is authorized to invest all moneys in the City Treasury. Cash resources of all City funds are combined into a common investment pool that is managed by FAS. Each fund's share of the pooled investments is included in the participating fund's balance sheet under the caption "Cash and Equity in Pooled Investments." The pool operates like a demand deposit account in that all City funds may deposit cash at any time and also withdraw cash up to their respective fund balance out of the pool without prior notice or penalty.

Custodial credit risk – deposits – As of December 31, 2016 and 2015, the City's pool contained cash on deposit with the City's custodial banks in the amounts of \$54,334,775 and \$20,023,332, respectively. The deposits in excess of \$250,000 in 2016 and 2015 were uninsured and uncollateralized. As such, these deposits are exposed to custodial credit risk, which is the risk that the deposits may not be returned to the City in the event of a bank failure. The City attempts to minimize exposure to custodial credit risk for deposits by requiring the depository bank to have sufficient capital to support the activity of the City. In addition, banks having a deposit relationship with the City are required to provide financial statements for the City's use in reviewing the bank's financial condition.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Cash and Equity in Pooled Investments (continued)

All deposits not covered by FDIC insurance are under the regulation of the Washington State Public Deposit Protection Commission (the Commission) established in RCW 39.58 for public depository financial institutions. The Commission requires a pledge agreement and a trustee for each public depository financial institution. The trustee ensures eligible collateral defined as securities and designated for the benefit of public depositors, as described in RCW 39.58.050 (5) and (6), are segregated from all other assets. Eligible collateral is utilized by the trustee when the Commission has determined a loss, net of deposit insurance, has been incurred by a public depository financial institution.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the City’s investment policy, investments in commercial paper purchased on the secondary market are limited to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations (NRSROs). As of December 31, 2016, the City’s investments in commercial paper were rated P-1 by Moody’s Investors Service and A-1 or A-1+ by Standard & Poor’s Rating Service. As of December 31, 2015, the City’s investments in commercial paper were rated P-1 or Aaa by Moody’s Investors Service and AA+, A-1 or A+1 by Standard & Poor’s Rating Service.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal National Mortgage Association, Wells Fargo, and Federal Home Loan Mortgage Corporation. As of December 31, 2016, these investments were rated Aaa by Moody’s Investors Service and AA+ or AA- by Standard & Poor’s Rating Service. As of December 31, 2015, these investments were rated Aaa by Moody’s Investors Service and AA+ by Standard & Poor’s Rating Service.

Interest rate risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages this risk by limiting the average maturity of investments to five years. However, the Fund’s investments are selected for greater liquidity in order to support the Fund’s cash flow needs and therefore typically have much shorter average maturities.

Investments – The City reports its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction amongst market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Cash and Equity in Pooled Investments (continued)

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The City uses a combination of the market and cost approach for the valuation of pooled investments.

The City's overnight repurchase agreement with Wells Fargo Bank, N.A. and investment in the State of Washington Local Government Investment Pool (LGIP) are accounted for at cost. The LGIP is an external investment pool and is measured at a net asset value (NAV) per share of \$1. The remainder of the City's investments are purchased in the over-the-counter U.S. bond market and accounted for at market.

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Wells Fargo Institutional Retirement & Trust, and its third-party investment accounting vendor FIS AvantGard LLC. Both Wells Fargo and FIS contract with Interactive Data Pricing and Reference Data, Inc. for securities pricing.

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Cash and Equity in Pooled Investments (continued)

As of December 31, 2016 and 2015, the City’s pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2016	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Bank Note	\$ 48,132,770	\$ -	\$ 48,132,770	\$ -	658
Commercial Paper	204,474,875	-	204,474,875	-	90
Local Government Investment Pool	45,382,406	-	45,382,406	-	-
Municipal Bonds	306,457,925	-	306,457,925	-	1,692
Repurchase Agreements	50,446,235	50,446,235	-	-	2
U.S. Government Agency Mortgage- Backed Securities	261,378,071	-	261,378,071	-	590
U.S. Government Agency Securities	553,815,643	-	553,815,643	-	920
U.S. Treasury and U.S. Government- Backed Securities	287,802,378	275,300,476	12,501,902	-	472
	<u>\$ 1,757,890,303</u>	<u>\$ 325,746,711</u>	<u>\$ 1,432,143,592</u>	<u>\$ -</u>	

Weighted Average Maturity of the City’s Pooled Investments 1,101

Investments	Fair Value as of December 31, 2015	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Bank Note	\$ 49,379,096	\$ -	\$ 49,379,096	\$ -	879
Commercial Paper	219,945,269	-	219,945,269	-	25
Municipal Bonds	277,612,818	-	277,612,818	-	1,084
Repurchase Agreements	55,065,648	55,065,648	-	-	4
U.S. Government Agency Securities	702,525,759	-	702,525,759	-	1,427
U.S. Treasury and U.S. Government- Backed Securities	455,757,612	427,949,944	27,807,668	-	487
	<u>\$ 1,760,286,202</u>	<u>\$ 483,015,592</u>	<u>\$ 1,277,270,610</u>	<u>\$ -</u>	

Weighted Average Maturity of the City’s Pooled Investments 895

The Fund’s share of the City pool was as follows as of December 31:

	2016	2015
Operating cash and equity in pooled investments	\$ 121,116,924	\$ 100,900,821
Restricted cash and equity in pooled investments	<u>54,121,642</u>	<u>27,579,338</u>
Total	<u>\$ 175,238,566</u>	<u>\$ 128,480,159</u>
Balance as a percentage of City pool cash and investments	10.0%	7.3%

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Cash and Equity in Pooled Investments (continued)

Concentration of credit risk – The City’s investment policy limits concentration of credit risk for the City’s investments as a whole, inclusive of the Fund’s investments. These policy limits vary for each investment category.

The City’s investments in which five percent or more is invested in any single issuer, as of December 31, are as follows:

Issuer	2016		2015	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal National Mortgage Association	\$ 302,419,724	17%	\$ 243,748,956	14%
United States Government	287,802,378	16%	455,757,612	26%
Federal Farm Credit Bank	190,087,160	11%	104,276,118	6%
Federal Home Loan Bank	139,856,360	8%	133,886,466	8%
Federal Home Loan Mortgage Corp	93,916,723	5%	94,418,168	5%
Freddie Mac Multifamily Securities	88,913,747	5%	126,196,052	7%

Note 3 – Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2016:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 19,070,364	\$ 579,112	\$ -	\$ 19,649,476
Structures	232,021,153	11,074,276	-	243,095,429
Machinery and equipment	796,130,295	64,855,434	(738,496)	860,247,233
Computer systems	55,401,980	16,248,028	-	71,650,008
Total capital assets, excluding land	1,102,623,792	92,756,850	(738,496)	1,194,642,146
Less accumulated depreciation	(317,154,267)	(26,370,606)	2,535,381	(340,989,492)
	785,469,525	66,386,244	1,796,885	853,652,654
Construction in progress	138,237,726	121,333,063	(75,496,424)	184,074,365
Land and land rights	22,490,142	-	-	22,490,142
Other property	1,712,713	314,008	-	2,026,721
Capital assets, net	\$ 947,910,106	\$ 188,033,315	\$ (73,699,539)	\$ 1,062,243,882

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 3 – Capital Assets (continued)

Capital asset activity consisted of the following for the year ended December 31, 2015:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 14,242,650	\$ 4,827,714	\$ -	\$ 19,070,364
Structures	170,434,617	61,586,536	-	232,021,153
Machinery and equipment	702,595,763	95,868,692	(2,334,160)	796,130,295
Computer systems	53,789,392	2,002,235	(389,647)	55,401,980
Total capital assets, excluding land	941,062,422	164,285,178	(2,723,807)	1,102,623,792
Less accumulated depreciation	(296,915,408)	(22,512,687)	2,273,828	(317,154,267)
	644,147,014	141,772,490	(449,979)	785,469,525
Construction in progress	178,365,927	119,092,417	(159,220,618)	138,237,726
Land and land rights	19,766,808	3,191,421	(468,087)	22,490,142
Other property	1,558,246	154,467	-	1,712,713
Capital assets, net	<u>\$ 843,837,995</u>	<u>\$ 264,210,795</u>	<u>\$ (160,138,684)</u>	<u>\$ 947,910,106</u>

During 2016 and 2015, the Fund capitalized interest costs relating to construction of \$7,386,166 and \$6,978,568, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has \$21,098,409 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2016 and 2015, were \$673,920,000 and \$600,680,000, respectively. Revenue bonds outstanding as of December 31, 2016 and 2015, consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding	
					2016	2015
2006 parity refunding bonds	11/1/06	2007-2037	4.0-5.0%	\$ 121,765,000	\$ 70,215,000	\$ 74,965,000
2008 parity bonds	4/16/08	2009-2038	4.0-5.0%	84,645,000	3,850,000	74,015,000
2009A parity bonds	12/17/09	2017-2039	4.2-5.5%	102,535,000	102,535,000	102,535,000
2009B parity refunding bonds	12/17/09	2010-2027	2.0-4.0%	36,680,000	12,380,000	16,145,000
2012 parity refunding bonds	6/27/12	2012-2042	2.0-5.0%	222,090,000	194,720,000	201,640,000
2014 parity refunding bonds	7/10/14	2015-2044	3.0-5.0%	133,180,000	129,520,000	131,380,000
2016 parity refunding bonds	6/22/16	2016-2046	4.0-5.0%	160,910,000	160,700,000	-
				<u>\$ 861,805,000</u>	<u>\$ 673,920,000</u>	<u>\$ 600,680,000</u>

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Revenue Bonds (continued)

Minimum debt service requirements to maturity on revenue bonds are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 21,570,000	\$ 30,934,303	\$ 52,504,303
2018	22,560,000	29,903,015	52,463,015
2019	23,555,000	28,791,896	52,346,896
2020	24,560,000	27,628,496	52,188,496
2021	24,195,000	26,446,981	50,641,981
2022 - 2026	132,715,000	113,461,803	246,176,803
2027 - 2031	147,185,000	79,377,144	226,562,144
2032 - 2036	129,250,000	46,388,769	175,638,769
2037 - 2041	99,650,000	19,846,008	119,496,008
2042 - 2046	48,680,000	3,937,400	52,617,400
	<u>\$ 673,920,000</u>	<u>\$ 406,715,815</u>	<u>\$ 1,080,635,815</u>

The following table shows the revenue bond activity during the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$ 600,680,000	\$ 160,910,000	\$ (87,670,000)	\$ 673,920,000	\$ 21,570,000
Add (deduct) deferred amounts					
Issuance premiums	44,851,129	24,127,347	(3,096,645)	65,881,831	-
Issuance discounts	(546,491)	-	23,760	(522,731)	-
Total bonds payable	<u>\$ 644,984,638</u>	<u>\$ 185,037,347</u>	<u>\$ (90,742,885)</u>	<u>\$ 739,279,100</u>	<u>\$ 21,570,000</u>

The following table shows the revenue bond activity during the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$ 618,895,000	\$ -	\$ (18,215,000)	\$ 600,680,000	\$ 19,080,000
Add (deduct) deferred amounts					
Issuance premiums	46,583,701	-	(1,732,572)	44,851,129	-
Issuance discounts	(570,251)	-	23,760	(546,491)	-
Total bonds payable	<u>\$ 664,908,450</u>	<u>\$ -</u>	<u>\$ (19,923,812)</u>	<u>\$ 644,984,638</u>	<u>\$ 19,080,000</u>

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Revenue Bonds (continued)

Defeasance of debt – The Fund defeases certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the Statement of Net Position. In 2016, \$68,380,000 bonds were defeased and no bonds were redeemed as shown below:

<u>Name of Issue</u>	<u>Amount Outstanding at December 31, 2015</u>	<u>Additions</u>	<u>Redemptions</u>	<u>Amount Outstanding at December 31, 2016</u>
2006 Parity	\$ 16,330,000	\$ -	\$ -	\$ 16,330,000
2008 Parity	-	68,380,000	-	68,380,000
	<u>\$ 16,330,000</u>	<u>\$ 68,380,000</u>	<u>\$ -</u>	<u>\$ 84,710,000</u>

In 2015, no bonds were defeased and none were redeemed as shown below:

<u>Name of Issue</u>	<u>Amount Outstanding at December 31, 2014</u>	<u>Additions</u>	<u>Redemptions</u>	<u>Amount Outstanding at December 31, 2015</u>
2006 Parity	\$ 16,330,000	\$ -	\$ -	\$ 16,330,000

In June 2016, the Fund issued \$160,910,000 of Drainage and Wastewater Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2016 and ending in 2046, at interest rates ranging from 4.0 percent and 5.0 percent. A portion of the proceeds were used to partially refund the 2008 bonds. As a result of the refunding, the Fund reduced total debt service requirements by \$16.5 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$12.8 million.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service of at least equal to 125% of annual debt service. For 2016, net revenue available for debt service, as defined by the bond covenants, 271% of annual debt service. Management believes the Fund was in compliance with all debt covenants as of December 31, 2016. For more information see Other Information (page 49).

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 5 - Leases

The Fund has noncancelable operating lease commitments for real and personal property, with payments of \$97,554 and \$106,557 in 2016 and 2015, respectively. The two remaining leases for the fund will expire as of July 31, 2020. Rents are paid as they become due and payable. Minimum lease payments under the leases for the years ending December 31, are as follows:

2017	\$	45,673
2018		46,093
2019		46,525
2020		14,089
		<hr/>
	\$	152,380
		<hr/> <hr/>

Note 6 - Postemployment Benefit Plans

Deferred compensation – The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseen emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries. The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City’s legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

Other postemployment benefits – Health care plans for active and retired employees are administered by the City as single-employer defined benefit public employee health care plans.

Eligible retirees (younger than age 65) may contribute to the medical plan and any additional health care programs contemplated or amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Postemployment Benefit Plans (continued)

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute \$1.1 million in 2016 and 2015.

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net other post-employment benefit obligation (OPEB) for fiscal years ended December 31, 2016, 2015, and 2014. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2014. The Fund has accrued \$2,718,526 to the plan as of December 31, 2016, as a reasonable estimate of the expected contributions.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 7,733,000	\$ 4,605,000	\$ 4,392,000
Interest on net OPEB obligation	1,526,000	1,630,000	1,542,000
Adjustment to annual required contribution	<u>(2,549,000)</u>	<u>(2,540,000)</u>	<u>(2,403,000)</u>
Annual OPEB cost (expense)	6,710,000	3,695,000	3,531,000
Contribution (employer-paid benefits)	<u>(2,018,000)</u>	<u>(1,141,000)</u>	<u>(1,006,000)</u>
Increase in net OPEB obligation	4,692,000	2,554,000	2,525,000
Net OPEB obligation, beginning of year	<u>49,382,000</u>	<u>46,828,000</u>	<u>44,303,000</u>
 Net OPEB obligation, end of year	 <u>\$ 54,074,000</u>	 <u>\$ 49,382,000</u>	 <u>\$ 46,828,000</u>
 Fund's allocated share of city liability	 <u>\$ 2,718,526</u>	 <u>\$ 2,580,253</u>	 <u>\$ 2,505,202</u>

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially-determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of shared costs between the employer and plan members, at the time of each valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Postemployment Benefit Plans (continued)

Significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date	January 1, 2016
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.09%
Health care cost trend rates - medical	Traditional and Preventive Plans: 8%, decreasing by 0.5% for each year for two years; 16% in year 2017 and decreasing to 7.2% in 2018 Group Health Standard and Deductible Plans: 7.5%, decreasing by 0.5% for the next three years
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back six years and General Service Retirees based on the RP-2000 Combined Healthy Males with ages set back two years and Females, with ages set back one year.
Marital status	45% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.
Other considerations	Active employees with current spousal and/or dependent coverage and are under Group Health Standard or Group Health Deductible are assumed to elect same plan and coverage after retirement. Of those under City of Seattle Traditional or City of Seattle Preventative, 50% are assumed to switch to the Group Health Standard Plan, while the other 50% will continue coverage under the same plan.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 6 – Postemployment Benefit Plans (continued)

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age ¹ (b)	Unfunded AAL (UAAL) ² (b-a)	Funded Ratio (a/b)	Covered Payroll ³ (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2014	\$ -	\$ 41.8	\$ 41.8	0.0%	\$ 1,003.5	4.2%
January 1, 2015	\$ -	\$ 44.4	\$ 44.4	0.0%	\$ 1,037.9	4.3%
January 1, 2016	\$ -	\$ 65.7	\$ 65.7	0.0%	\$ 1,125.7	5.8%

The Health Care Subfund of the General Fund is reported in the City’s Comprehensive Annual Financial Report which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, WA 98124-4747 or www.seattle.gov/cafrs/.

Note 7 – Claims Payable

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund’s property. Liabilities for identified claims and claims incurred, but not reported have been recorded by the Fund.

For 2016 and 2015, liabilities for workers’ compensation claims, as well as other claims, are discounted over a 15-year period at the City’s rate of return on investments, 1.403% and 1.135%, respectively. Claims expected to be paid within one year are \$3,172,153 and \$2,811,856 as of December 31, 2016 and 2015, respectively. The schedules below present the changes in the liability for workers’ compensation claims and other claims (risk financing liabilities) as of December 31:

	2016	2015
Beginning liability, discounted	\$ 6,720,762	\$ 8,680,215
Payments	(1,350,300)	(1,716,325)
Incurred claims and change in estimate	2,437,835	(243,128)
Ending liability, discounted	<u>\$ 7,808,297</u>	<u>\$ 6,720,762</u>

The Fund is involved in litigation from time to time as a result of operations.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 8 - Compensated Absences

The Fund has recorded a liability for earned but unused compensatory, merit, and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31, 2016 and 2015:

	2016	2015
Beginning liability	\$ 4,998,329	\$ 5,071,357
Additions	3,978,913	4,000,509
Reductions	(4,119,150)	(4,073,537)
Ending liability	\$ 4,858,092	\$ 4,998,329

Note 9 - Pension Benefit Plan

Plan description - The Seattle City Employees' Retirement System (the System) is a cost-sharing multiple employer pension plan covering employees of the City of Seattle and is administered in accordance with Chapter 4.36 of the Seattle Municipal Code.

The System is governed by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other System members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

System benefits - The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. All permanent Fund employees are eligible to participate in the System. Members are eligible for retirement benefits after 30 years of service; at age 52 after 20 years of service; at age 57 after ten years of service; and at age 62 after five years of service.

Member and employer contributions - Employees are required to contribute 10.03% of their annual base salaries to the System. The employer's contribution rate for the years ended December 31, 2016 and 2015, was 15.1% and 15.7%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2016 and 2015, were \$7,034,570 and \$6,783,980, respectively.

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS**

Note 9 - Pension Benefit Plan (continued)

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 900, Seattle, Washington, 98104, and telephone: (206) 386-1293, or www.seattle.gov/retirement/annual_report.htm.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows related to pensions - At December 31, 2016 and 2015, the Fund reported a liability of \$87,690,216 and \$77,047,177, respectively, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2016 and 2015, the Fund's proportion was 6.75% and 7.46%, respectively.

For the years ended December 31, 2016 and 2015, the Fund recognized pension expense of approximately \$11,211,000 and \$8,361,000, respectively.

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2016:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 114,157	\$ -
Net difference between projected and actual earnings	10,750,339	-
Contributions made subsequent to measurement date	7,034,570	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,278,901
Total	<u>\$ 17,899,066</u>	<u>\$ 2,278,901</u>

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2015:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings	\$ 2,399,963	\$ -
Contributions made subsequent to measurement date	6,783,980	-
Total	<u>\$ 9,183,943</u>	<u>\$ -</u>

**SEATTLE PUBLIC UTILITIES -
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NOTES TO FINANCIAL STATEMENTS**

Note 9 - Pension Benefit Plan (continued)

Other amounts currently reported as deferred outflows and inflows of resources will be recognized in pension expense as follows for years ending December 31:

2017	\$ 1,667,603
2018	1,667,603
2019	1,667,603
2020	1,670,424
2021	1,912,362

Actuarial assumptions - The total pension liability as of December 31, 2016, was determined using the following actuarial assumptions:

Actuarial data and assumptions

Valuation date	January 1, 2015
Measurement date	December 31, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Smoothing Method
Inflation	3.25%
Investment rate of return	7.5% compounded annually, net of expenses
Discount rate	7.5%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

The actuarial assumptions that determined the total pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013.

The discount rate used to measure the pension liability is based on a projection of cash flows assuming that plan member contributions will be made at the current contribution rate and that participating employers contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine total pension liability.

**SEATTLE PUBLIC UTILITIES -
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NOTES TO FINANCIAL STATEMENTS**

Note 9 - Pension Benefit Plan (continued)

The long-term expected rate of return assumption was based on the System's investments using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expect future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity: Public	4.63%
Equity: Private	6.25%
Fixed Income: Broad	0.75%
Fixed Income: Credit Fixed	3.55%
Real Assets: Real Estate	3.25%
Real Assets: Infrastructure	3.25%
Diversifying Strategies	3.25%

Sensitivity analysis - The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.5%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
\$ 122,492,673	\$ 87,690,216	\$ 65,330,710

**SEATTLE PUBLIC UTILITIES -
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NOTES TO FINANCIAL STATEMENTS**

Note 10 - Environmental Liabilities

Following is a brief description of the significant sites that require environmental remediation:

Duwamish sites - The U.S. Environmental Protection Agency (EPA) has indicated that it will require the clean-up and remediation of certain Duwamish sites under its Superfund authority. In order to manage the liability, the City has worked with the EPA and other PRPs on a Remedial Investigation (RI) and Feasibility Study (FS) to evaluate the risk to human health and the environment within the six mile superfund area, identify the possible early action clean-up sites, and generally evaluate the feasibility of clean-up options for use in the ultimate remedial actions that the EPA will require. The RI and FS are complete. On November 2, 2012, the EPA and Ecology approved the Lower Duwamish Waterway Group's FS which provides sufficient information to support selection of a remedy for this Site. The EPA announced their proposed cleanup plan in February 2013 for public comment. The remaining scope of cleanup by potentially responsible parties (PRPs) has been decided by the EPA in the 2014 Record of Decision. The Fund recorded an estimate of its share of the estimated total cost.

Specific "early action sites" have been cleaned separately up under Administrative Orders on Consent (AOC). The Fund, together with other PRPs, has voluntarily agreed to clean-up two early action sites identified during the RI under EPA issued AOC: Slip 4 and T-117. Slip 4 cleanup is complete; T-117 will be completed by 2017.

East Waterway Site - In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. The Port of Seattle (the Port) alone signed the AOC. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the RI/FS work required by the EPA. The RI is complete and a draft final FS was submitted to EPA in October 2016. The FS identifies a range of alternatives for cleanup construction that range in cost from \$256 million to \$411 million. Once the FS is approved, EPA will then develop a Proposed Plan followed by a Record of Decision. The schedule for release of EPA's Proposed Plan could be late 2017 at the earliest but could extend into 2018. The Record of Decision would follow possibly in late 2018 or 2019. Remedial design activities would start in late 2019 at the earliest. The Fund's policy is to record environmental liability remediation costs at the time the costs are estimable. During 2016, the Fund recorded their apportioned share of the East Waterway costs based on total remediation costs of \$315 million.

**SEATTLE PUBLIC UTILITIES -
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NOTES TO FINANCIAL STATEMENTS**

Note 10 - Environmental Liabilities (continued)

Gas Works Park Sediment Site – In April 2002, the Department of Ecology (DOE) named the City and another party, Puget Sound Energy, as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and Puget Sound Energy signed an Agreed Order with the DOE in 2005 to initiate two RIs and FSs for the sediment site – one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in fall of 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead for all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 Agreement, the City pays for 20% of the Shared Costs incurred by Puget Sound Energy for the cleanup work. The RI and FS include an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments and a recommended preferred alternative. Puget Sound Energy collected additional environmental data in 2013 and the draft RI/FS was submitted to DOE in March 2016. A revised draft RI/FS is anticipated to be submitted to DOE in late 2017 or 2018 and a Clean-up Action Plan is expected from the Department of Ecology in late 2018 or 2019.

North Boeing Field/Georgetown Steam Plant – The City, King County and Boeing have signed an Administrative Order with the DOE requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Georgetown Steam Plant, and the King County Airport.

7th Avenue South Pump Station – The City acquired land in the South Park area of Seattle to construct the 7th Ave South Pump Station. The land was determined to be contaminated subsequent to the purchase. The Fund has voluntarily agreed to clean up the contamination in order to continue with the planned construction of the pump station. The cleanup was completed in 2012; however, the Fund has ongoing monitoring activities it must perform.

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; however, as new information becomes available, estimates may vary significantly due to price fluctuations, technological advances, or applicable laws or regulations.

**SEATTLE PUBLIC UTILITIES -
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NOTES TO FINANCIAL STATEMENTS**

Note 10 - Environmental Liabilities (continued)

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. The Fund's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Fund's estimated environmental liability was \$2.1 million as of December 31, 2016 and \$4.0 million as of December 31, 2015.

The following changes in the provision for environmental liabilities at December 31 are:

	<u>2016</u>	<u>2015</u>
Beginning environmental liability, net of recovery	\$ 71,010,561	\$ 67,680,401
Payments or amortization	(2,399,973)	(1,845,089)
Incurred environmental liability	<u>65,662,542</u>	<u>5,175,249</u>
Ending environmental liability, net of recovery	<u>\$ 134,273,130</u>	<u>\$ 71,010,561</u>

The following table represents the current and long term portions for the environmental liabilities:

	<u>2016</u>	<u>2015</u>
Environmental liability, current	\$ 1,931,411	\$ 2,000,688
Environmental liability, noncurrent	<u>132,341,719</u>	<u>69,009,873</u>
Ending liability	<u>\$ 134,273,130</u>	<u>\$ 71,010,561</u>

**SEATTLE PUBLIC UTILITIES -
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Note 11 - Loans

The Fund has various construction projects that are financed by low interest loans issued by the State of Washington. The loan agreements require that the Fund finance a portion of these projects from other sources. These loans have been used to enhance the drainage system. There were no new loan borrowings in 2016.

Loans outstanding as of December 31, 2016 and 2015 are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding	
				2016	2015
Midvale	2013-2031	0.25%	\$ 4,000,000	\$ 3,176,561	\$ 3,388,332
Thornton Creek Natural Drainage Systems	2006-2024	0.5%	3,700,000	1,567,059	1,762,941
High Point Natural Drainage Systems	2010-2029	1.5%	2,679,413	1,793,075	1,922,529
South Park Flood Control and Local Drainage Program	2007-2025	0.5%	3,400,000	1,774,105	1,971,228
Ballard Green Streets ARRA Project	2011-2020	2.9%	603,209	272,960	336,400
Thornton Creek Water Quality Project	2011-2030	1.5%	6,983,021	5,066,109	5,402,159
Capital Hill Water Quality Project	2014-2033	2.6%	1,880,598	1,703,517	1,782,198
			<u>\$ 23,246,241</u>	<u>\$ 15,353,386</u>	<u>\$ 16,565,787</u>

Minimum debt service requirements to maturity on long term loans are as follows:

Years Ending December 31,	Principal	Interest	Total
2017	\$ 1,223,366	\$ 177,585	\$ 1,400,951
2018	1,234,547	163,909	1,398,456
2019	1,245,948	150,014	1,395,962
2020	1,257,574	135,894	1,393,468
2021	1,196,103	122,075	1,318,178
2022-2026	5,544,238	421,325	5,965,563
2027-2031	3,410,036	131,565	3,541,601
2032-2033	241,574	7,945	249,519
	<u>\$ 15,353,386</u>	<u>\$ 1,310,312</u>	<u>\$ 16,663,698</u>

**SEATTLE PUBLIC UTILITIES -
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NOTES TO FINANCIAL STATEMENTS**

Note 11 - Loans (continued)

The following table shows the loan activity during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Net loans, beginning of year	\$ 16,565,787	\$ 17,767,433
Principal payments	<u>(1,212,401)</u>	<u>(1,201,646)</u>
Net loans, end of year	<u>\$ 15,353,386</u>	<u>\$ 16,565,787</u>
Loans due within one year	<u>\$ 1,223,366</u>	<u>\$ 1,212,401</u>
Loans, noncurrent	<u>\$ 14,130,020</u>	<u>\$ 15,353,386</u>

Note 12 - Notes and Contracts Receivable

The Fund has an agreement with the Seattle Housing Authority for the recovery of the remaining unreimbursed cost of the Fund's contributions of public infrastructure to the New Holly redevelopment project. As of December 31, 2016, the Seattle Housing Authority receivable was \$1,100,951.

In addition, the Fund has an agreement with private individuals for a sewer connection charge contract. The receivable was \$4,311 at December 31, 2016.

Notes and contracts receivable are composed of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Seattle Housing Authority receivable	\$ 1,100,951	\$ 1,153,772
Dalcerro receivable	4,311	5,317
Total notes and contracts receivable	<u>1,105,262</u>	<u>1,159,089</u>
Due within one year	<u>(56,394)</u>	<u>(53,827)</u>
Total noncurrent notes and contracts receivable	<u>\$ 1,048,868</u>	<u>\$ 1,105,262</u>
	<u>2016</u>	<u>2015</u>
Loans (payment arrangements) receivable	<u>\$ -</u>	<u>\$ 525,460</u>

**SEATTLE PUBLIC UTILITIES -
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Note 13 - Wastewater Disposal Agreement

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were \$153,393,833 and \$148,573,210 for fiscal years 2016 and 2015, respectively.

Note 14 - Subsequent Event

During 2016, the Fund entered into a loan agreement with the Department of Ecology to borrow up to \$39,414,526 for construction of the Henderson Combined Sewer Overflow. On February 9, 2017, the Fund took an initial draw of \$22,938,595 on this loan.

REQUIRED SUPPLEMENTARY INFORMATION

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Seattle Public Utilities' Proportionate Share of the Net Pension Liability

	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	16.37%	16.96%
Employer's proportionate share of the net pension liability (asset)	\$ 212,671,200	\$ 187,919,945
Employer's covered-employee payroll	\$ 104,579,232	\$ 102,783,473
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.36%	182.83%
Plan fiduciary net position as a percentage of the total pension liability	64.03%	67.70%

Schedule of Seattle Public Utilities' Contributions

	<u>2016</u>	<u>2015</u>
Contractually required employer contribution	\$ 16,487,154	\$ 15,170,276
Contributions in relation to the contractually required employer contribution	<u>(16,487,154)</u>	<u>(15,170,276)</u>
Employer contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 105,031,141	\$ 102,783,473
Employer contributions as a percental of covered-employee payroll	15.70%	14.76%

OTHER INFORMATION (UNAUDITED)

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
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OTHER INFORMATION (UNAUDITED)**

Drainage Wastewater Debt Service Coverage Calculation 2016

Operating Revenues	
Wastewater	\$ 262,006,393
Drainage	107,826,936
Other	5,207,715
Total Operating Revenue	<u>375,041,044</u>
Operating Expense	
Wastewater Treatment Contract	154,000,792
Other Operations & Maintenance	89,854,676
City Taxes	44,311,317
Other Taxes	4,836,487
Total Operating Expenses Before Debt Service	<u>293,003,272</u>
Net Operating Income	<u>82,037,772</u>
Adjustments	
Less: Claim Expense	(2,437,835)
Add: City Taxes	44,311,317
Add: Investment Interest	2,230,070
Less: DSRF Earnings	(273,618)
Add: BAB's Subsidy	1,757,107
Add (Less): Net Other Nonoperating Revenues/(Expenses)	731,666
Add: Proceeds from Sale of Assets	196,610
Total Adjustments	<u>46,515,317</u>
Net Revenue Available for Debt Service	<u>\$ 128,553,089</u>
Net Revenue Available for Debt Service (w/o City Taxes)	<u>\$ 84,241,771</u>
Annual Debt Service	\$ 47,641,475
Less: DSRF Earnings	(273,618)
Adjusted Annual Debt Service	<u>\$ 47,367,857</u>
Coverage	2.71
Coverage without taxes	1.78

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
OTHER INFORMATION (UNAUDITED)**

Statistics Required for Revenue Bond Continuing Disclosure

Wastewater System Operating Statistics

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Population Served	616,500	626,600	640,500	662,400	686,800
Billed Wastewater Revenues	\$ 236,935	\$ 244,476	\$ 242,844	\$ 257,092	\$ 262,006
Billed Wastewater Volume (MG)					
Residential	7,707	7,594	7,408	7,546	7,694
Commercial	<u>13,217</u>	<u>13,218</u>	<u>13,243</u>	<u>13,872</u>	<u>14,127</u>
Total	20,924	20,812	20,651	21,418	21,821
Gallons Used per Day per Capita	93.0	91.0	88.3	88.6	87.0

Drainage and Wastewater - 2016 Accounts and Billed Revenues

	<u>Drainage</u>	<u>Wastewater</u>
Customer Accounts		
Residential	148,361	156,405
Commercial	<u>67,022</u>	<u>21,418</u>
Total	<u><u>215,383</u></u>	<u><u>177,823</u></u>

	<u>Drainage</u>	<u>Wastewater</u>
Billed Revenue		
Residential	\$ 55,376,173	\$ 91,541,209
Commercial	<u>52,313,223</u>	<u>170,465,185</u>
Total	<u><u>\$ 107,689,396</u></u>	<u><u>\$ 262,006,394</u></u>

**SEATTLE PUBLIC UTILITIES -
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OTHER INFORMATION (UNAUDITED)**

Major Wastewater Customers - 2016 Annual Billed Revenues and Percentage of Revenue

<u>Name</u>	<u>Revenue</u>	<u>% of Total Revenue</u>
University of Washington	\$ 7,888,829	3.0%
Seattle Housing Authority	4,672,654	1.8%
City of Seattle	3,583,824	1.4%
Seattle Tunnel Partners	1,880,759	0.7%
Equity Residential Property	1,851,304	0.7%
Port of Seattle	1,588,687	0.6%
Starwood Hotel/Resort Group	1,504,093	0.6%
King County	1,301,310	0.5%
Swedish Medical Group	1,076,627	0.4%
Darigold	1,042,285	0.4%

Major Drainage Customers - 2016 Annual Billed Revenues and Percentage of Revenue

<u>Name</u>	<u>Revenue</u>	<u>% of Total Revenue</u>
City of Seattle	\$ 7,893,879	6.5%
King County	2,481,977	2.1%
Seattle Public Schools	2,459,245	2.0%
University of Washington	1,978,880	1.6%
BNSF Rwy Co.	1,872,218	1.5%
Seattle Housing Authority	859,303	0.7%
United States Government	787,216	0.7%
CCAS Property & Construction	737,645	0.6%
Union Pacific Railroad Co.	486,813	0.4%
Seattle Community College	454,298	0.4%

**SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
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OTHER INFORMATION (UNAUDITED)**

Wastewater Rates

Note: 1 CCF equals 748 gallons. Wastewater rate increased 3.6% and 0.8% in 2016 and 2015, respectively.

Drainage Rates

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Volume rate per ccf	\$ 10.68	\$ 11.65	\$ 11.75	\$ 11.84	\$ 12.27	\$ 12.93
Flat Rate per Parcel						% Impervious Space
Single Family Residential*						
0-1,999 sq. ft.				\$ 123.81	\$ 140.46	
2,000 - 2,999 sq. ft.	\$ 164.05	\$ 180.96	\$ 198.83	\$ 206.93	\$ 231.47	
3,000 - 4,999 sq. ft.	\$ 212.92	\$ 234.87	\$ 258.06	\$ 286.63	\$ 319.05	
5,000 - 6,999 sq. ft.	\$ 289.11	\$ 318.92	\$ 350.40	\$ 390.03	\$ 432.45	
7,000 - 9,999 sq. ft.	\$ 365.97	\$ 403.70	\$ 443.55	\$ 491.40	\$ 543.98	
Rate per 1,000 sq. ft.						
Undeveloped						0 - 15%
Regular	\$ 23.31	\$ 25.71	\$ 28.25	\$ 31.24	\$ 34.76	
Low Impact	\$ 13.65	\$ 15.06	\$ 16.54	\$ 18.57	\$ 20.67	
Light						16 - 35%
Regular	\$ 36.05	\$ 39.76	\$ 43.69	\$ 48.52	\$ 53.54	
Low Impact	\$ 28.35	\$ 31.27	\$ 34.36	\$ 38.31	\$ 42.26	
Medium						36 - 65%
Regular	\$ 52.35	\$ 57.75	\$ 63.45	\$ 70.67	\$ 77.60	
Low Impact	\$ 42.11	\$ 46.45	\$ 51.04	\$ 57.21	\$ 62.86	
High	\$ 70.23	\$ 77.48	\$ 85.12	\$ 93.56	\$ 102.48	66 - 85%
Very High	\$ 83.08	\$ 91.65	\$ 100.69	\$ 112.38	\$ 122.94	86 - 100%

* SFR parcels more than 10,000 sq. ft. are billed under the commercial rate structure.