

## OFFICIAL STATEMENT

New Issue  
Book-Entry Only

Moody's Rating: Aa1  
Standard & Poor's Rating: AA+  
(See "Other Bond Information—Ratings on the Bonds.")

*In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information—Tax Exemption" and "—Certain Other Federal Tax Consequences" herein.*

**\$133,180,000**

**THE CITY OF SEATTLE, WASHINGTON**

**DRAINAGE AND WASTEWATER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2014**

**DATED: DATE OF INITIAL DELIVERY**

**DUE: MAY 1, AS SHOWN ON PAGE i**

The City of Seattle, Washington (the "City"), will issue its Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2014 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as registered owner and nominee for the Depository Trust Company, New York, New York ("DTC").

DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof within a single maturity. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each May 1 and November 1, beginning November 1, 2014. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon in New York, New York), to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Registration and Book-Entry Transfer System" and in Appendix E.

The Bonds are being issued to pay for part of the costs of various projects of the City's Drainage and Wastewater System, to make a deposit into the Reserve Subaccount, to refund certain outstanding obligations of the Drainage and Wastewater System, and to pay the costs of issuing the Bonds and administering the Refunding Plan.

The Bonds are subject to redemption prior to maturity as described herein. See "Description of the Bonds—Redemption of the Bonds."

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Drainage and Wastewater System and any utility local improvement district assessments pledged to Parity Bonds ("ULID Assessments"). This pledge constitutes a lien and charge on Net Revenue and ULID Assessments on a parity with that of the Outstanding Parity Bonds and any Future Parity Bonds and prior and superior to any other lien or charge. See "Security for the Bonds."

**The Bonds do not constitute general obligations of the City, the State of Washington (the "State"), or any political subdivision of the State, or a lien or charge upon any general fund or upon any money or other property of the City, the State, or any political subdivision of the State not specifically pledged thereto by the legislation authorizing the issuance of the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Drainage and Wastewater System, are pledged to the payment of the Bonds.**

The Bonds are offered for delivery by the Underwriter, when, as, and if issued, subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at DTC's facilities in New York, New York, or to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about July 10, 2014.

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.*

Dated: June 17, 2014

*The information within this Official Statement has been compiled from official and other sources considered reliable and, while not guaranteed as to accuracy, is believed by the City to be correct as of its date. The City makes no representation regarding the accuracy or completeness of the information in Appendix E—Book-Entry Transfer System, which has been obtained from DTC’s website, or other information provided by parties other than the City. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.*

*Information on website addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds.*

*No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.*

*In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time without prior notice to any person.*

*The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Legislation has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.*

*The presentation of certain information, including tables of revenues and expenses, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.*

*The information set forth in the Drainage and Wastewater System’s Audited Financial Statements that are included in Appendix C speaks only as of the date of the those statements and is subject to revision or restatement in accordance with applicable accounting principles and procedures. The City specifically disclaims any obligation to update this information except to the extent described under “Legal and Tax Information—Continuing Disclosure Undertaking.”*

*Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and “forward-looking statements.” No assurance can be given that the future results shown herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe,” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in “Legal and Tax Information—Continuing Disclosure Undertaking.”*

*The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality, or importance, and this Official Statement, including the Appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.*

## MATURITY SCHEDULE

### THE CITY OF SEATTLE, WASHINGTON

**\$133,180,000**

### DRAINAGE AND WASTEWATER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2014

#### SERIAL BONDS

Due May 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers <sup>(1)</sup>
2015	\$ 1,800,000	3.00%	0.14%	102.309%	812631KN8
2016	1,860,000	4.00%	0.34%	106.592%	812631KP3
2017	1,930,000	3.00%	0.70%	106.384%	812631KQ1
2018	2,005,000	5.00%	1.10%	114.505%	812631KR9
2019	2,110,000	5.00%	1.45%	116.428%	812631KS7
2020	5,725,000	5.00%	1.73%	117.993%	812631KT5
2021	4,485,000	5.00%	2.01%	118.933%	812631KU2
2022	4,715,000	5.00%	2.23%	119.746%	812631KV0
2023	4,965,000	5.00%	2.36%	120.882%	812631KW8
2024	5,230,000	5.00%	2.48%	121.817%	812631KX6
2025	5,500,000	5.00%	2.61%	120.560% <sup>(2)</sup>	812631KY4
2026	2,995,000	5.00%	2.74%	119.318% <sup>(2)</sup>	812631KZ1
2027	3,150,000	5.00%	2.84%	118.374% <sup>(2)</sup>	812631LA5
2028	3,310,000	5.00%	2.93%	117.531% <sup>(2)</sup>	812631LB3
2029	3,460,000	4.00%	3.17%	106.946% <sup>(2)</sup>	812631LC1
2030	3,600,000	4.00%	3.25%	106.252% <sup>(2)</sup>	812631LD9
2031	3,750,000	4.00%	3.34%	105.477% <sup>(2)</sup>	812631LE7
2032	3,905,000	4.00%	3.47%	104.370% <sup>(2)</sup>	812631LF4
2033	7,675,000	4.00%	3.54%	103.779% <sup>(2)</sup>	812631LG2
2034	7,985,000	4.00%	3.59%	103.360% <sup>(2)</sup>	812631LH0
2035	4,400,000	4.00%	3.64%	102.942% <sup>(2)</sup>	812631LJ6
2036	4,580,000	4.00%	3.68%	102.610% <sup>(2)</sup>	812631LK3
2037	4,765,000	4.00%	3.72%	102.279% <sup>(2)</sup>	812631LL1
2038	4,960,000	4.00%	3.78%	101.784% <sup>(2)</sup>	812631LM9
2039	<u>5,165,000</u>	4.00%	3.82%	101.456% <sup>(2)</sup>	812631LN7
Total	\$ 104,025,000				

#### TERM BONDS

Due May 1	Amount	Interest Rate	Yield	Price	CUSIP Number <sup>(1)</sup>
2044	\$ 29,155,000	4.00%	4.00%	100.000%	812631LP2

(1) The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the City nor the successful bidder take responsibility for the accuracy of the CUSIP numbers.

(2) Calculated to the May 1, 2024, par call date.

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**THE CITY OF SEATTLE**  
**CITY OFFICIALS AND CONSULTANTS**

**MAYOR AND CITY COUNCIL**

Edward B. Murray	Mayor
Tim Burgess	President, City Council
Sally Bagshaw	Council Member
Sally Clark	Council Member
Jean Godden	Council Member
Bruce Harrell	Council Member
Nick Licata	Council Member
Mike O'Brien	Council Member
Tom Rasmussen	Council Member
Kshama Sawant	Council Member

**CITY ADMINISTRATION**

Glen M. Lee	Director of Finance
Peter Holmes	City Attorney

**SEATTLE PUBLIC UTILITIES**

Ray Hoffman	Director
Martin Baker	Deputy Director for Corporate Strategies and Communications
Kimberly Collier	Deputy Director for Human Resources and Service Equity
Rick Scott	Deputy Director for Field Operations and Maintenance
Melina Thung	Deputy Director for Finance and Administration
Susan Sánchez	Deputy Director for Customer Service
Nancy Ahern	Deputy Director for Utilities Systems Management
Vladimir Khazak	Interim Deputy Director for Project Delivery

**BOND COUNSEL**

Foster Pepper PLLC  
Seattle, Washington

**FINANCIAL ADVISOR**

Piper Jaffray & Co./Seattle-Northwest Division  
Seattle, Washington

**BOND REGISTRAR**

Washington State Fiscal Agent  
The Bank of New York Mellon  
New York, New York

## OFFICIAL STATEMENT

\$133,180,000

THE CITY OF SEATTLE, WASHINGTON

DRAINAGE AND WASTEWATER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2014

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), in connection with the offering of \$133,180,000 aggregate principal amount of its Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2014 (the “Bonds”), dated the date of their initial issuance and delivery. This Official Statement contains certain information related to such offering and sale concerning the City, the Bonds, Seattle Public Utilities (“SPU”), and the City’s drainage and wastewater system (the “Drainage and Wastewater System”).

Appendix A to this Official Statement is a copy of the ordinance authorizing the new money portion of the Bonds. Appendix B is the form of legal opinion of Foster Pepper PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the audited 2013 financial statements of the Drainage and Wastewater Fund. Appendix D provides demographic and economic information for the City. Appendix E is a description provided on its website by The Depository Trust Company, New York, New York (“DTC”), of DTC procedures with respect to book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the ordinance attached as Appendix A and in the Bond Resolution (as defined below).

All of the summaries of provisions of the Constitution and laws of the State, of ordinances and resolutions of the City, and of other documents contained in this Official Statement are subject to the complete provisions thereof and do not purport to be complete statements of such laws or documents, copies of which may be obtained from the City upon request. A full review should be made of the entire Official Statement. The offering of the Bonds to prospective investors is made only by means of the entire Official Statement.

### DESCRIPTION OF THE BONDS

#### **Authorization for the Bonds**

The Bonds are to be issued by the City pursuant to the State Constitution, chapters 35.92 and 39.53 of the Revised Code of Washington (“RCW”), the Seattle City Charter, and Ordinance 124337, passed by the City Council on November 25, 2013 (together with Ordinance 121938, as amended by Ordinance 122209 and Ordinance 122637 and amended and restated by Ordinance 124338, which collectively authorized the refunding portion of the Bonds, the “Bond Ordinance”), and Resolution 31531, adopted by the City Council on June 17, 2014 (the “Bond Resolution,” and together with the Bond Ordinance, the “Bond Legislation”).

#### **Principal Amounts, Dates, Interest Rates, and Maturities**

The Bonds will be dated the date of their initial issuance and delivery, and will mature on the dates and in the amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each May 1 and November 1, beginning November 1, 2014, at the rates set forth on page i of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

#### **Registration and Book-Entry Transfer System**

*Book-Entry Transfer System.* The Bonds will be issued initially as fully registered bonds and registered in the name of Cede & Co. as nominee for DTC. The Bonds will be held in fully immobilized book-entry form by DTC, which will act as the initial Securities Depository for the Bonds. Individual purchases and sales of the Bonds will be made in book-entry form only in denominations of \$5,000 or integral multiples thereof within a maturity of the Bonds (“Authorized Denominations”). Purchasers (“Beneficial Owners”) will not receive certificates representing their interest in the Bonds. So long as the Bonds are held in book-entry form, the Securities Depository will be deemed to

be the Registered Owner of the Bonds, and all references herein to the Registered Owners will mean Cede & Co., as nominee of DTC, or its successor and will not mean the Beneficial Owners of the Bonds. For information about DTC and its book-entry system, see Appendix E—Book-Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix E obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

*Termination of Book-Entry System.* If the Bonds are no longer held in book-entry only form by the Securities Depository, the City will execute, authenticate, and deliver, at no cost to the Beneficial Owners, Bonds in fully registered form, in Authorized Denominations. The principal of the Bonds will then be payable upon due presentment and surrender to the Bond Registrar, and interest on the Bonds will then be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date, to the Registered Owners, at the address appearing upon the registration books on the Record Date. The City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner.

*Bond Registrar.* The principal of and interest on the Bonds will be payable by the fiscal agent of the State (the “Bond Registrar”), currently The Bank of New York Mellon in New York, New York (or such other fiscal agent or agents as the State may from time to time designate). So long as Cede & Co. is the Registered Owner of the Bonds, principal of and interest on the Bonds will be payable by wire transfer by the Bond Registrar to DTC, which, in turn, is obligated to remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described in Appendix E—Book-Entry Transfer System.

*Transfer and Exchange; Record Date.* The Bond Registrar is not obligated to exchange any Bond or transfer registered ownership during the period between the applicable Record Date and the next upcoming interest payment or redemption date. Record Date means, in the case of each interest or principal payment or redemption date, the Bond Registrar’s close of business on the 15th day of the month preceding the interest or principal payment or redemption date. Registered ownership of any Bond registered in the name of the Securities Depository may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointment by the City, or (iii) to any person if the Bond is no longer to be held in book-entry only form.

### **Payment of the Bonds**

The principal of and interest on the Bonds are payable by the Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon in New York, New York) to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under “Registration and Book-Entry Transfer System” and Appendix E.

In the event that all or a portion of the Bonds are no longer held in book-entry form (see “Registration and Book-Entry Transfer System”), interest on such Bonds is payable by electronic transfer on the interest payment date, or by check, draft, or warrant of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. However, the City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received at least ten days prior to the Record Date and at the sole expense of the registered owner. Principal of each Bond not registered in the name of DTC is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

### **Redemption of the Bonds**

*Optional Redemption* The Bonds maturing on and before May 1, 2024, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after May 1, 2025, prior to their stated maturity dates at any time on and after May 1, 2024, as a whole or in part at a price of par plus accrued interest to the date fixed for redemption.

*Mandatory Redemption.* If not previously redeemed as described above or purchased or defeased under the provisions as described below, the Term Bonds due on May 1, 2044, will be called for redemption at a price of par, plus accrued interest to the date fixed for redemption, on May 1 in the years and amounts as follows:

<b>TERM BONDS</b>	
<u>Years</u>	<u>Amounts</u>
2040	\$ 5,375,000
2041	5,595,000
2042	5,820,000
2043	6,060,000
2044 <sup>(1)</sup>	6,305,000

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(1) Maturity.

If the City redeems all or a portion of the Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against the remaining mandatory redemption requirements as determined by the Director of the Finance Division of the City’s Department of Finance and Administrative Services (the “Director of Finance”). If the Director of Finance does not make such a determination and there is no other direction from the Bond Legislation, credit will be allocated on a *pro rata* basis.

*Selection of Bonds for Redemption.* If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If fewer than all of the bonds of a single maturity are to be redeemed prior to maturity, then:

- (i) if such Bonds are in book-entry form at the time of such redemption, DTC will select the specific Bonds in accordance with the Letter of Representations, and
- (ii) if such Bonds are not in book-entry form at the time of such redemption, the Bond Registrar is required to select the specific Bonds in such manner as the Bond Registrar determines.

The portion of any Bond of an amount more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

*Notice of Redemption.* The City will cause notice of redemption to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The notice requirements will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as a Bond is held in book-entry form, notices with respect to such Bond will be given in accordance with procedures established by DTC. See “Description of the Bonds—Registration and Book-Entry Transfer System” and Appendix E.

*Conditional Notice of Redemption.* In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of the Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

*Effect of Redemption.* Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the notice of redemption has been duly rescinded or the Bonds called are not redeemed when presented pursuant to the call.

**Purchase**

The City reserves the right to purchase any of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase.

**Refunding or Defeasance of Bonds**

The City may issue refunding bonds or use money available from any other lawful source to pay when due the principal of and premium, if any, and interest on any Bond or portion of Bond, to redeem and retire, release, refund, or defease such Bond (the “defeased Bonds”), and to pay the costs of refunding or defeasing the defeased Bonds. If money and/or Government Obligations (defined below) maturing at a time and in an amount sufficient, together with known earned income from the investment thereof, to redeem and retire, release, refund, or defease the defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the “trust account”), then all right and interest of the owners of the defeased Bonds in the covenants of the Bond Legislation and in the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such owners thereafter have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. After the trust account is established and fully funded, the defeased Bonds will be deemed as no longer outstanding and the Director of Finance may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner set forth in the Bond Legislation for the redemption of Bonds.

The term “Government Obligations” has the meaning given in RCW 39.53.010, currently: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

**Failure to Pay Bonds**

If the principal of any Bond is not paid when properly presented at its maturity or date fixed for redemption, as applicable, the City will be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund, or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner thereof.

**USE OF PROCEEDS****Purpose**

The Bonds are being issued to pay for part of the costs of various projects of the City’s Drainage and Wastewater System, to make a deposit into the Reserve Subaccount, to refund certain of the City’s outstanding obligations (described below under “Refunding Plan”), and to pay the costs of issuing the Bonds and administering the Refunding Plan.

## Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

	<b>NEW MONEY</b>	<b>REFUNDING</b>	<b>TOTAL</b>
<b>SOURCES OF FUNDS</b>			
Par Amount of Bonds	\$ 110,320,000	\$ 22,860,000	\$ 133,180,000
Premium	7,359,840	3,342,563	10,702,403
<b>Total Sources of Funds</b>	<b>\$ 117,679,840</b>	<b>\$ 26,202,563</b>	<b>\$ 143,882,403</b>
<b>USES OF FUNDS</b>			
Project Fund Deposit	\$ 113,000,000	\$ -	\$ 113,000,000
Refunding Escrow Deposit	-	26,047,979	26,047,979
Debt Service Reserve Fund Deposit	3,957,874	-	3,957,874
Costs of Issuance <sup>(1)</sup>	721,966	154,584	876,550
<b>Total Uses of Funds</b>	<b>\$ 117,679,840</b>	<b>\$ 26,202,563</b>	<b>\$ 143,882,403</b>

(1) Includes legal fees, financial advisory and rating agency fees, printing costs, Refunding Trustee and verification agent fees, Underwriter's discount, and other costs of issuing the Bonds and administering the Refunding Plan.

## Refunding Plan

In the Bond Ordinance, the City has authorized the refunding of all or a portion of its outstanding Drainage and Wastewater Revenue Bonds, 2004, and Drainage and Wastewater Revenue and Refunding Bonds, 2006. The bonds to be refunded with a portion of the proceeds of the Bonds (the "Refunded Bonds") are identified in the table below. The refunding is being undertaken to achieve debt service savings.

<b>REFUNDED BONDS</b>						
<b>Bond</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Coupon</b>	<b>Call Price</b>	<b>Call Date</b>	<b>CUSIP Number</b>
<i>Drainage and Wastewater Revenue Bonds, 2004</i>						
2034 Term	9/1/2034	\$ 7,410,000	4.750%	100%	9/1/2014	812631EN5
Subtotal		\$ 7,410,000				
<i>Drainage and Wastewater Revenue and Refunding Bonds, 2006</i>						
Serials	2/1/2020	\$ 3,630,000 <sup>(1)</sup>	5.000%	100%	2/1/2017	812631FC8
	2/1/2021	2,285,000 <sup>(1)</sup>	5.000%	100%	2/1/2017	812631FD6
	2/1/2022	2,400,000 <sup>(1)</sup>	5.000%	100%	2/1/2017	812631FE4
	2/1/2023	2,535,000 <sup>(1)</sup>	5.000%	100%	2/1/2017	812631FF1
	2/1/2024	2,670,000 <sup>(1)</sup>	5.000%	100%	2/1/2017	812631FG9
	2/1/2025	2,810,000 <sup>(1)</sup>	5.000%	100%	2/1/2017	812631FH7
Subtotal		\$ 16,330,000				
Total		<u>\$ 23,740,000</u>				

(1) Partial maturity.

The City will enter into a Refunding Trust Agreement with U.S. Bank National Association, as Refunding Trustee, upon the delivery of the Bonds, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the Bonds will be deposited with the Refunding Trustee and will be invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds.

The Government Obligations and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above will be verified by Causey Demgen & Moore P.C., independent certified public accountants.

## **SECURITY FOR THE BONDS**

### **Pledge of Net Revenue**

The Bonds are special limited obligations of the City. The Net Revenue of the Drainage and Wastewater System and any utility local improvement district assessments pledged to Parity Bonds (“ULID Assessments”) are pledged to the payment of all Parity Bonds, including the Bonds. See “Outstanding Bonds” below. This pledge constitutes a lien and charge upon Net Revenue and ULID Assessments prior and superior to any other liens and charges whatsoever. See Appendix A—Bond Ordinance—Section 13. The City has reserved the right to combine the Drainage and Wastewater System, including its funds and accounts, with other City utility systems, funds and accounts. See “Combined Utility Systems” below

*The Bonds do not constitute general obligations of the City, the State of Washington (the “State”), or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State, or any political subdivision of the State not specifically pledged thereto by the Bond Legislation. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Drainage and Wastewater System, are pledged to the payment of the Bonds.*

The Parity Bond Account has been created in the Drainage and Wastewater Fund for the sole purpose of paying the principal of and interest on all Parity Bonds, including the Bonds. The City has agreed to pay into the Parity Bond Account on or prior to the respective dates on which principal and interest are payable, certain amounts from the Net Revenue of the Drainage and Wastewater System sufficient to pay such principal and interest when due and to fund the Reserve Subaccount (see “Reserve Subaccount” below). See Appendix A—Bond Ordinance—Section 15.

### **Reserve Subaccount**

The Reserve Subaccount has been created in the Parity Bond Account to secure the payment of the principal of and interest on the Parity Bonds. Under the terms of the Bond Legislation, the City must fund any increase in the Reserve Requirement (the least of (i) Maximum Annual Debt Service at the time of calculation, (ii) 1.25 times Average Annual Debt Service at the time of calculation or (iii) 10% of the proceeds of the Parity Bonds) due to the issuance of the Bonds either (a) on the date of issuance, from proceeds of the Bonds or an Alternate Security (as defined in the Bond Legislation), or any combination thereof; or (b) in annual installments so that it is fully funded within five years after the issuance of the Bonds.

The City expects to fund the additional amount necessary to satisfy the Reserve Requirement allocable to the Bonds with a deposit of Bond proceeds in the amount of \$3,957,874. The existing Alternate Securities and cash on deposit securing the Reserve Subaccount are shown in the following table. Under the Bond Legislation, the following surety policies qualify as Alternate Securities in order to satisfy the Reserve Requirement, as each issuer was assigned a credit rating in the two highest rating categories at the time of issuance. See Appendix A—Bond Ordinance.

**CASH AND SURETY BONDS**

Bond Issue	Surety Amount	Provider	Expiration	Current Ratings	
				Moody's	S&P
1998 <sup>(1)</sup>	\$ 1,577,250	AMBAC	11/01/2027	withdrawn	
1999 <sup>(1)</sup>	3,572,313	MBIA <sup>(2)</sup>	11/01/2029	A3	AA-
2001	3,756,104	FGIC <sup>(2)</sup>	11/01/2031	A3	AA-
2002	3,866,550	FGIC <sup>(2)</sup>	07/01/2032	A3	AA-
2004	3,538,992	MBIA <sup>(2)</sup>	09/01/2034	A3	AA-
2006	2,188,810	MBIA <sup>(2)</sup>	02/01/2037	A3	AA-
2007 <sup>(3)</sup>	<u>5,053,914</u>	MBIA <sup>(2)</sup>	02/01/2037	A3	AA-
<b>Total Surety Amount</b>	\$ 23,553,933				
Cash Deposit from 2008 Bond Proceeds	\$ 5,340,017				
Cash Deposit from 2009 Bond Proceeds	7,416,996				
Cash Deposit from 2012 Bond Proceeds	1,927,670				
Cash Deposit from 2014 Bond Proceeds	<u>3,957,874</u>				
<b>Total Cash and Surety Bonds</b>	<u>\$ 42,196,490</u>				
<b>Reserve Fund Requirement</b>	\$ 42,196,490				

(1) Surety will be outstanding until the earlier of the termination date or the day on which no Parity Bonds are outstanding.

(2) Reinsured by National Public Finance Guarantee Corp. (a wholly-owned subsidiary of MBIA, Inc.) ("NPFPG"). The ratings shown here are NPFPG's ratings.

(3) Purchased in 2007 independent of a bond issue as a substitution of an Alternate Security for cash held in the Reserve Subaccount.

**Outstanding Bonds**

*Outstanding Parity Bonds.* The outstanding 2004 Bonds (a portion of which will be refunded by the Bonds), 2006 Bonds (a portion of which will be refunded by the Bonds), 2008 Bonds, 2009 Bonds, and 2012 Bonds issued by the City and secured by Net Revenue on a parity with the Bonds collectively are referred to as the "Outstanding Parity Bonds." The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds collectively are referred to as the "Parity Bonds." The following table provides a summary of the Outstanding Parity Bonds.

## OUTSTANDING PARITY BONDS

<b>Bond Description</b>	<b>Original Par Amount</b>	<b>Outstanding Principal on 12/31/2013</b>
2004 Bonds	\$ 62,010,000	\$ 1,460,000 <sup>(1)</sup>
2006 Bonds	121,765,000	83,785,000 <sup>(1)</sup>
2008 Bonds	84,645,000	77,360,000
2009A Bonds	102,535,000	102,535,000
2009B Bonds	36,680,000	23,225,000
2012 Bonds	222,090,000	213,175,000
<b>Total</b>	<b>\$ 629,725,000</b>	<b>\$ 501,540,000</b>

(1) Excludes the Refunded Bonds. Upon the refunding of the Refunded Bonds, the final maturity of the 2004 Bonds will be September 1, 2014.

### Other Outstanding Obligations

Since 2004, the City has entered into six agreements with the State Department of Commerce under its Public Works Assistance Account (“PWTF”) Loan Program for the construction of certain capital improvements, and with the State Department of Ecology. These loans are secured by a lien on Net Revenue of the Drainage and Wastewater System junior to the lien of the Parity Bonds.

#### OTHER OBLIGATIONS

<b>Entity</b>	<b>Year of Agreement</b>	<b>Amount Outstanding</b>	<b>Interest Rate</b>
Department of Ecology	2004	\$ 2,175,685	0.50%
Public Works Trust Fund	2004	2,154,706	0.50%
Public Works Trust Fund	2005	2,365,474	0.50%
Department of Ecology	2006	6,059,334	1.50%
Department of Ecology	2010	475,899	2.90%
Public Works Trust Fund	2011	3,811,873	0.50%
Department of Ecology	2013	1,334,279	2.60%

### Additional Obligations

*Future Parity Bonds.* Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Bond Legislation. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds a certificate from the Director of SPU or from an independent, licensed professional engineer or a certified public accountant (the “Parity Certificate”) showing that, in his or her professional opinion, the Adjusted Net Revenue will be equal to 1.25 times the Average Annual Debt Service (the “Coverage Requirement”). In the Parity Certificate, the estimate of Net Revenue must use the historical Gross Revenue for any 12 consecutive months out of the 24 months immediately preceding the month the Future Parity Bonds are to be delivered. Further adjustments may be made to Gross Revenue, as described in the Bond Legislation. As an alternative to the Parity Certificate, the City may provide a certificate of the Director of Finance or the Director of SPU demonstrating that, during any 12 consecutive calendar months out of the immediately preceding 24 calendar months, Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds. See Appendix A—Bond Ordinance—Section 17. If the Future Parity Bonds are for the sole purpose of refunding outstanding Parity Bonds, then the Parity Certificate is not required if the Annual Debt Service in each year for the refunding bonds is not increased over the amount required for the refunded bonds and the maturities of the refunding bonds are not extended beyond those of the refunded bonds.

*Upon the refunding of the Refunded Bonds and the scheduled retirement of the remaining 2004 Bonds on September 1, 2014, (i) the definition of “Coverage Requirement” will be modified as set forth in Appendix A—Bond Ordinance—Section 1, and (ii) the Parity Certificate requirements will be modified as set forth in Appendix A—Bond Ordinance—Section 17.*

*Future Subordinate Lien Bonds.* In the Bond Legislation, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds. The City has never issued any such obligations and currently has no intention of doing so.

*Parity Payment Agreements.* The City may enter into Parity Payment Agreements (such as interest rate swaps) secured by a pledge of and lien on Net Revenue on a parity with the Parity Bonds, subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Bond Ordinance—Section 17. The City has never entered into a Parity Payment Agreement and currently has no intention of doing so.

*Contract Resource Obligations.* The City may enter into Contract Resource Obligations to acquire drainage and wastewater or other commodity or service from facilities to be constructed. The City may determine that all payments under those Contract Resource Obligations (including payments prior to the time such supply or service is being provided or during suspension or after termination of supply or service) will be an Operation and Maintenance Expense, upon compliance with certain requirements of the Bond Legislation. See Appendix A—Bond Ordinance—Section 20. The City has never entered into a Contract Resource Obligation and currently has no intention of doing so.

### **Rate Covenant**

The City has covenanted to establish, maintain, and collect rates and charges for drainage and wastewater service that will produce Adjusted Net Revenue available for debt service in each calendar year at least equal to the Coverage Requirement of 1.25 times the Average Annual Debt Service. *Upon the refunding of the Refunded Bonds and the scheduled retirement of the remaining 2004 Bonds on September 1, 2014, the Coverage Requirement will be defined as Adjusted Net Revenue at least equal to 1.25 times Adjusted Annual Debt Service.* See Appendix A—Bond Ordinance—Section 16(b).

### **Rate Stabilization Account**

The Rate Stabilization Account has been created as a separate account in the Drainage and Wastewater Fund. The City may at any time, to the extent consistent with its covenant under the Bond Legislation to maintain the Drainage and Wastewater System in good repair, working order and condition, deposit in the Rate Stabilization Account Gross Revenue and any other money available to be used therefor. The City may withdraw any or all of the money from the Rate Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal year of the Drainage and Wastewater System. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. The City has never funded a Rate Stabilization Account in the Drainage and Wastewater Fund and currently has no plans to fund such an account. See Appendix A—Bond Ordinance—Section 18.

### **Other Covenants**

In the Bond Legislation, the City has entered into other covenants, including those with respect to maintenance of the Drainage and Wastewater System, sale of the Drainage and Wastewater System, and preservation of tax exemption for interest on the Bonds. See Appendix A—Bond Ordinance—Section 16.

### **No Acceleration of the Bonds**

The Bonds are not subject to acceleration upon the occurrence of a default. The City is liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. If the City encounters difficulties in making timely payment of debt service on the Parity Bonds, this could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

### **Separate Utility Systems**

The City has reserved the right to create, acquire, construct, finance, own, and operate one or more additional systems for drainage and wastewater or other commodity or service. The revenue of that separate utility system will not be included in Gross Revenue of the Drainage and Wastewater System, and may be pledged to the payment of revenue obligations issued for the purposes of the separate system. Neither the Gross Revenue nor the Net Revenue

of the Drainage and Wastewater System will be pledged to the payment of any obligations of the separate system, except as a Contract Resource Obligation or on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—Bond Ordinance—Section 19. The City has never created any such separate utility system and currently has no intention of doing so.

### **Combined Utility Systems**

The City may combine the Drainage and Wastewater System with other City utility systems, including their funds and accounts. See “Seattle Public Utilities—Administrative Structure.” The City currently has no intention of doing so.

### **Debt Service Requirements**

The following table shows the debt service scheduled to be paid from the Net Revenue of the Drainage and Wastewater System after giving effect to the issuance of the Bonds.

**DEBT SERVICE REQUIREMENTS<sup>(1)</sup>**

As of December 31, 2013

Year	Outstanding	The Bonds			Total	DOE/PWTF	Total
	Parity Bonds <sup>(2)</sup>	Principal	Interest	Total	Parity Bonds	Loans <sup>(3)</sup>	Debt Service
2014	\$ 40,523,215	\$ -	\$ 1,767,305	\$ 1,767,305	\$ 42,290,520	\$ 1,345,984	\$ 43,636,504
2015	39,866,328	1,800,000	5,704,800	7,504,800	47,371,128	1,405,940	48,777,068
2016	39,950,353	1,860,000	5,640,600	7,500,600	47,450,953	1,403,445	48,854,398
2017	40,025,103	1,930,000	5,574,450	7,504,450	47,529,553	1,400,951	48,930,504
2018	39,988,390	2,005,000	5,495,375	7,500,375	47,488,765	1,398,456	48,887,221
2019	39,952,646	2,110,000	5,392,500	7,502,500	47,455,146	1,395,962	48,851,108
2020	36,382,903	5,725,000	5,196,625	10,921,625	47,304,528	1,393,468	48,697,996
2021	36,326,388	4,485,000	4,941,375	9,426,375	45,752,763	1,318,178	47,070,941
2022	36,290,071	4,715,000	4,711,375	9,426,375	45,716,446	1,315,683	47,032,129
2023	34,889,371	4,965,000	4,469,375	9,434,375	44,323,746	1,313,189	45,636,935
2024	34,850,165	5,230,000	4,214,500	9,444,500	44,294,665	1,310,694	45,605,359
2025	34,798,990	5,500,000	3,946,250	9,446,250	44,245,240	1,112,318	45,357,558
2026	36,433,831	2,995,000	3,733,875	6,728,875	43,162,706	913,680	44,076,386
2027	36,391,609	3,150,000	3,580,250	6,730,250	43,121,859	913,150	44,035,009
2028	34,879,959	3,310,000	3,418,750	6,728,750	41,608,709	912,621	42,521,330
2029	34,809,046	3,460,000	3,266,800	6,726,800	41,535,846	833,143	42,368,989
2030	31,230,990	3,600,000	3,125,600	6,725,600	37,956,590	545,628	38,502,218
2031	31,158,115	3,750,000	2,978,600	6,728,600	37,886,715	337,060	38,223,775
2032	27,744,065	3,905,000	2,825,500	6,730,500	34,474,565	124,760	34,599,325
2033	20,975,913	7,675,000	2,593,900	10,268,900	31,244,813	124,759	31,369,572
2034	20,877,568	7,985,000	2,280,700	10,265,700	31,143,268	-	31,143,268
2035	20,781,975	4,400,000	2,033,000	6,433,000	27,214,975	-	27,214,975
2036	20,682,898	4,580,000	1,853,400	6,433,400	27,116,298	-	27,116,298
2037	20,573,578	4,765,000	1,666,500	6,431,500	27,005,078	-	27,005,078
2038	17,559,790	4,960,000	1,472,000	6,432,000	23,991,790	-	23,991,790
2039	12,051,065	5,165,000	1,269,500	6,434,500	18,485,565	-	18,485,565
2040	5,264,200	5,375,000	1,058,700	6,433,700	11,697,900	-	11,697,900
2041	5,262,000	5,595,000	839,300	6,434,300	11,696,300	-	11,696,300
2042	5,262,400	5,820,000	611,000	6,431,000	11,693,400	-	11,693,400
2043	-	6,060,000	373,400	6,433,400	6,433,400	-	6,433,400
2044	-	6,305,000	126,100	6,431,100	6,431,100	-	6,431,100
<b>Total</b>	<b>\$ 835,782,921</b>	<b>\$ 133,180,000</b>	<b>\$96,161,405</b>	<b>\$ 229,341,405</b>	<b>\$ 1,065,124,326</b>	<b>\$20,819,069</b>	<b>\$ 1,085,943,395</b>

(1) Totals may not add due to rounding.

(2) Excludes the Refunded Bonds. Does not reflect the federal interest rate subsidy associated with the 2009A Bonds. See "Federal Sequestration."

(3) These loans are secured by a lien on Net Revenue of the Drainage and Wastewater System junior to the lien of the Parity Bonds.

## SEATTLE PUBLIC UTILITIES

### Administrative Structure

The City's water, drainage, wastewater, and solid waste utility services are consolidated administratively into a single entity known as Seattle Public Utilities. Within SPU, there are three separate funds: the Water Fund, the Drainage and Wastewater Fund, and the Solid Waste Fund. The City has reserved the right to combine the Drainage and Wastewater System, including the Drainage and Wastewater Fund, with other City utility systems, funds, and accounts. The City also has reserved the right to combine the Water System (including the Water Fund) and the Drainage and Wastewater System (including the Drainage and Wastewater Fund) with other City utility systems, funds and accounts.

### Management

SPU consists of the Director's Office and seven Executive Branches: Corporate Strategies and Communications, Human Resources and Service Equity, Field Operations and Maintenance, Finance and Administration, Customer Service, Utilities Systems Management, and Project Delivery. The Director administers SPU in accordance with policies established by the Mayor of the City (the "Mayor") and the City Council. Brief biographies of the members of SPU's executive management team follow.

*Ray Hoffman, Director.* Mr. Hoffman was appointed Acting Director of SPU in 2009 and was named Director in 2010. In this role, he is responsible for SPU's annual budget and oversight of its rates and utility funds, as well as conservation of the City's watersheds and compliance with federal and state water quality and environmental laws. Previously, he was Director of Corporate Policy and Performance, with responsibilities for external government relations, legislative affairs, and risk management. In addition, he formerly served as an advisor to the Mayor on utilities and environmental issues, was the lead for regional affairs and negotiations for SPU, worked in recycling planning and program development for solid waste, and served as Executive Director for Washington Citizens for Recycling. He has more than 20 years of increasingly responsible roles in public policy and management, negotiating multi-party agreements on complex policy issues. Mr. Hoffman has a doctorate from the University of Washington School of Business, as well as a bachelor's degree and master's degree in accounting from the University of Illinois.

*Martin Baker, Deputy Director for Corporate Strategies and Communications.* Mr. Baker was appointed to the interim position in 2009 and named the permanent deputy director in 2010. He currently oversees all functions related to corporate policy and performance, asset management and economic services, and corporate communications, as well as climate change and sustainability and community relations development. Previously, he served as a Strategic Advisor in the Director's Office. Prior to joining SPU, Mr. Baker served as Deputy Director, Habitat Program, with the Washington Department of Fish and Wildlife, Public Affairs Director of Regional Transit Authority (predecessor to Sound Transit), and Executive Director of the Washington Environmental Council. He graduated from the University of Washington with both a master's degree and a bachelor's degree in history.

*Kimberly Collier, Deputy Director for Human Resources and Service Equity.* Ms. Collier was appointed to this position in 2009. The Human Resources and Service Equity branch is comprised of the Human Resources Division, HR Operations and Management, and the Environmental Justice and Service Equity Division. Prior to joining SPU, Ms. Collier was a human resources executive for Cox Communications in Arizona, where she also had responsibilities for diversity leadership, including serving as the co-founder of the company's Diversity Council, and held a number of roles in the community supporting diversity. A graduate of the College of New Jersey, Ms. Collier earned a bachelor's degree in management.

*Rick Scott, Deputy Director for Field Operations and Maintenance.* Mr. Scott joined SPU in 2010 as director of SPU's Distribution and Transmission Division and was appointed to Deputy Director of Field Operations and Maintenance in 2011. As Deputy Director, he is responsible for developing operational strategies and directing and managing the production, delivery, and maintenance for water, wastewater, storm water, and solid waste services. Prior to joining SPU, he served as the water treatment superintendent for the City of Glendale, Arizona, where he worked for 24 years. He started out as a plant mechanic and held roles with increasing responsibilities throughout the utility, serving as the water treatment superintendent for eight years. Mr. Scott has an associate degree in civil

engineering from Glendale Community College and additional credit hours in utility operations and management or work-related courses.

*Melina Thung, Deputy Director for Finance and Administration.* Ms. Thung was appointed to this position in 2005 and oversees the branch's activities, including finance, information technology, fleet and facilities management, and risk management. Prior to that, she was Finance Director and also formerly served the department in the roles of budget analyst, budget manager, and environmental planner. She holds a bachelor's degree in international relations from Georgetown University, a master's degree in public administration from the University of Washington, and a master's degree in finance from Seattle University.

*Susan Sánchez, Deputy Director for Customer Service.* Ms. Sánchez was appointed to Acting Deputy Director in 2009 and in 2010 was named Deputy Director for the branch, which serves as the main liaison between SPU ratepayers and the department's operations. Prior to this, she was the Customer Programs and Contract Management Division Director for SPU, which manages the City's graffiti abatement and education, waste prevention, resource conservation, and community stewardship programs. Ms. Sánchez has over 20 years of experience in the environmental, transportation, and land use fields at the local, regional, and federal levels. Before joining SPU, she was Director of the Race and Social Justice Office for Seattle Department of Transportation, after serving more than five years as the Director of the Seattle Department of Transportation's Policy and Planning Division. She holds a bachelor's degree in urban planning from the University of Washington.

*Nancy Ahern, Deputy Director for Utility Systems Management.* Ms. Ahern, who was appointed to this position in 2005, leads staff who provide policy direction, regulatory compliance, and capital programming for SPU's water, drainage, wastewater, and solid waste lines of business. She joined SPU in 2001 as Deputy Director for Resource Management and previously spent more than 15 years in state and local government services, focusing on utilities and natural resource management. During that time, she served as manager of the Water and Land Resources Division for King County (the "County"), and prior to that, she worked in the City of Bellevue Utilities Department for six years and for the Puget Sound Water Quality Authority for three years. She also worked in Washington D.C. for the World Wildlife Fund/Conservation Foundation and in environmental consulting. Ms. Ahern holds a bachelor's degree in biology and environmental studies from Principia College and a Ph.D. degree in natural resource management from the University of Michigan. She also has a master's degree from Seattle University in organizational systems and renewal.

*Vladimir Khazak, Interim Deputy Director for Project Delivery.* Mr. Khazak was appointed to this position in 2013. In this role, he serves as the chief engineer for the utility and leads SPU's engineering, project, and construction management services for the capital improvement programs and other key technical services. He brings more than 40 years of experience managing, delivering, and implementing over \$40 billion of civil construction projects throughout the country and around the world. Prior to joining SPU, he served as an independent consultant on the \$1.3 billion SR99 Alaskan Way Tunnel in Seattle, vice president of HNTB Corporation, executive vice president for Earth Tech managing its design-build and construction management business in Europe, and senior vice president of URS, responsible for the Construction Management Division. He also worked for various public sector organizations in Washington State from 1977 to 1991. During that time, he managed a \$1.3 billion Wastewater Quality Program and a \$483 million Downtown Seattle Transit Project and served as Technical Services Department Director for the Municipality of Metropolitan Seattle. Mr. Khazak holds a master's degree in mechanical engineering from the St. Petersburg (Russia) State University of Architecture and Civil Engineering and a master's degree in sanitary engineering from the Institute for Pulp and Paper Technology, St. Petersburg (Russia).

### **Employment Retirement System and Employee Relations**

Currently SPU has approximately 1,400 employees, approximately 70% of whom are represented under one of ten labor agreements with the Coalition of City Unions. See "The City of Seattle—Labor Relations."

Almost all SPU employees are members of the Seattle City Employee Retirement System, which requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension Plans."

## DRAINAGE AND WASTEWATER SYSTEM

### General

The City began building public sewers in 1882 in order to protect public health and quality of life. Over half of the current system was built in the first three decades of the 20th century, long before sewage treatment was contemplated. Consistent with the then current practice, combined sewers were built to carry both stormwater and wastewater. This practice not only saved the expense of building a second pipe, it also provided dilution to flush the sewers and the discharge sites. Wastewater was discharged untreated at nearby sites along Puget Sound, the Duwamish Waterway, Lake Washington, Lake Union, and the Ship Canal. As the community realized that untreated sewage discharges caused water quality problems, the City began to separate the combined stormwater and wastewater systems and to build sewage treatment plants. By the 1950s, the City had over 1,000 miles of combined sewers and 500 miles of separate sanitary sewer lines, and was operating three primary sewage treatment plants and numerous rudimentary treatment devices at discharge sites. The City formed the Sewer Utility within the Engineering Department in 1955, and began charging City residents and businesses for wastewater service the following year.

### Wastewater Services

The wastewater system currently serves a population of nearly 627,000, substantially all of which are within the City limits. Residential accounts generate, on average, about 36% of total wastewater volumes and 36% of total wastewater revenues. Table 1 presents an overview of key wastewater operating statistics for the past five years. Between 2009 and 2013, wastewater volumes declined by an average of 1.5% per year, due primarily to programmatic water conservation efforts. In 2012, volume rose to nearly 2009 levels as a result of increased economic activity, but returned to a downward trajectory in 2013.

TABLE 1  
WASTEWATER SYSTEM OPERATING STATISTICS

	2009	2010	2011	2012	2013
Population Served	602,000	612,000	612,100	616,500	626,600
Wastewater Revenues (000)					
Residential	\$ 69,020	\$ 68,834	\$ 73,964	\$ 86,548	\$ 89,478
Commercial	114,821	115,273	129,626	150,387	154,998
Total Wastewater Revenues	\$ 183,841	\$ 184,107	\$ 203,590	\$ 236,935	\$ 244,476
Billed Wastewater Volume (MG)					
Residential	6,239	6,165	5,539	5,764	5,679
Commercial	10,076	9,896	10,065	10,414	10,414
Total Billed Wastewater Volume	16,315	16,061	15,604	16,178	16,093
Gallons Billed Per Day Per Capita	74.3	71.9	69.8	71.9	70.4

Note: Totals may not add due to rounding.

In 2006, SPU completed the 20-year Wastewater System Plan (the “WSP”). Although SPU had produced some elements of such a plan in the past, including a combined sewer overflow (“CSO”) control plan and a sewer rehabilitation plan, the WSP is the first plan that ties together wastewater needs, policies and service levels for conveyance systems in a comprehensive manner. The WSP focuses on system capacity, combined sewers, and CSOs.

The WSP identifies gaps between existing and desired service levels and develops options to provide the desired level of service with an acceptable level of risk and least life cycle cost. WSP planning-level cost estimates indicate an increase in both operations and maintenance and Capital Improvement Program (“CIP”) expenditures, driven primarily by the requirements of the National Pollutant Discharge Elimination System (“NPDES”) CSO permit. See “Regulations—Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments.”

*Regional Treatment and Disposal.* In 1958, a regional sewage treatment agency, the Municipality of Metropolitan Seattle (“Metro”), was formed to provide a regional solution to water quality problems. The City, rather than expanding its own treatment facilities, entered into a contract with Metro for sewage treatment. Metro is responsible for and has built major treatment plants along with an extensive regional interceptor system to route sewage to the plants and stop untreated discharges into Lake Washington and other bodies of water.

Metro and King County (the “County”) were merged in 1994. Since then, the County has been responsible for sewage treatment and disposal and has entered into long-term contracts with local sewage agencies, including the City, which remain responsible for their own local collection and transmission lines. The County currently provides services to 37 entities, including cities (including the City), sewer districts, and others. The City’s current agreement with the County expires July 1, 2036. Negotiations for a renewal or extension are currently underway. The County has passed an ordinance purporting to require that local sewage agencies in the County, including the City, continue to deliver waste to the County following expiration of their treatment contracts on terms substantially similar to those under the current agreement.

Pursuant to the County’s Regional Wastewater Services Plan (“RWSP”), the County completed a new 36-million-gallons-per-day (“mgd”) treatment and reclaimed water plant (“Brightwater”) and associated conveyance system at a cost of \$1.8 billion. Other RWSP projects include conveyance systems expanding the capacity of the South Treatment Plant, constructing 21 CSO projects, and controlling inflow and infiltration. Through 2030, the projected additional cost of the projects associated with the RWSP is approximately \$1.3 billion. Beyond the RWSP, other County capital projects for the sewer system during this timeframe total approximately \$1.2 billion.

The County finances the capital and operating costs of its sewage treatment and disposal system, including projects from the RWSP, with a wholesale charge to the City and other component agencies that is established by the County Council pursuant to the current agreement. Currently, the City’s share of these costs is approximately 40%, and SPU passes the wholesale charge on to the City’s Drainage and Wastewater System ratepayers. The County has approximately \$3.7 billion of sewer system debt outstanding with a final maturity of 2052. The City pays a portion of the debt service on these bonds through the wholesale charge it pays to the County. The wholesale charge paid to the County is included as an Operating and Maintenance Expense under the Bond Ordinance. See Appendix A—Bond Ordinance.

*Wastewater Rates.* Residential customers are charged based on actual water consumption from November through April and the lesser of actual consumption or average winter water consumption from May through October. Commercial customers are charged based on actual water consumption throughout the year unless they install submeters to measure actual use of the wastewater system.

City ordinance allows SPU to pass through increases in the County’s wastewater treatment charges based on adopted wholesale rates and projected billed consumption. The County, which treats virtually all of the City’s wastewater, increased its wholesale treatment rate 10.2% in 2013, after holding the rate constant in 2012. The increase in the County’s charges is passed through to SPU customers. The County’s treatment charge for 2014 is being held constant at the 2013 level.

In 2012, the City Council adopted a 2014 wastewater rate of \$11.00 per hundred cubic feet (“ccf”). This rate increased to \$11.75 per ccf due to the County’s 10.2% treatment rate increase. Table 2 shows adopted City wastewater rates since 2009 and Table 3 shows typical 2014 residential bills for wastewater services in other cities on the West Coast (assuming monthly consumption of 430 cubic feet or 4.3 ccf). The City Council approved a 0.8% rate increase for 2015.

**TABLE 2**  
**ADOPTED WASTEWATER RATES<sup>(1)</sup>**

<u>Effective Date</u>	<u>Volume Rate</u> <u>(\$/ccf)</u>	<u>Percentage</u> <u>Change</u>
January 2014	\$ 11.75	0.90%
January 2013	11.65	9.10
January 2012	10.68	3.90
January 2011	10.28	14.50
January 2010	8.98	1.01
January 2009	8.89	14.70

(1) Reflects King County wastewater treatment charges, which include rate increases in 2009, 2011, and 2013.

**TABLE 3**  
**RESIDENTIAL WASTEWATER CHARGES**

<u>City</u>	<u>Monthly Bill</u>
Kirkland WA <sup>(1)</sup>	\$ 72.37
Bellevue WA <sup>(1)</sup>	59.73
Issaquah WA <sup>(1)</sup>	55.33
<b>Seattle WA<sup>(1)</sup></b>	<b>50.53</b>
Tacoma WA	47.08
Portland OR	37.35

(1) King County wastewater treatment customers.

*Source: Survey by SPU of rates in effect on January 1, 2014, in each respective city, for monthly consumption of 430 cubic feet. Issaquah and Kirkland are estimated bills; Bellevue, Seattle, Tacoma, and Portland are actuals as provided by the respective utilities.*

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers currently receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is transferred to the Drainage and Wastewater Fund and any remaining funds are transferred to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, SPU has the authority to shut off water when an account is 40 days past due.

Because the Water Fund is affected first in the event of payment shortages, the Drainage and Wastewater Fund benefits from any enforcement action that would shut off the water supply to the delinquent payer. City ordinance further provides that in accordance with RCW 35.67.200, overdue accounts become a lien on property if not paid within 90 days and delinquent charges bear interest at the rate of 8% per annum. As a result of this strong collection mechanism, the Drainage and Wastewater System allowance for doubtful accounts has averaged approximately 0.1% of direct service revenues since 2001.

The City's wastewater system serves approximately 173,000 accounts in a developed urban area. Commercial accounts have, on average, comprised approximately 11% of the total. SPU generally experiences very little change from year to year in the number of wastewater customers it serves.

There are no major water- or wastewater-intensive users in the service area. The wastewater system's ten largest customers in 2013 are listed in Table 4. In total, the revenue from these ten customers was approximately 8.5% of aggregate wastewater service revenues.

**TABLE 4**  
**TEN LARGEST WASTEWATER CUSTOMERS**

<b>Name</b>	<b>Revenue</b>	<b>% of Total Revenue</b>
University of Washington	\$ 6,359,038	2.65%
Seattle Housing Authority	3,198,645	1.33%
City of Seattle	2,062,980	0.86%
King County	1,340,774	0.56%
Port of Seattle	1,255,439	0.52%
Darigold	1,080,912	0.45%
Swedish Medical Center	953,752	0.40%
Virginia Mason	900,897	0.38%
Harborview Medical Center	820,284	0.34%
Seattle Public Schools	750,306	0.31%
Total-Ten Largest Customers	\$ 18,723,027	7.81%

*Source: SPU Wastewater Billing System*

### **Drainage Services**

Stormwater run-off in the City is conveyed through one of three modes: storm drains, a combined stormwater and wastewater system, and a ditch, culvert and creek system. Beginning in the late 1960s, the City converted some of the existing combined stormwater and drainage system to a two-pipe system, one for stormwater run-off and the other for sanitary sewage. A ditch, culvert and creek system exists in areas of the City that originally were part of unincorporated King County and later were annexed by the City. Each of the three conveyance modes now represents about one-third of the system.

To address flooding of private property adjacent to major creeks carrying City stormwater, new trunk lines and detention ponds have been built and regulatory controls have been added for new residential and commercial developments. Also, several efforts are underway to reduce pollutants in stormwater that can contribute to water quality problems in receiving waters. SPU is responsible for coordinating the City's stormwater management programs. See "Regulations—NPDES Municipal Stormwater Permit."

*Drainage Rates.* The City charges drainage fees based on a property's estimated impact on the drainage system. In 2008, SPU implemented a new drainage rate design to increase equity among drainage customers and between wastewater and drainage customers. Previously, all residential customers paid the same annual flat fee, regardless of parcel size. Under the updated structure, owners of single-family and duplex properties of less than 10,000 square feet pay an annual flat fee based on the size of their property. Owners of all other properties, including single-family and duplex properties on parcels of 10,000 square feet or greater, are charged based on the percent of impervious surface and buildable lot size. In addition, drainage rates are set to fund a portion of the City's combined drainage and storm sewer system infrastructure. SPU began offering rate credits in 2009 to property owners installing water quality and flow control facilities that mitigate the impact of their runoff on the City's drainage system. To date, these credits have not had a material impact on net system revenues.

The 2013 and 2014 drainage rates are shown in Table 5.

**TABLE 5  
DRAINAGE RATE CATEGORIES**

<b>Rate Category</b>	<b>Percent Impervious<sup>(1)</sup></b>	<b>2013 Annual Charge</b>	<b>2014 Annual Charge</b>
<b>Small Residential</b> (less than 10,000 square feet)		per parcel	per parcel
< 3,000 sq. ft.		\$164.05	\$180.96
3,000-4,999 sq. ft.		\$212.92	\$234.87
5,000-6,999 sq. ft.		\$289.11	\$318.92
7,000-9,999 sq. ft.		\$365.97	\$403.70
<b>General Service/Large Residential<sup>(2)</sup></b>		per 1,000 sq.ft.	per 1,000 sq.ft.
Undeveloped	0-15%		
Regular		\$23.31	\$25.71
Low Impact <sup>(3)</sup>		\$13.65	\$15.06
Light	16-35%		
Regular		\$36.05	\$39.76
Low Impact <sup>(3)</sup>		\$28.35	\$31.27
Medium	36-65%		
Regular		\$52.35	\$57.75
Low Impact <sup>(3)</sup>		\$42.11	\$46.45
High	66-85%	\$70.23	\$77.48
Very High	86-100%	\$83.08	\$91.65

- (1) Impervious surface is any hard or impermeable surface such as blacktop, rooftops, parking lots, patios, hardpan, and hard-packed athletic fields, which absorb much less rainwater than pervious surfaces covered with grass, trees or other vegetation.
- (2) Includes single-family and duplex properties of 10,000 square feet or more.
- (3) A parcel may qualify for a low impact rate if it has a significant amount of highly pervious surface, *e.g.*, forested land, other unmanaged vegetated areas such as pasturelands and meadows, or certain athletic fields that have been designed to substantially meet the same SPU-defined performance characteristics for infiltrating stormwater.

**TABLE 6  
ANNUAL DRAINAGE FEE PERCENTAGE INCREASE  
(%)**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Residential <sup>(1)</sup>	1.9	14.0	11.4	10.5	10.3
Commercial	1.9	15.3	11.4	9.6	10.3

- (1) Residential parcels of 10,000 square feet or more are billed under the same rate structure as commercial parcels, based on percent impervious and actual parcel size.

Table 6 compares the typical residential charge for drainage services of comparable cities in the Northwest.

**TABLE 7**  
**2014 RESIDENTIAL DRAINAGE CHARGES**

<u>City</u>	<u>Typical Monthly Bill</u>
Seattle WA	\$ 26.58
Portland OR	24.88
Bellevue WA	21.19
Tacoma WA	19.67
Kirkland WA	16.77
Issaquah WA	14.08

*Source: Survey by SPU of rates in effect on January 1, 2014, in each respective city*

Drainage fees are billed to all property owners in Seattle, except for certain exempt properties (submerged lands, houseboats, piers, City streets, State highways and other streets that provide the same drainage service as City streets), and is billed on the King County property tax statement. In accordance with RCW 35.67.200, City ordinances provide that the City has a lien for all delinquent and unpaid drainage service charges, and that delinquent drainage service charges bear interest at the rate of 8% per year. Average collection levels since 2000 are over 99%.

The City's drainage system serves approximately 213,000 accounts in a developed urban area; the system has experienced little change from year to year in the number of customers. Residential customers make up approximately 69% of the total customers. The ten largest customers of the drainage system in 2013 are listed in Table 8. In 2013, revenue billed to these ten customers totaled \$16.7 million, or approximately 19.7% of drainage service revenues.

**TABLE 8**  
**TEN LARGEST DRAINAGE CUSTOMERS**

<u>Name</u>	<u>Revenue</u>	<u>% of Total Revenue</u>
City of Seattle	\$ 5,150,236	6.06%
Port of Seattle	3,533,031	4.16%
Seattle Public Schools	1,648,544	1.94%
King County	1,568,699	1.85%
University of Washington	1,354,178	1.59%
BNSF Railway Company	1,226,006	1.44%
Seattle Housing Authority	738,458	0.87%
U.S. Government	730,582	0.86%
Union Pacific Railroad Company	508,832	0.60%
Seattle Community Colleges	282,392	0.33%
Total-Ten Largest Customers	\$ 16,740,958	19.71%

*Source: SPU Drainage Billing System*

## Regulations

*Clean Water Act.* The Federal Water Pollution Control Act (the "Clean Water Act"), as amended, establishes a broad goal of restoring and maintaining the chemical, physical, and biological integrity of the nation's waters. Among other directives, the Clean Water Act:

- (i) Requires permitting of point source discharges of pollutants into waters of the United States under the NPDES;

- (ii) Mandates that states set water quality standards, and requires periodic listing of impaired waters (section 303(d) list);
- (iii) Mandates “total maximum daily load” analyses for impaired waters (TMDL program); and
- (iv) Requires programs to encourage control of nonpoint source pollution.

The statute creates some state responsibilities directly and allows the U.S. Environmental Protection Agency (“EPA”) to delegate other responsibilities state-by-state.

*NPDES Municipal Stormwater Permit.* Section 402 of the Clean Water Act requires certain municipalities to obtain an NPDES permit for municipal stormwater discharges to receiving waters. In Washington, the State Department of Ecology (“DOE”) is responsible for issuing and renewing these permits. Municipal stormwater discharges are regulated as point sources that should be controlled to reduce discharge of pollutants to the “maximum extent practicable,” through a primarily programmatic permit. Under Phase I of the program, large and medium municipal separate storm sewer systems (“MS4s”) such as the City’s must obtain NPDES permits for all discharges (not including CSOs or discharges from public treatment facilities). As a condition of MS4 permit coverage, permittees are required to develop a stormwater management program. DOE issued a new Phase I municipal stormwater permit to the City, which became effective February 16, 2007. The 2007 permit includes requirements that are intended to improve the quality of the receiving waters in the City and includes prescriptive programmatic requirements, stringent monitoring requirements, measurement guidelines for specific programs, and best management practices based on DOE’s 2005 Stormwater Management Manual for Western Washington. In October 2011, DOE issued two revised permits in draft form. The first was effective until 2013. The second permit is in effect from 2013-2018 and continues many of the current prescriptive programmatic permit requirements while changing others. The largest changes affect the implementation of low impact development, as required by a 2008 decision by the State Pollution Control Hearings Board and the requirement to participate in a DOE-led regional monitoring program.

*Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments.* In 2008, the EPA Region 10 Office of Compliance and Enforcement audited both the County’s and the City’s CSO programs to ensure consistency with federal laws and requirements. EPA has audited numerous other combined sewer agencies in the United States. Based on the results of the audit, EPA and the City signed a compliance order in 2009 requiring the City to take specific operations and maintenance actions and complete minor retrofits to reduce dry weather overflows and maximize system capacity, all of which were completed in early 2014.

DOE issues NPDES permits for CSO discharges under the authority of the Clean Water Act. In October 2010, the City was issued a revised NPDES permit for its CSO discharges, which was modified in 2012. This permit expires in November 2015. An agreed order between DOE and the City was also issued in 2010, requiring that CSOs from all remaining uncontrolled CSO basins be reduced to an average of one overflow per site per year by December 31, 2025.

On July 3, 2013 a Consent Decree was entered into between the Department of Justice and the City, on behalf of EPA and DOE, related to the City’s CSO reduction program and management of its wastewater system. The Consent Decree supports the agreed order completion dates, but requires additional programs including a Capacity, Management, Operations, and Maintenance Performance Program Plan, Long-Term Control Plan (“LTCP”), Fats, Oils, and Grease Control Program Plan, revised Floatables Observation Program Plan, and Henderson (considered an “early action” CSO project, as construction will have started but not be completed under the current permit expiring in 2015), and requires joint operations and systems optimization plan between the City and King County. The Consent Decree also requires the City to develop an LTCP Post-Construction Monitoring Plan by May 30, 2015 and complete construction of all CSO Control Measures by December 31, 2025. The Consent Decree also allows the City to submit an Integrated Plan that proposes stormwater control projects that would result in significant benefits to water quality beyond the CSO Control Measures. If approved, the Integrated Plan could defer some CSO Control Measures beyond the 2025 compliance date.

About two-thirds of the City is served by combined or partially separated sewers. The existing permit governs wet weather discharges at 86 discharge points. The City developed a CSO Reduction Plan amendment in 2001, updated it in 2005, and issued an amendment in 2010, addressing CSO reduction projects in 11 uncontrolled CSO basins that

are being constructed are expected to be completed by the end of 2018. The City is currently developing the plan, which will outline the City's strategy to control CSOs and meet state and federal regulations. The plan will be submitted to EPA and DOE for approval in May 2015 and will include four volumes:

Volume 1—Protecting Seattle's Waterways Executive Summary

Volume 2—CSO LTCP

Volume 3—Integrated Plan

Volume 4—Environmental Impact Statement

As part of their planning processes, the City and the County are jointly studying their uncontrolled CSO basins to evaluate the feasibility of future collaborative projects. The LTCP will also be used for the City's 2015-2020 NPDES permit submittal to DOE.

Over the last four decades, the City has invested more than \$525 million in CSO controls. Between 2012 and 2017, the City expects to spend an additional \$224 million (in 2012 dollars) in CSO improvements. Improvements will include large CSO storage facilities, retrofit, and green stormwater infrastructure projects.

### **Financial Policies**

Drainage and wastewater rates are set in accordance with financial policies adopted by the City Council. Under the City's ordinances authorizing the issuance of Parity Bonds, the Coverage Requirement is Net Revenue available for debt service in each calendar year at least equal to 1.25 times Average Annual Debt Service. *Upon the refunding of the Refunded Bonds and the scheduled retirement of the remaining 2004 Bonds on September 1, 2014, the Coverage Requirement will be defined as Adjusted Net Revenue at least equal to 1.25 times Adjusted Annual Debt Service.* See "Security for the Bonds—Rate Covenant." Revenues to cover depreciation and City taxes are considered available for debt service. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year. The City Council has adopted a coverage target of Net Revenue available for debt service in each calendar year at least equal to 1.80 times annual debt service. Other adopted internal policy targets in effect since 2004 include generally positive net income, a minimum year-end cash balance equal to the average monthly wastewater treatment cost, and a minimum of 25% cash funding of the CIP based on a four-year rolling average. Between 2009 and 2013, the Drainage and Wastewater System met or exceeded all targets.

### **Financial Performance**

Table 8 shows actual revenues and expenses of the Drainage and Wastewater System for the years 2009 through 2013, as well as projected results for 2014 and 2015. Footnotes for the Table 9 are on the following page.

*SPU does not as a matter of course make public projections as to future sales, earnings or other results. However, the management of SPU has prepared the prospective financial information as set forth below under "Drainage and Wastewater System Operating Results" and "Capital Improvement Program" to provide readers of this Official Statement information related to projected revenues and expenses of the Drainage and Wastewater System. The accompanying prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of SPU's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Drainage and Wastewater System. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and potential purchasers of the Bonds and the readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.*

*Neither SPU's independent auditors nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and they assume no responsibility for, and disclaim any association with, this Official Statement and such information.*

*The financial statements of the Drainage and Wastewater Fund as of and for the fiscal year ended December 31, 2013, included herein as Appendix C, have been audited by Moss Adams LLP, independent accountants, as stated in*

*its report appearing herein. SPU has not requested that Moss Adams LLP provide consent for inclusion of its audited financial statements in this official statement, and Moss Adams LLP has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.*

**TABLE 9**  
**DRAINAGE AND WASTEWATER SYSTEM OPERATING RESULTS**  
(\$000)

	Actual					Projected	
	2009	2010	2011	2012	2013	2014	2015
<b>Operating Revenue</b>							
Wastewater Service <sup>(1)</sup>	\$ 185,549	\$ 186,655	\$ 206,644	\$ 223,138	\$ 244,476	\$ 240,725	\$ 242,803
Drainage Service <sup>(1)</sup>	58,136	58,292	67,580	75,537	84,157	90,995	99,692
Other	6,509	4,786	4,733	5,327	5,127	3,474	3,474
<b>Total Operating Revenues</b>	<b>\$ 250,195</b>	<b>\$ 249,734</b>	<b>\$ 278,957</b>	<b>\$ 304,002</b>	<b>\$ 333,760</b>	<b>\$ 335,195</b>	<b>\$ 345,970</b>
<b>Operating Expenses</b>							
Operating and Maintenance Expenses							
Wastewater Treatment <sup>(2)</sup>	\$ 111,372	\$ 111,282	\$ 125,252	\$ 125,744	\$ 139,434	\$ 138,646	\$ 145,944
Other Operating Expenses <sup>(3)</sup>	71,338	68,376	71,957	72,070	71,233	87,404	102,034
Taxes Other Than City Taxes	2,821	3,099	3,582	4,172	4,340	4,430	4,403
Other Expenses							
City Taxes <sup>(4)</sup>	28,861	29,177	32,449	35,375	38,852	39,370	40,620
Depreciation	20,721	20,131	19,832	21,157	21,254	22,677	23,437
<b>Total Operating Expenses</b>	<b>\$ 235,113</b>	<b>\$ 232,066</b>	<b>\$ 253,071</b>	<b>\$ 258,518</b>	<b>\$ 275,113</b>	<b>\$ 292,528</b>	<b>\$ 316,437</b>
<b>Net Operating Income</b>	<b>\$ 15,082</b>	<b>\$ 17,668</b>	<b>\$ 25,886</b>	<b>\$ 45,483</b>	<b>\$ 58,647</b>	<b>\$ 42,667</b>	<b>\$ 29,533</b>
<b>Other Income (Expenses)</b>							
Investment and Interest Income <sup>(5)</sup>	\$ 653	\$ 2,595	\$ 2,820	\$ 3,270	\$ 2,010	\$ 3,986	\$ 3,612
Interest Expenses and Amortization of							
Debt Issue Costs and Net Discount	(18,171)	(22,505)	(21,026)	(21,158)	(20,339)	(25,306)	(28,784)
Other Income, Net <sup>(6)</sup>	278	3,015	505	(35,958)	(24,216)	439	222
<b>Total Other Income (Loss)</b>	<b>\$ (17,240)</b>	<b>\$ (16,895)</b>	<b>\$ (17,701)</b>	<b>\$ (53,846)</b>	<b>\$ (42,545)</b>	<b>\$ (20,881)</b>	<b>\$ (24,950)</b>
Capital and Operating Fees, Contributions, and Grants	\$ 8,430	\$ 5,079	\$ 9,785	\$ 9,114	\$ 8,521	\$ 2,945	\$ 2,959
<b>Net Income (Loss)</b>	<b>\$ 6,272</b>	<b>\$ 5,852</b>	<b>\$ 17,970</b>	<b>\$ 752</b>	<b>\$ 24,623</b>	<b>\$ 24,731</b>	<b>\$ 7,541</b>
Claims Expense	1,751	5,912	1,516	2,904	(922)	3,323	3,323
<b>Revenue Available for Debt Service<sup>(7)</sup></b>	<b>\$ 67,067</b>	<b>\$ 75,484</b>	<b>\$ 82,503</b>	<b>\$ 108,189</b>	<b>\$ 119,842</b>	<b>\$ 112,023</b>	<b>\$ 100,524</b>
Annual Debt Service <sup>(8)</sup>	\$ 29,350	\$ 37,041	\$ 37,258	\$ 37,884	\$ 41,052	\$ 41,107	\$ 48,666
Debt Service Coverage <sup>(9)</sup>	2.29	2.04	2.21	2.76	2.92	2.73	2.07

Note: Totals may not add due to rounding.

## NOTES TO TABLE 9:

- (1) Adopted 2014 rate increases of 0.9% for wastewater and 10.3% for drainage, and 2015 rate increases of 0.8% for wastewater and 9.9% for drainage.
- (2) King County wastewater treatment rate increases of 14.1% in 2008, 13.2% in 2011, and 10.2% in 2013.
- (3) Projected to increase at a higher rate in 2014 and 2015 due to increased expenses such as pension funding and health care, additional expenses related to rehabilitation projects not in the capital budget, and underspending in 2013 that was rolled forward into future years.
- (4) The City currently levies a tax on total gross income from drainage and wastewater charges of 11.5% and 12%, respectively. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year.
- (5) Includes interest income on Build America Bonds. The 7.2% reduction in payments resulting from sequestration has been assumed through the forecast horizon. See “Federal Sequestration.”
- (6) In 2012 and 2013, environmental liabilities related to the clean-up of the Duwamish Waterway of \$34.3 million and \$18.3 million, respectively, were recognized.
- (7) Revenue available for Debt Service = net operating income + City taxes + depreciation + investment income + claims expense.
- (8) Reflects only debt service on Parity Bonds and does not include DOE and PWTF loans. The DOE and PWTF loans are secured by a lien on Net Revenue of the Drainage and Wastewater System junior to the lien of the Parity Bonds. See “Security for the Bonds—Other Outstanding Obligations” and “—Debt Service Requirements.”
- (9) Reflects Revenue Available for Debt Service / Annual Debt Service. Under the City’s ordinances authorizing the issuance of Parity Bonds, the Coverage Requirement is based on Average Annual Debt Service. Using the Average Annual Debt Service method, the 2013 debt service coverage for the Drainage and Wastewater System was 3.98x. See “Security for the Bonds—Rate Covenant.”

*Source: Drainage and Wastewater System*

Between 2009 and 2013, the Drainage and Wastewater System maintained high levels of debt service coverage (well above policy targets), with strong cash performance equal to or above the policy target. Despite some decline in wastewater volumes since 2005, aggregate operating revenues have shown steady growth, averaging 6.6% per year for the period.

SPU expects to meet or exceed debt service coverage, cash balance, cash financing of the CIP, and net income targets in 2014 and 2015. Financial performance figures for 2014 and 2015 assume the drainage and wastewater rates for those years that have been adopted by ordinance. See “Wastewater Rates” and “Drainage Rates.”

Payments to the County for wastewater treatment constitute an operating and maintenance expense that must be paid prior to payment of the principal of or interest on any bonds secured by the revenues of the Drainage and Wastewater System, including the Parity Bonds. Approximately 43% of the Drainage and Wastewater System’s total operating revenue in 2013 was spent on wastewater treatment. City ordinance allows SPU to pass through increases in the County’s wastewater treatment expense. Additionally, these revenues and expenses are impacted by overall demand. Demand is assumed to decline by 0.70% in both 2014 and 2015, as conservation programs are expected to continue offsetting the impact of population and employment growth within the City.

### **Capital Improvement Program**

Each year, SPU prepares a six-year Drainage and Wastewater CIP. The CIP identifies facilities in need of upgrading or rehabilitation, lays out a plan for constructing new facilities to address flooding and water quality problems, and includes a financial plan for funding the planned improvements. SPU expects to finance the CIP with a combination of bond proceeds, grants and reimbursements and current revenues.

The City is currently engaged in planning that will identify capital and operating and maintenance needs for the drainage system. The LTCP, Integrated Plan and 2013 NPDES Phase I Stormwater Permit recommend CIP investments in wastewater and stormwater projects during the next ten years. Concurrently, SPU will be conducting master planning to identify where investments in utility infrastructure can be made to improve capacity, reduce flooding, and improve water quality. Over the next five years, the utility plans to develop four to six master plans, starting with the Green Lake/Aurora Basin in 2014. The goal of the master plans is to identify the City’s future Drainage and Wastewater System needs and set realistic and achievable plans for how to achieve them in collaboration with other City departments, other public agencies, developers, and the communities served. These plans will guide capital and operational investments in drainage and wastewater for the next 50 years.

In 2013, the Mayor proposed the 2014-2019 CIP, which includes the Plan of Additions to be partially funded with proceeds of the Bonds. The City Council approved the CIP in November 2013. The adopted 2014-2019 CIP is approximately \$87.8 million larger than the adopted 2013-2018 CIP, which totaled \$525.1 million. The significant factors driving this change are increases in projects associated with flood control programs, combined sewer overflows, and sewer pipe rehabilitation.

Table 10 shows actual CIP spending in 2013 based on SPU's analysis of year-end capital spending, and projected CIP spending in 2014 through 2019 in accordance with the most recent forecasts and adopted CIP.

**TABLE 10**  
**DRAINAGE AND WASTEWATER SYSTEM**  
**CAPITAL IMPROVEMENT PROGRAM**  
**(Amounts in Thousands)**

Program Area	Actual	Spending Plan						Total
	2013	2014	2015	2016	2017	2018	2019	
Combined Sewer Overflows	\$ 50,913	\$ 40,211	\$ 59,084	\$ 47,766	\$ 23,862	\$ 22,397	\$ 15,500	\$259,732
Rehabilitation	9,577	12,371	11,755	16,338	21,020	22,520	22,520	116,100
Flooding, Sewer Back-up, and Landslides	8,008	13,307	16,681	23,734	26,372	18,899	15,961	122,962
Protection of Beneficial Uses	4,217	3,133	5,180	5,821	7,067	9,841	6,243	41,502
Sediments	2,520	3,105	4,797	2,420	3,778	21,315	19,264	57,197
Shared Cost Projects	6,996	11,382	13,158	13,949	19,259	14,227	9,342	88,313
Technology	4,595	7,088	9,936	8,409	6,149	6,443	4,778	47,398
<b>Total</b>	<b>\$ 86,826</b>	<b>\$ 90,597</b>	<b>\$120,591</b>	<b>\$118,436</b>	<b>\$107,506</b>	<b>\$115,643</b>	<b>\$ 93,608</b>	<b>\$733,205</b>
		<b>Planned</b>						
Funding Sources <sup>(1)</sup>	2013	2014	2015	2016	2017	2018	2019	Total
Debt Financing								
2012 New Money Bonds	\$ 56,668	\$ 28,190	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84,858
2014 New Money Bonds	-	24,486	78,163	10,351	-	-	-	113,000
Future Bonds	-	-	-	68,512	77,974	82,155	72,703	301,344
<b>Total Debt Financing</b>	<b>\$ 56,668</b>	<b>\$ 52,676</b>	<b>\$ 78,163</b>	<b>\$ 78,863</b>	<b>\$ 77,974</b>	<b>\$ 82,155</b>	<b>\$ 72,703</b>	<b>\$499,202</b>
Revenue Financing								
Grants and Reimbursements	\$ 2,347	\$ 1,347	\$ 1,361	\$ 1,506	\$ 1,929	\$ 1,991	\$ 1,736	\$ 12,217
Internally Generated Funds	27,810	36,574	29,008	26,223	16,853	19,933	9,808	166,209
<b>Total Revenue Financing</b>	<b>\$ 30,157</b>	<b>\$ 37,920</b>	<b>\$ 30,369</b>	<b>\$ 27,729</b>	<b>\$ 18,782</b>	<b>\$ 21,924</b>	<b>\$ 11,544</b>	<b>\$178,424</b>
Adjustment for Accomplishment	-	-	12,059	11,844	10,751	11,564	9,361	55,578
<b>Total</b>	<b>\$ 86,826</b>	<b>\$ 90,596</b>	<b>\$120,591</b>	<b>\$118,436</b>	<b>\$107,506</b>	<b>\$115,643</b>	<b>\$ 93,608</b>	<b>\$733,205</b>

(1) Bond proceeds provided are net of issuance expense.

Note: Totals may not add due to rounding.

The 2014-2019 CIP addresses seven program areas:

*Combined Sewer Overflows.* This program area consists of projects that are mandated by State and federal regulations to control CSOs into the City's receiving waters. Projects include large infrastructure projects (e.g., storage structures, pipes, tunnels, wet weather treatment plants, stormwater separation, and pump stations), smaller retrofits, construction of green infrastructure for CSO control, and development of regulatory-required plans, such as the LTCP).

*Rehabilitation.* This program area consists of projects to rehabilitate or replace existing drainage and wastewater assets in-kind to maintain the current functional level of the system. Projects include drainage and wastewater control structures and appurtenances, pipes, culverts, pump station structures, major mechanical and electrical components, and force mains.

*Flooding, Sewer Back-up, and Landslides.* This program area consists of projects for preventing and alleviating flooding and sewer backups in the City, with a primary focus on the protection of public health, safety, and property. The program area is focused on planning, design, and construction of channels, pipes, roadside ditches, culverts, detention ponds, and natural drainage systems that control and/or convey storm runoff to receiving waters. The program area also involves protecting SPU drainage and wastewater infrastructure from landslides and providing drainage improvements where surface water generated from the City right-of-way is contributing to landslides.

*Protection of Beneficial Uses.* This program area consists of improvements to the City's drainage system to reduce the harmful effects of stormwater runoff on creeks and receiving waters by improving water quality and protecting or enhancing habitat. The program area includes projects to improve water quality, protect creeks, meet regulatory requirements, and use best available science to meet community expectations for habitat. SPU is monitoring the DOE's efforts to update the Water Quality Standards for protection of human health. The updated standards will incorporate a higher consumption rate of fish by humans and lead to more stringent standards for the surface waters of the state. The updated standards are expected to be in place by the end of 2014.

*Sediments.* This program area provides funding for preliminary studies and analysis of cleanup of contaminated sediment sites in which the City is a participant, for actual cleanup of contaminated sites, for preliminary engineering for future cleanup efforts, and for liability allocation negotiations. Funding is used to develop studies and analyses required by regulatory agencies for determining the boundaries and cleanup requirements for specific action sites. The study phase of sediment remediation projects often requires multiple years before specific cleanup actions are defined. As regulatory agency cleanup requirements become clear, additional individual cleanup projects are included in subsequent CIP proposals.

In 1991, the State adopted marine water sediment management standards under which DOE may act to require the City to clean up sediments contaminated by CSOs and/or discharges from separate storm sewers. The full extent of sediment contamination related to City discharges, if any, and the nature and cost of compliance with DOE standards are not known at the present time. See "Litigation and Claims."

Related to sediment cleanup is the protection of the cleanup, to the extent practicable, from recontamination by ongoing sources. Identifying and managing these ongoing sources is known as source control and, for SPU, includes helping to improve housekeeping practices at facilities that discharge to City storm drains via municipal storm water permit and related water quality investments. Source control activities fall predominantly within the Protection of Beneficial Uses program area.

*Shared Cost Projects.* This program area includes projects involving more than a wastewater or drainage purpose and which are typically funded from multiple sources. Current projects include the Alaskan Way Viaduct and Seawall replacement, Emergency Storms, and the Integrated Control Monitoring Program. Some of these projects are managed by other agencies outside of the City; as a result, the staging and timeline for completion of these projects are not under the City's control.

*Technology.* This program area makes use of recent technological advances to increase SPU's efficiency and productivity.

## **Risk Management and Quality Assurance**

The Risk and Quality Assurance Program (“RQA”) was first established in 2004 and became a separate division in January 2011. While housed in the City’s Finance and Administration Branch, the program reports to a Risk and Quality Assurance Board, which consists of the SPU Director and Executive Team and a representative from the City Attorney’s Office. The program’s goals are to:

- (i) Provide strategic advice to SPU’s Executive Team and guide the development of policies that enable the organization to be more efficient and effective in meeting customer expectations;
- (ii) Assess ongoing practices and procedures and recommend measures to ensure sufficient protections are in place to reduce risks to SPU employees, customers, and assets;
- (iii) Investigate, advise, and respond to legal requests and filings on behalf of SPU; and
- (iv) Conduct internal investigations, assessments, and audits to ensure SPU is complying with regulations, policies, and procedures.

In 2014, the RQA team is focused on helping the Fleet Management group develop improved policies and procedures, providing the Customer Service Branch with advice and review for its internal control redesign efforts, helping to craft changes in record management practices, assessing and recommending changes to cash reconciliation practices, and evaluating field operations business practices. In addition to these special assignments, the RQA team continues to manage the ongoing functions of investigating claims, responding to public disclosure requests, coordinating the development of policies and procedures, coordinating external audits, and conducting investigations into the loss, or suspected loss, of assets.

See “The City of Seattle—Risk Management.”

## **Endangered Species Act and Regional Needs Assessment**

NOAA Fisheries has listed as “threatened with extinction” the Puget Sound Chinook salmon, and U.S. Fish and Wildlife Service (“USFWS”) has determined bull trout, steller sea lion, marbled murrelet, and Puget Sound steelhead to be similarly threatened. The USFWS has also listed the killer whale and humpback whale as endangered. These agencies have designated critical habitat for these species that includes parts of the City’s drainage service area: Lake Washington and its tributaries, the Duwamish River, Elliott Bay, and parts of Puget Sound.

Given the many legal, scientific and public review uncertainties currently associated with these listings and their application specifically to the Drainage and Wastewater System, it is difficult to predict their full implications for utility services.

However, the addition of review requirements to certain of SPU’s capital projects under the Endangered Species Act (the “ESA”), specifically Section 7 consultations between the federal services that are required under ESA, has added additional time to the permit review process, sometimes as much as a year or longer, which may result in construction delay of two to three years, depending on fish-friendly work window restrictions. The extent to which additional costs will be incurred for mitigation specifically related to the ESA is unknown. The City has entered into memoranda of understanding with the U.S. Army Corps of Engineers, USFWS and NOAA Fisheries for assistance in expediting the permit review process.

The City and SPU anticipate that additional funding will be needed to support habitat restoration programs that address threatened and endangered species-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water, drainage and wastewater rates and general fund money, federal and state grants, and taxes or fees imposed by other local jurisdictions.

## **Environmental Liabilities**

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”) created the federal Superfund, the EPA’s program that addresses abandoned hazardous waste sites. The two basic kinds of liability described under the Superfund law are liability related to historic contamination and liability related to damages to natural resource values.

In 2001, EPA listed the Lower Duwamish Waterway as a Superfund site under CERCLA to address the cleanup of historic contamination. EPA and DOE followed the listing with a joint federal and State administrative order on consent (“AOC”), which named certain potentially responsible parties (“PRPs”), including the City (through SPU and Seattle City Light), the County, the Port of Seattle, and The Boeing Company. The AOC also provided for studies of risk and formulation of cleanup alternatives that are expected to eventually determine the nature and extent of the contamination at the site and the preferred option for cleanup. Under the AOC for the Superfund site and early action units within the site, the PRPs are responsible for conducting and paying for the studies, known as the Duwamish Remedial Investigation, Feasibility Study and Engineering and Cost Analyses, the latter analyses being related to early action cleanup units within the overall Superfund site.

These studies are expected to result in a record of decision in 2014 or 2015 delineating the full extent of cleanup actions and estimated total cleanup costs. SPU’s share of liability for this cleanup is uncertain and depends upon the number and location of the areas at which EPA requires cleanup and the extent to which SPU’s drainage and wastewater operations contributed to the contamination. Other PRPs are expected to share in the total cleanup costs as well as past study costs. An allocation process and potential litigation in the approximate 2014-2018 timeframe will set a final allocation of costs among the various PRPs.

Immediately downstream of the Lower Duwamish Waterway is the East Waterway. Contaminated sediments within the East Waterway are an operable unit of the Harbor Island Superfund site, and the Port of Seattle entered into an administrative settlement agreement and order on consent (“ASAOC”) with EPA in 2006. The ASAOC covers an East Waterway sediment remedial investigation (“RI”)/feasibility study (“FS”), which is underway and expected to be completed at the end of 2015, with EPA issuing a record of decision for the operable unit in about 2016. The East Waterway is a Superfund cleanup project with many similar issues to the Lower Duwamish Waterway cleanup. The City, the Port of Seattle, and King County have entered into a memorandum of agreement that covers, among other things, interim sharing of costs and document review for the RI/FS. The total costs, and the City’s share of those costs, for remediation of the East Waterway, if any, are not estimable at present. Other PRPs are expected to share in any costs.

In 2002, DOE named the City and Puget Sound Energy as PRPs for the contamination of sediments adjacent to Gas Works Park and the Harbor Patrol areas in the North Lake Union area of the City. The City and Puget Sound Energy signed an Agreed order with DOE in 2005 to initiate two RI/FS 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 the 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 of 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/FS includes an evaluation of the nature and extent of the 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; the RI is expected to be completed in 2014, followed by the FS in 2015. A Clean-up Action Plan is expected from DOE in approximately 2016.

In addition, the Drainage and Wastewater System could be liable for a portion of the costs of investigation and cleanup at other sediment sites, including some not yet identified. The magnitude of any such potential liability cannot be determined at this time. See Appendix C—2013 Audited Financial Statements of the Drainage and Wastewater Fund-Notes 7 and 9.

As part of its federal Superfund liability, SPU also may have some liability for natural resources damages (“NRD”). The City settled its NRD liability for the Duwamish River in 1991. However the Natural Resource Trustees (federal, state and tribal agencies with natural resource responsibilities) are now bringing actions against other PRPs associated with the Duwamish River and have indicated that the City has some small residual liability at this site. The City is near finalization of the settlement of the Duwamish River NRD liability with the Natural Resource Trustees. NRD liability at other sediment sites has not yet been discussed. The magnitude of liability cannot be determined at this time.

## **Climate Change**

Climate change has affected and is projected to continue to affect the water cycle and hydrology, with impacts on drinking water, stormwater, and wastewater utilities. The SPU Climate Resiliency Group, which is located within the Director's Office, is responsible for identifying exposure to these projected changes and developing adaptation strategies. The SPU climate program addresses three main categories: researching how climate change can affect SPU, developing collaborative partnerships, and developing strategies to be incorporated into SPU operations, capital planning, and overall decision-making processes.

The initial climate impacts assessment began in 2002 and focused on water supply. A second study focused on demand for water as well as supply. For the third study, SPU is collaborating with Oregon State University to develop multiple climate scenarios and assess impacts on supply and operations, timing of the return of fall rains, and system thresholds. SPU has also used climate scenarios to assess impacts on runoff in the City and how the drainage system may be affected by the combination of sea level rise and intense precipitation events.

SPU is a founding member of the Water Utility Climate Alliance, a group of ten large urban water utilities that collaborates on climate research, decision-making, and adaptation. SPU has also been active on several federal advisory committees related to climate change, and SPU staff served on the National Climate Assessment Development Advisory Committee, which oversaw the development of the 2014 U.S. National Climate Assessment.

## **THE CITY OF SEATTLE**

The following provides general information about the City.

### **Municipal Government**

Incorporated in 1869, the City is the largest city in the Pacific Northwest and is the seat of King County (the "County").

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, fire fighting and emergency medical services, planning, zoning, animal control, municipal court, and utilities. King County also provides certain services throughout the County and within the City, including courts of general jurisdiction, felony prosecution and defense, jail, public health, and transit services.

The City is organized under the mayor-council form of government and operates under its City Charter. The mayor, the city attorney, and seven Municipal Court judges are all elected to four-year terms. Until 2013, City Council members served four-year terms. Pursuant to a charter amendment approved by voters in November 2013 that created seven City Council districts and two at-large positions, all nine City Council positions will be up for election in 2015. The City Council members elected by district will serve a four-year term and the at-large City Council members elected in 2015 will serve a two-year term. In 2017, the at-large positions will be up for election again, and thereafter, all City Council positions will be for staggered four-year terms.

*Mayor.* The mayor serves as the chief executive officer of the City. The mayor presents to the City Council annual statements of the financial and governmental affairs of the City, budgets, and capital improvement plans. The mayor signs, or causes to be signed on behalf of the City, all deeds, contracts, and other instruments.

*City Council.* As the policy-making legislative body of the City, the City Council sets tax levies, sets utility rates, makes appropriations, and adopts and approves the annual operating budget and capital improvement plans for the City. The City Council members serve on a full-time basis.

*Municipal Court.* The State Constitution provides for the existence of county superior courts as the courts of general jurisdiction and authorizes the State Legislature to create other courts of limited jurisdiction. The Seattle Municipal Court has limited jurisdiction over a variety of cases, including misdemeanor criminal cases, traffic and parking infractions, collection of fines, violation of no-contact or domestic violence protection orders, and civil actions for

enforcement of City fire and housing codes. The Municipal Court has seven judges. Municipal Court employees report to the judges.

## **Financial Management**

City financial management functions are provided by the Department of Finance and Administrative Services.

*Accounting.* The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor's Office, which maintains a resident staff at the City to perform a continual current audit as well as an annual, post-fiscal year audit of City financial operations. The Accounting Services Division of the Department of Finance and Administrative Services maintains general supervision over the accounting functions of the City.

*Auditing.* The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance and Administrative Services. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>.

In 2005, pursuant to an initiative approved by the State's voters, the State Auditor's Office was given authority to conduct independent performance audits of State and local government entities. The Office of the City Auditor also reviews the performance of a wide variety of City activities such as span of control, City-wide collections, special events permitting, and specific departmental activities.

*Municipal Budget.* City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office pursuant to State statute (chapter 35.32A RCW) and based in part on General Fund revenue forecasts prepared by the City's Department of Finance and Administrative Services. The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents, and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt a balanced budget at least 30 days before the beginning of the next fiscal year, which may be amended or supplemented from time to time by ordinance. The mayor may choose to approve the City Council's budget, veto it, or permit it to become law without the mayor's signature. The mayor does not have line-item veto power. The 2014 budget was adopted on November 25, 2013.

As part of its budgeting and management process, the City updates its projections for major revenue sources three times per year. This process is conducted utilizing a dedicated team of four economists with the assistance of regularly updated third-party national and local data and economic forecasts.

## **Investments**

*Authorized Investments.* Chapter 35.39 RCW permits the investment by cities and towns of their inactive funds or other funds in excess of current needs in the following: United States bonds; United States certificates of indebtedness; State bonds or warrants; general obligation or utility revenue bonds of its own or of any other city or town in the State; its own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law; and any other investment authorized by law for any other taxing district. Under chapter 39.59 RCW, a city or town also may invest in the following: bonds of any local government in the State that have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency; registered warrants of a local government in the same county as the government making the investment; and any investments authorized by law for the State Treasurer or any local government of the State other than a metropolitan municipal corporation (other than bank certificates of deposit of banks or bank branches not located in the State). Under chapter 43.84 RCW, the State Treasurer (and, under chapter 39.59 RCW, cities and towns) may invest in the following:

obligations of the United States or its agencies and of any corporation wholly owned by the government of the United States; State, county, municipal or school district general obligation bonds or general obligation warrants of taxing districts of the State, if within the statutory limitation of indebtedness; motor vehicle fund warrants; Federal Home Loan Bank notes and bonds, Federal Land Bank bonds, Fannie Mae notes, debentures and guaranteed certificates of participation and obligation of any other government-sponsored corporation whose obligations are eligible for collateral for advances to Federal Reserve System member banks; bankers' acceptances purchased in the secondary market; negotiable certificates of deposit of any national or state commercial or mutual savings bank or savings and loan association doing business in the United States; and commercial paper.

Money available for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common investment portfolio. All income derived from such investment may be either apportioned to and used by the various participating funds or for the benefit of the general government in accordance with City ordinances or resolutions.

*Authorized Investments for Bond Proceeds.* Funds derived from the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe. In addition to the eligible investments discussed above, bond proceeds may also be invested, subject to certain restrictions, in mutual funds with portfolios consisting of (i) only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities of less than four years; bonds of the State or of any local government in the State that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; (ii) bonds of states and local governments or other issuers authorized by law for investment by local governments that have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency; or (iii) securities otherwise authorized by law for investment by local governments.

*City Investments.* The information in this section does not pertain to pension funds that are administered by the City (see "Pension Plans"), and certain refunding bond proceeds that are administered by trustee service providers.

All cash-related transactions for the City, including its utilities, are administered by the Department of Finance and Administrative Services. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division of the Department of Finance and Administrative Services in securities described above under "Authorized Investments."

State statutes, City ordinances, and Department of Finance and Administrative Services policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting on the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Auditor.

As of December 31, 2013, the combined investment portfolios of the City, not including pensions, totaled \$1,438 million at par value. The City's Investment Pool is constituted solely of City funds. The City does not invest any funds in other pools, with the exception of tax collection receipts initially held by King County. As of December 31, 2013, the annualized yield on the City's investment portfolio was 0.75%. As of December 31, 2013, the average maturity of the portfolio was 921 days. Approximately 21.5%, or \$309.5 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

U.S. Government-Sponsored Enterprises	46.3%
U.S. Treasuries	15.7
Mortgage-Backed Securities	13.2
Taxable Municipal Bonds	10.9
Commercial Paper	10.7
Repurchase Agreements	3.1

Note: may not add to 100% due to rounding.

*Interfund Loans.* The City municipal code authorizes the Director of Finance, after consultation with the Director of Administrative Services, the Budget Director, and the City Council Finance Committee Chair, to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

### **Risk Management**

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. The policies provide \$40 million limits above a \$6.5 million self-insured retention per occurrence, but coverage excludes partial or complete failure of any of the City's hydroelectric dams. The City also purchases all risk property insurance, including earthquake and flood perils, that provides up to \$500 million in limits subject to a schedule of deductibles and sublimits. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy.

The City insures a primary level of fiduciary, crime liability, inland marine, and various commercial general liability, medical, accidental death and dismemberment, and miscellaneous exposures. Surety bonds are purchased for certain public officials, notary publics, and workers who are permanently and totally disabled from a workplace injury or occupational disease.

### **Pension Plans**

City employees are covered by one of the following defined benefit pension plans: Seattle City Employees' Retirement System ("SCERS"), Firefighter's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF"). The first three are administered by the City and are reported as pension trust funds as part of the City's reporting entity. The State administers LEOFF through the Washington State Department of Retirement Systems ("DRS").

Additional plan detail is available from SCERS and DRS on their respective websites (SCERS: <http://www.seattle.gov/retirement/>; DRS: <http://www.drs.wa.gov/>).

Nearly all permanent non-uniformed City employees and certain grandfathered employees of the County (and a predecessor agency of the County) are eligible for membership in SCERS. Current uniformed police and fire personnel are eligible for membership in LEOFF.

In June 2012, GASB approved Statements 67 and 68 that modify the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. SCERS and LEOFF will be subject to GASB 67; the City will be subject to GASB 68. GASB 67 is effective for Fiscal Year 2014; GASB 68 is effective for Fiscal Year 2015.

*Seattle City Employees' Retirement System.* SCERS is a single-employer defined benefit public employee retirement plan, administered in accordance with Chapter 4.36 of the Seattle Municipal Code (“SMC”), 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’s Director of Finance, the City’s Personnel Director, two active members and one retired member of the system, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

SCERS 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. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. As of January 1, 2013, there were 5,742 retirees and beneficiaries receiving benefits, and 8,465 active members of SCERS. There are an additional 1,973 terminated employees entitled to future benefits. From January 1, 2012, to January 1, 2013, the net number of active members increased by 0.4%, the net number of retirees receiving benefits increased by 2.9%, and the net number of vested terminated members decreased by 3.7%.

Certain demographic data as of the January 1, 2013, Actuarial Valuation (the “2012 Actuarial Valuation”) is shown below:

**TABLE 11  
PLAN MEMBER DEMOGRAPHIC INFORMATION**

<u>Age Range</u>	<u>Retirees and Beneficiaries Receiving Benefits</u>		<u>Active Employees</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<24	-	0.0%	86	1.0%
25-39	-	0.0%	1,747	20.6%
40-49	11 <sup>(1)</sup>	0.2% <sup>(1)</sup>	2,196	25.9%
50-59	348	6.2%	2,865	33.8%
60-69	2,243	39.6%	1,486	17.6%
70+	3,056	54.0%	85	1.0%

(1) Includes everyone under the age of 50.

Source: 2012 Actuarial Valuation

FINANCIAL CONDITION AND ACTUARIAL VALUATIONS. As a department of the City, SCERS is subject to the City’s internal control structure and is required by SMC 4.36.140.D to transmit a report to the City Council annually, regarding the financial condition of SCERS. The most recent such audited report is for calendar year 2012; it was transmitted on June 10, 2013, by CliftonLarsonAllen LLP. In addition, Milliman Consultants and Actuaries, as consulting actuary, evaluates the funding status of SCERS annually; the most recent actuarial report is the 2012 Actuarial Valuation. A valuation for calendar year 2013 (as of January 1, 2014) is expected to be completed by mid-2014. Historically, the City prepared actuarial valuations biennially, but in 2011 the City began preparing them annually.

As of January 1, 2013, the actuarial value of net assets available for benefits was \$1.920 billion and the actuarial accrued liability was \$3.025 billion. The 2013 valuation reflects the following assumptions:

Investment return	7.75%
Price inflation	3.50%
Expected annual average membership growth	1.00%
Wage inflation	4.00%
Interest on member contributions made prior to January 1, 2012 <sup>(1)</sup>	5.75%

(1) Contributions made on or after January 1, 2012, are assumed to accrue interest at 5.00%.

The unfunded actuarial accrued liability (“UAAL”) increased from \$905.0 million as of January 1, 2012, to \$1,105.2 million as of January 1, 2013. The funded ratio fell from 68.3% as of January 1, 2012, to 63.5%

as of January 1, 2013, which decrease is attributed to recognition of asset losses in 2011 and 2008, somewhat offset by the recognition of asset gains from 2009, 2010, and 2012. Unlike most public pension systems, prior to January 1, 2011, all valuations were reported on a mark-to-market basis. Consequently, the full impact of annual asset gains or losses occurring in recent years was reflected in each actuarial valuation. To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011 that recognizes the asset gain or loss occurring in each year evenly over a five-year period.

Table 12 provides historical plan funding information:

**TABLE 12**  
**HISTORICAL SCERS ACTUARIAL VALUATION INFORMATION<sup>(1)</sup>**

<b>Actuarial Valuation Date (January 1)<sup>(2)</sup></b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)<sup>(3)</sup></b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll<sup>(4)</sup></b>	<b>UAAL as % of Covered Payroll</b>
2004	\$ 1,527.5	\$ 1,778.9	\$ (251.4)	85.9%	\$ 424.7	59.2
2006	1,791.8	2,017.5	(225.7)	88.8	447.0	50.5
2008	2,119.4	2,294.6	(175.2)	92.4	501.9	34.9
2010	1,645.3	2,653.8	(1,008.5)	62.0	580.9	173.6
2011 <sup>(5)</sup>	2,013.7	2,709.0	(695.3)	74.3	563.2	123.5
2012 <sup>(5)</sup>	1,954.3	2,859.3	(905.0)	68.3	557.0	162.5
2013 <sup>(5)</sup>	1,920.1	3,025.3	(1,105.2)	63.5	567.8	194.6

- (1) Dollar amounts shown in millions.
- (2) Actuarial valuations were performed biennially until 2010, after which the City began performing an actuarial valuation annually.
- (3) Actuarial present value of benefits less actuarial present value of future normal cost. Based on Entry Age Actuarial Cost Method, defined below under "SCERS Contribution Rates."
- (4) Covered Payroll shown for the prior calendar year and includes compensation paid to all active employees on which contributions are calculated.
- (5) Beginning with the January 1, 2011, Actuarial Valuation, SCERS has used five-year asset smoothing.

*Source: 2012 Actuarial Valuation*

SCERS CONTRIBUTION RATES. Member and employer contribution rates are established by Chapter 4.36 of the SMC, which provides that the City contribution must match the normal contributions of members and does not permit the employer rate to drop below the employee rate. The SMC also requires that the City contribute, in excess of the matching contributions, the amount determined by the most recent actuarial valuation that is required to fully fund the plan. Contribution rates are recommended annually by the Board, based on the system's actuarial valuation. Benefit and contribution rates are set by the City Council.

The actuarially required contribution ("ARC") rate is based on amortizing the required contribution over 30 years, meaning that the total contribution rate must be sufficient to pay for the costs of benefits earned during the current year, as well as the annual cost of amortizing the plan's UAAL over 30 years. The 2012 Actuarial Valuation was prepared using the Entry Age Actuarial Cost Method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of the individual's projected compensation between entry age and assumed exit age.

Current and historical contribution rates, based on a percentage of employee compensation (exclusive of overtime), are shown in Table 13.

**TABLE 13  
CURRENT AND HISTORICAL EMPLOYER AND EMPLOYEE CONTRIBUTION RATES**

<b>Calendar Years (beginning January 1)</b>	<b>Employer Rate</b>	<b>Employee Rate</b>	<b>Total Contribution Rate</b>	<b>ARC<sup>(1)</sup></b>	<b>% of ARC Contributed<sup>(2)</sup></b>
2010	8.03 %	8.03 %	16.06 %	25.03 %	64 %
2011	9.03	9.03	18.06	21.30	85
2012	11.01	10.03	21.04	21.04	100
2013	12.89	10.03	22.92	22.92	100
2014	14.31	10.03	24.34	24.34	100

(1) Reflects total annual required contribution (i.e., employer plus employee contribution rates).

(2) Reflects total of employer and employee contribution rates, as percentage of total ARC.

*Source: Seattle Municipal Code; 2013 Budget; Actuarial Valuations*

In 2010 and 2011, the City failed to increase contribution rates sufficiently to fund the ARC. During 2010 and 2011, the City limited its contribution to matching the employee contribution (which was capped pursuant to certain collective bargaining agreements described in the following paragraph), without regard to any amortization of UAAL. This resulted in an increase in unfunded liability, underfunded the pension obligations, and deferred pension funding. On November 21, 2011, the City Council passed Resolution 31334 affirming the City’s intent to fully fund the annual ARC each year with its budget. The City’s adopted 2013 and 2014 budgets fully fund the respective ARC by increasing the employer contribution rate to match the ARC determined by the 2011 and 2012 Actuarial Valuations.

The City’s contracts with all labor unions that represent SCERS members describe how contribution rates would be changed in the event that higher contributions are needed to improve the funding status of the system. Under these contracts, the City and employees will share in any contribution rate increase equally, up to a maximum increase of 2% in the employee contribution. The 2% employee contribution rate increase has already been implemented, via 1% increases in 2011 and 2012. This contractual restriction shifts the risk of future increases to the City’s employer contribution. Most of the City’s existing collective bargaining contracts expired as of the end of 2013 and the City is actively negotiating renewals. See “Labor Relations.” The negotiations include exploring options for managing the system more cost-effectively in the long term.

Projected total actuarially required contribution rates reported in the 2012 Actuarial Valuation are shown in Table 14

**TABLE 14  
PROJECTED ACTUARIALLY REQUIRED TOTAL CONTRIBUTION RATES  
BY EMPLOYER AND EMPLOYEE**

<b>Contribution Year<sup>(1)</sup></b>	<b>Assuming 7.75% Returns</b>	<b>Range (90% Confidence Interval)</b>
2014	24.34%	24.34%-24.34%
2015	23.91	23.18-24.56
2016	23.69	22.08-25.22
2017	23.60	20.96-26.20
2018	23.26	19.50-26.90
2019	23.08	18.16-27.83

(1) Contribution year lags valuation year by one. For example, contribution year 2013 is based on the 2012 valuation results, amortized over 30 years, beginning in 2012 if the increase takes place in 2013.

*Source: 2012 Actuarial Valuation*

Employer contributions were \$79.2 million in 2013, of which approximately \$5.4 million was from the Drainage and Wastewater Fund. In 2014, employer contributions are expected to be \$89.6 million, of which approximately 6.8% will be from the Drainage and Wastewater Fund. The employer share for employees of the utility funds is allocated to and paid out of those funds.

INVESTMENT OF SCERS PLAN FUNDS. In accordance with chapter 35.39 RCW, the Board has established an investment policy for the systematic administration of SCERS funds. The investment of SCERS funds is governed primarily by the prudent investor rule, as set forth in RCW 35.39.060. SCERS invests retirement funds for the long term, anticipating both good and poor performing financial markets.

SCERS' net assets increased by \$198 million (11.3%) during 2012, including member and employer contributions of \$119.6 million and revenue from investment activity totaling \$230.7 million. Expenses increased by \$8.2 million in 2012, primarily attributed to a \$10.1 million increase in retiree benefit payments offset by a \$1.8 million reduction in contribution refunds.

Table 15 shows the historical market value of SCERS' net assets (as of each December 31). Table 16 shows the revenue or loss from investment activity for the last nine years.

**TABLE 15**  
**MARKET VALUE OF ASSETS**

<b>Year</b> <b>(As of December 31)</b>	<b>Market Value of</b> <b>Assets (MVA)<sup>(1)</sup></b>
2004	\$ 1,684.5
2005	1,791.8
2006	2,011.2
2007	2,119.4
2008	1,477.4
2009	1,645.3
2010	1,812.8
2011	1,753.5
2012	1,951.4

(1) In millions.

Source: SCERS Annual Reports

**TABLE 16**  
**SCERS INVESTMENT RETURNS**

<b>Year</b> <b>(As of December 31)</b>	<b>Net Investment Income (Loss)</b>	
	<b>Amount<sup>(1)</sup></b>	<b>%<sup>(2)</sup></b>
2004	\$ 171.3	11.5 %
2005	129.6	8.1
2006	242.7	13.9
2007	138.8	7.3
2008	(619.7)	(26.8)
2009	194.7	10.8
2010	208.5	13.2
2011	(15.8)	0.0
2012	230.7	14.0

(1) In millions.

(2) Represents one-year return on asset classes.

Source: SCERS Annual Reports

The preliminary SCERS investment return for 2013 is 15.5%.

Table 17 shows the historical distribution of SCERS investments over the last five years:

**TABLE 17**  
**HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS**

<b>Investment Categories (January 1)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Fixed Income <sup>(1)</sup>	19.1 %	22.8 %	22.0 %	15.5 %	17.7 %
Domestic Stocks	30.7	30.8	30.0	41.9	38.9
International Stocks	29.3	25.5	24.8	20.4	18.8
Real Estate	11.4	12.7	12.3	10.6	11.3
Alternative Investments <sup>(2)</sup>	9.5	8.1	10.8	11.6	13.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

(1) Includes investments in U.S. government obligations, corporate bonds, mortgage-backed securities, and other government-related investments. Prior to 2011, SCERS tracked some of these categories separately.

(2) Includes investments in the “mezzanine debt” category prior to 2011. Prior to 2011, SCERS tracked investments in a category called “mezzanine debt,” which investments were reassigned to the “alternative investments” and a minor portion were assigned to the “real estate” category, as appropriate for each investment. For purposes of Table 17, all pre-2011 mezzanine debt investments have been assigned to the “alternative investments” category.

*Source: SCERS Actuarial Valuations*

In accordance with SCERS’ Investment Policy, the Board retains external investment managers to manage components of the SCERS portfolio. Managers have authority to determine investment strategy, security selection, and timing, subject to the Investment Policy, specific Manager Guidelines, legal restrictions, and other Board direction. Managers do not have authority to depart from their guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control.

Under RCW 41.28.005 and SMC 4.36.130, the Board’s investment policies define eligible investments to include securities lending transactions. Through a custodial agent, SCERS participates in a securities lending program whereby securities are lent from the system’s investment portfolio on a collateralized basis to third parties (primarily financial institutions) for the purpose of generating additional income to the system. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent. Lending is limited to a volume of less than \$75 million.

*Firefighters’ Pension Fund; Police Relief and Pension Fund.* The Firefighters’ Pension Fund and the Police Relief and Pension Fund are single-employer pension plans that were established by the City in compliance with chapters 41.18 and 41.20 RCW.

All City law enforcement officers and firefighters serving before March 1, 1970, are participants in these plans and may be eligible for a supplemental retirement benefit plus disability benefits under these plans. Some disability benefits may be available to such persons hired between March 1, 1970, and September 30, 1977. Since the effective date of LEOFF in 1970, no payroll for employees was covered under these City plans, and the primary liability for pension benefits for these City plans shifted from the City to the State LEOFF plan described below. The City remains liable for all benefits of employees in service at that time plus certain future benefits in excess of LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan. However, because LEOFF benefits increase with the consumer price index (CPI-Seattle) while some City benefits increase with wages of current active members, the City’s projected liabilities vary according to differences between wage and CPI increase assumptions.

These pension plans provide retirement benefits, death benefits, and certain medical benefits for eligible active and retired employees. Retirement benefits are determined under chapters 41.18 and 41.26 RCW for the Firefighters’ Pension Fund, and under chapters 41.20 and 41.26 RCW for the Police Relief and Pension Fund. As of the most recent actuarial valuation, dated January 1, 2013, there were 884 fire employees (30 of whom are active employees) and 798 police (25 of whom are active employees) who met eligibility requirements. See “Other Post-Employment Benefits” below for a discussion of medical benefits paid to retirees.

These pension plans do not issue separate financial reports. The most recent actuarial valuation uses the Entry Age Actuarial Cost Method, values plan assets at fair value, and uses the following actuarial assumptions: inflation rate (CPI), 2.50%; investment rate of return, 3.75%; and projected salary increases, 3.25%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary, and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the Firefighter’s Pension Fund and adopted a policy of fully funding the actuarial accrued liability (“AAL”) by the year 2018 (which was subsequently extended to 2023). For 2013, the City funded 100% of the ARC but only a portion of the projected payment necessary to fully fund the AAL by 2023. The City’s 2014 budget also anticipates fully funding the ARC and making partial payments toward the full funding of the AAL. As of January 1, 2013, the actuarial value of net assets available for benefits in the Firefighter’s Pension Fund was \$12.9 million, and the AAL was \$106.4 million. As a result, the UAAL was \$93.5 million and the funded ratio was 12.0%. The City’s employer contribution to the fund in 2012 was \$10.3 million, representing 140% of the ARC; there were no current member contributions. Under State law, partial funding of the Firefighters’ Pension Fund may be provided by an annual property tax levy of up to \$0.225 per \$1,000 of assessed value within the City. The City does not currently levy this additional property tax, but makes contributions out of the General Fund levy. The fund also receives a share of the State tax on fire insurance premiums.

The City funds the Police Relief and Pension Fund as benefits become due. As of January 1, 2013, the actuarial valuation for the Police Relief and Pension Fund was \$4.6 million, and the AAL was \$104.7 million. As a result, the UAAL was \$100.1 million and the funded ratio was 4.0%. The City’s employer contribution to the fund in 2013 was \$9.2 million, representing 143% of the ARC; there were no current member contributions. The fund also receives police auction proceeds of unclaimed property.

*Law Enforcement Officers’ and Firefighters’ Retirement System.* Substantially all of the City’s current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City’s employees who are covered under LEOFF, the City contributed \$12.5 million in 2012 and \$11.7 million in 2011. Table 18 outlines the contribution rates of employees and employers under LEOFF.

**TABLE 18**  
**LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL**  
**(As of December 31, 2013)**

	<b>Plan 1</b>	<b>Plan 2</b>
Employer	0.18% <sup>(1)</sup>	5.23% <sup>(2)</sup>
Employee	0.00	8.62%
State	N/A	3.38%

(1) Includes a 0.18% (as of September 1, 2013) DRS administrative expense rate.

(2) Includes State contribution of 3.36%, effective July 1, 2013.

*Source: Washington State Department of Retirement Systems*

While the City’s current contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. The State Actuary’s website includes information regarding the values and funding levels of LEOFF. For additional information, see Note 11 to the City’s 2012 Comprehensive Annual Financial Report,

According to the Office of the State Actuary, as of January 1, 2013, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 135% and LEOFF Plan 2 had a funded ratio of 119%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.9% annual rate of investment return, 3.75% general salary increases, and 3.0% consumer price index increase. Liabilities were valued using the “Projected Unit Credit”

cost method and assets were valued using the actuarial value of assets, which defers a portion of the annual investment gains or losses over a period of up to eight years.

### **Other Post-Employment Retirement Benefits**

The City has liability for two types of other post-employment benefits (“OPEB”): (i) an implicit rate subsidy for health insurance covering employees retiring under SCERS or LEOFF Plan 2 and dependents of employees retiring under LEOFF Plan 1, and (ii) medical benefits for eligible beneficiaries of the City’s Firefighter’s Pension Fund and Police Relief and Pension Fund. The implicit rate subsidy is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. The City has assessed its OPEB liability in order to satisfy the expanded reporting requirements specified by the Governmental Accounting Standards Board Statement No. 45 (“GASB 45”). While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. The City funds its OPEB on a pay-as-you-go basis.

The City commissions a biennial valuation report on its OPEB liabilities associated with the implicit rate subsidy for health insurance covering employees retiring under the SCERS or LEOFF plan. The last report was as of January 1, 2012, and showed the UAAL for the implicit rate subsidy was \$74.7 million; the City’s estimated contribution in 2012 was \$2.4 million. The valuation of the OPEB liability associated with the City’s Firefighter’s Pension Fund and Police Relief and Pension Fund is updated annually. As of January 1, 2013, the UAAL for OPEB in the City’s Firefighter’s Pension Fund was \$266.5 million; the estimated annual contribution in 2013 was \$10.9 million. As of January 1, 2013, the UAAL for OPEB in the Police Relief and Pension Fund was \$296.0 million; the estimated annual contribution in 2013 was \$12.5 million.

For additional information regarding the City’s OPEB liability, see Note 11 to the City’s 2012 Comprehensive Annual Financial Report.

### **Labor Relations**

As of February 2014, the City had 31 separate departments and offices with approximately 12,370 regular and temporary employees. Twenty-seven different unions and 50 bargaining units represent approximately 76% of the City’s regular employees. The agreement with the Seattle Police Management Association expired at the end of 2011. The City’s agreements with the Coalition of City Unions (representing most of the non-uniformed employees) expired at the end of 2013, along with agreements with eight additional union groups. The City is currently negotiating with the labor unions whose agreements expired as of December 31, 2013. Negotiations with Local 77 (electrical workers) are ongoing, and the City is working on deferring negotiations with Local 79/289 (machinists) and the Coalition of City Unions. Currently there is no expected date by which an agreement will be reached, and the unions continue to operate under the expired contracts.

### **Emergency Management and Preparedness**

The City’s Office of Emergency Management (“OEM”) is responsible for managing and coordinating the City’s resources and responsibilities in dealing with emergencies. The OEM prepares for emergencies, trains City staff in emergency response, provides education to the community about emergency preparedness, plans for emergency recovery, and works to mitigate known hazards. It has identified and assessed many types of hazards that may impact the City, including geophysical hazards (*e.g.*, earthquakes, landslides, tsunamis, seismic seiches, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (*e.g.*, terrorism, breaches in cybersecurity, and civil disorder), transportation incidents, fires, hazardous materials, and unusual weather conditions (*e.g.*, floods, snow, water shortages, and wind storms). However, the City cannot anticipate all potential hazards and their effects, including any potential impact on the economy of the City or the region.

## **INITIATIVE AND REFERENDUM**

### **State-wide Measures**

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the State Legislature and then, if not enacted, to the voters) and require that legislation passed by the State Legislature be referred to the voters. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The Washington State Constitution may not be amended by initiative.

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several State-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, whether they ultimately would become law.

### **Local Measures**

Under the City Charter, Seattle voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law.

## **FEDERAL SEQUESTRATION**

On March 1, 2013, the sequestration provisions of the Budget Control Act of 2011, as amended (“Sequestration”), went into effect. Sequestration has had both indirect and direct effects on the City. Indirect effects include reduced federal spending that negatively affects the economy in general, including City revenue sources that are dependent on economic activity such as retail sales and use tax. Direct effects on the City could include a reduction in federal funds, including grant funds that come directly or indirectly from federal sources.

Sequestration has also resulted in and will continue to result in a reduction in the amount the City expects to receive from the federal government in connection with the interest payments due on its outstanding Drainage and Wastewater Revenue Bonds, 2009A (Taxable Build America Bonds—Direct Payment). With respect to Build America Bonds, the City is eligible for a tax credit subsidy payment of 35% of each interest payment due. As a result of Sequestration, the interest subsidy payment from the federal government that came due on May 1, 2013, was reduced by 8.7% (\$82,086), the payment made by the federal government for interest coming due on November 1, 2013, was reduced by 7.2% (\$67,883), and the payment expected to be made by the federal government for interest coming due on May 1, 2014, is expected to be reduced by 7.2% (\$67,883). Sequestration was originally in effect through federal fiscal year 2021 and has subsequently been extended through federal fiscal year 2024.

## **LEGAL AND TAX INFORMATION**

### **No Litigation Relating to the Bonds**

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

## **Other Litigation**

In addition to the matters described in “Drainage and Wastewater System—Environmental Liabilities” and Appendix C—2013 Audited Financial Statements of the Drainage and Wastewater System—Notes 7 and 9, various lawsuits and claims are pending against the City involving claims for money damages. Based on its past experience, the City has concluded that its ability to pay principal of and interest on the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the City and the timing of any anticipated payments of judgments that might result from suits and claims.

## **Approval of Counsel**

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. A form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel and under existing law as of the date of initial delivery of the Bonds. Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

## **Limitations on Remedies and Municipal Bankruptcies**

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Bond Legislation are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond Legislation or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the registered owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Legislation, the rights and obligations under the Bonds and the Bond Legislation may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors’ rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

A municipality such as the City must be specifically authorized under State law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the “Bankruptcy Code”). Washington State law permits any “taxing district” (defined to include cities) to voluntarily petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding under the Bankruptcy Code against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors’ rights. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B.

## **Tax Exemption**

*Exclusion from Gross Income.* In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

*Continuing Requirements.* The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the Bonds and the facilities financed or refinanced with proceeds of the Bonds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds

could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

*Corporate Alternative Minimum Tax.* While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

*Tax on Certain Passive Investment Income of S Corporations.* Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

*Foreign Branch Profits Tax.* Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

*Possible Consequences of Tax Compliance Audit.* The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

*Original Issue Premium.* The Bonds maturing on May 1 in the years 2015 through and including 2039 have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

#### **Certain Other Federal Tax Consequences**

*Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions.* Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt

obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

*Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.* Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

*Effect on Certain Social Security and Retirement Benefits.* Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

*Other Possible Federal Tax Consequences.* Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds should consult their own tax advisors.

*Potential Future Federal Tax Law Changes.* Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the Bonds to be subject in whole or in part to federal income taxation, prevent the beneficial owners of the Bonds from realizing the full benefits of the current federal tax status of interest on the Bonds, or affect, perhaps significantly, the market value or marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

### **Continuing Disclosure Undertaking**

*Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events.* To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (“Rule 15c2-12”), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Legislation (the “Undertaking”) for the benefit of holders of the Bonds, as follows.

*Annual Financial Information.* The City will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the “MSRB”), in an electronic format as prescribed by the MSRB::

- (i) Annual financial information and operating data of the type included in this Official Statement as generally described below under “Type of Annual Information Undertaken to be Provided”; and
- (ii) Timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following listed events with respect to the Bonds:
  - (a) principal and interest payment delinquencies;
  - (b) non-payment related defaults, if material;
  - (c) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (d) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (e) substitution of credit or liquidity providers, or their failure to perform;

- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of holders of the Bonds, if material;
- (h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership, or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12;
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City also will provide or cause to be provided to the MSRB timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

*Type of Annual Financial Information Undertaken to be Provided.* The annual financial information that the City undertakes to provide will consist of:

- (i) annual financial statements of the Drainage and Wastewater System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law, which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;
- (ii) a statement of authorized, issued and outstanding bond debt secured by revenues of the Drainage and Wastewater System;
- (iii) debt service coverage ratios;
- (iv) general customer statistics, such as number and type of customers and revenues by customer class; and
- (v) current drainage rates and wastewater rates.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2014. The annual information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

*Amendment of Undertaking.* The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

*Termination of Undertaking.* The City's obligations under the Undertaking will terminate upon the legal defeasance, prior repayment, or payment in full of all of the then outstanding Bonds. In addition, the City's obligations under the Undertaking will terminate if those provisions of Rule 15c2-12 that require the City to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.

*Remedy for Failure to Comply with Undertaking.* The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking to be corrected as soon as practicable after the City learns of that failure. No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

*Other Continuing Disclosure Undertakings of the City.* The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City subject to Rule 15c2-12. With respect to its undertaking related to bonds issued for the City's Solid Waste System, the City, in 2009, failed to file notice of a rating change that was related to the downgrade of a bond insurer. The missing filing has since been submitted and notice of such failure to comply has been filed with the MSRB. The City has not otherwise failed to comply, in any material respect, with all such undertakings during the past five years.

## **OTHER BOND INFORMATION**

### **Ratings on the Bonds**

The Bonds have been rated "Aa1" and "AA+" by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

### **Underwriting**

The Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter") at a price of \$143,260,452.65 and will be reoffered at a price of \$143,882,403.25. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

### **Conflicts of Interest**

Some of the fees of the Financial Advisor and Bond Counsel are contingent upon the sale of the Bonds. From time to time Bond Counsel serves as counsel to the Financial Advisor and the Underwriter in matters unrelated to the Bonds. None of the members of the City Council or other officers of the City have any conflict of interest in the issuance of the Bonds that is prohibited by applicable law.

**Official Statement**

This Official Statement is not to be construed as a contract with the owners of any of the Bonds. The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

By:                   /s/ Glen M. Lee                    
Glen M. Lee  
Director of Finance

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**APPENDIX A**

**BOND ORDINANCE**

Ordinance 124337, passed by the City Council on November 25, 2013, which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 121938, as amended by Ordinance 122209 and Ordinance 122637 and amended and restated by Ordinance 124338, authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 124337.

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**CITY OF SEATTLE**  
**ORDINANCE** 124337  
**COUNCIL BILL** 117939

AN ORDINANCE relating to the drainage and wastewater system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the existing drainage and wastewater system; authorizing the issuance and sale of drainage and wastewater revenue bonds, in one or more series, for the purposes of paying part of the cost of carrying out that system or plan, providing for the reserve requirement, and paying the costs of issuance of the bonds; providing for certain terms, conditions, covenants and the manner of sale of the bonds; describing the lien of the bonds; creating certain accounts of the City relating to the bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle (the "City") owns, maintains and operates a system of sanitary sewerage and storm and surface water drainage as part of Seattle Public Utilities (the "Drainage and Wastewater System"), which Drainage and Wastewater System has from time to time required various additions, improvements and extensions; and

WHEREAS, the City needs to acquire and construct certain additions and betterments to and extensions of the Drainage and Wastewater System as set forth in this ordinance (the "Plan of Additions"); and

WHEREAS, pursuant to the bond legislation described in Exhibit A, the City issued its drainage and wastewater revenue bonds described in Exhibit A, and provided for the issuance of additional bonds having a charge and lien on the net revenue of the Drainage and Wastewater System on a parity of lien with those bonds ("Parity Bonds") upon compliance with certain conditions; and

WHEREAS, the City has determined that it is in the best interest of the City to authorize the issuance and sale, subject to the provisions of this ordinance, of drainage and wastewater revenue bonds as Parity Bonds, to pay part of the cost of carrying out the Plan of Additions, to provide for the reserve requirement, and to pay the costs of issuance of those bonds; NOW, THEREFORE,

**BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

**Section 1. Definitions.** As used in this ordinance the following capitalized terms shall have the following meanings.

**"Accreted Value"** means with respect to any Capital Appreciation Bond (a) as of any Valuation Date, the amount set forth for such date in any Parity Bond Legislation authorizing



1 such Capital Appreciation Bond, and (b) as of any date other than a Valuation Date, the sum of  
2 (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the  
3 numerator of which is the number of days having elapsed from the preceding Valuation Date and  
4 the denominator of which is the number of days from such preceding Valuation Date to the next  
5 succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues  
6 during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day  
7 months, multiplied by (B) the difference between the Accreted Values for such Valuation Dates.

8 **“Adjusted Annual Debt Service”** for any fiscal year means Annual Debt Service minus  
9 (a) an amount equal to ULID Assessments due in that year and not delinquent, (b) an amount  
10 equal to earnings from investments in the Reserve Subaccount and (c) Annual Debt Service  
11 provided for by Parity Bond proceeds.

12 **“Adjusted Gross Revenue”** means, for any period, Gross Revenue plus withdrawals  
13 from the Rate Stabilization Account made during that period, and less deposits into the Rate  
14 Stabilization Account made during that period. *Upon the redemption or defeasance of all*  
15 *outstanding 2004 Bonds, “Adjusted Gross Revenue” shall be defined as follows: “Adjusted*  
16 *Gross Revenue” means, for any period, Gross Revenue plus withdrawals from the Rate*  
17 *Stabilization Account made during that period, and minus (a) ULID Assessments, (b) earnings*  
18 *from investments in the Reserve Subaccount and (c) deposits into the Rate Stabilization Account*  
19 *made during that period.*

20 **“Adjusted Net Revenue”** means Adjusted Gross Revenue less Operating and  
21 Maintenance Expense.

22 **“Annual Debt Service”** for any calendar year means the sum of the amounts required in  
23 such calendar year to pay the interest due in such calendar year on all Parity Bonds outstanding,  
24 excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; the  
25 principal of all outstanding Serial Bonds due in such calendar year; and the Sinking Fund  
26 Requirement, if any, for such calendar year.



1 (a) For purposes of this definition, the principal and interest portions of the Accreted  
2 Value of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund  
3 Requirement shall be included in the calculations of accrued and unpaid and accruing interest or  
4 principal in such manner and during such period of time as is specified in any Parity Bond  
5 Legislation authorizing such Capital Appreciation Bonds.

6 (b) For purposes of calculating and determining compliance with the Coverage  
7 Requirement, the Reserve Requirement and the conditions for the issuance of Future Parity  
8 Bonds and/or entering into Parity Payment Agreements, the following shall apply:

9 (i) **Generally.** Except as otherwise provided by subparagraph (ii) below with respect  
10 to Variable Interest Rate Bonds and by subparagraph (iii) below with respect to  
11 Parity Bonds with respect to which a Payment Agreement is in force, interest on  
12 any issue of Parity Bonds shall be calculated based on the actual amount of  
13 accrued, accreted or otherwise accumulated interest that is payable in respect of  
14 that issue taken as a whole, at the rate or rates set forth in the applicable Parity  
15 Bond Legislation.

16 (ii) **Interest on Variable Interest Rate Bonds.** The amount of interest deemed to be  
17 payable on any issue of Variable Interest Rate Bonds shall be calculated on the  
18 assumption that the interest rate on those bonds would be equal to the rate that is  
19 90% of the average RBI during the four calendar quarters preceding the quarter in  
20 which the calculation is made.

21 (iii) **Interest on Parity Bonds With Respect to Which a Payment Agreement is in**  
22 **Force.** Debt service on Parity Bonds with respect to which a Payment Agreement  
23 is in force shall be based on the net economic effect on the City expected to be  
24 produced by the terms of the Parity Bonds and the terms of the Payment  
25 Agreement, including but not limited to the effects produced by the following:  
26 (A) Parity Bonds that would, but for a Payment Agreement, be treated as  
27 obligations bearing interest at a Variable Interest Rate instead shall be treated as  
28 obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that  
would, but for a Payment Agreement, be treated as obligations bearing interest at  
a fixed interest rate instead shall be treated as obligations bearing interest at a  
Variable Interest Rate. Accordingly, the amount of interest deemed to be payable  
on any Parity Bonds with respect to which a Payment Agreement is in force shall  
be an amount equal to the amount of interest that would be payable at the rate or  
rates stated in those Parity Bonds plus Payment Agreement Payments minus  
Payment Agreement Receipts. For the purposes of calculating as nearly as  
practicable Payment Agreement Receipts and Payment Agreement Payments  
under a Payment Agreement that includes a variable rate component determined



1 by reference to a pricing mechanism or index that is not the same as the pricing  
2 mechanism or index used to determine the variable rate interest component on the  
3 Parity Bonds to which the Payment Agreement is related, it shall be assumed that  
4 the fixed rate used in calculating Payment Agreement Payments will be equal to  
5 105% of the fixed rate specified by the Payment Agreement and that the pricing  
6 mechanism or index specified by the Payment Agreement is the same as the  
7 pricing mechanism or index specified by the Parity Bonds. Notwithstanding the  
8 other provisions of this subparagraph, the City shall not be required to (but may in  
9 its discretion) take into account in determining Annual Debt Service the effects of  
10 any Payment Agreement that has a term of ten years or less.

11 **(iv) Parity Payment Agreements.** No additional debt service shall be taken into  
12 account with respect to a Parity Payment Agreement for any period during which  
13 Payment Agreement Payments on that Parity Payment Agreement are taken into  
14 account in determining Annual Debt Service on related Parity Bonds under  
15 subsection (iii) of this definition. However, for any period during which Payment  
16 Agreement Payments are not taken into account in calculating Annual Debt  
17 Service on any outstanding Parity Bonds because the Parity Payment Agreement  
18 is not then related to any outstanding Parity Bonds, payments on that Parity  
19 Payment Agreement shall be taken into account by assuming:

20 **(A) City Obligated to Make Payments Based on Fixed Rate.** If the City is  
21 obligated to make Payment Agreement Payments based on a fixed rate and  
22 the Qualified Counterparty is obligated to make payments based on a  
23 variable rate index, that payments by the City will be based on the  
24 assumed fixed payor rate, and that payments by the Qualified  
25 Counterparty will be based on a rate equal to the average rate determined  
26 by the variable rate index specified by the Parity Payment Agreement  
27 during the four calendar quarters preceding the quarter in which the  
28 calculation is made, and

**(B) City Obligated to Make Payments Based on Variable Rate Index.** If  
the City is obligated to make Payment Agreement Payments based on a  
variable rate index and the Qualified Counterparty is obligated to make  
payment based on a fixed rate, that payments by the City will be based on  
a rate equal to the average rate determined by the variable rate index  
specified by the Parity Payment Agreement during the four calendar  
quarters preceding the quarter in which the calculation is made, and that  
the Qualified Counterparty will make payments based on the fixed rate  
specified by the Parity Payment Agreement.

**“Authorized Denomination”** means \$5,000 or any integral multiple thereof within a  
maturity of a Series.



1           **“Average Annual Debt Service”** means, at the time of calculation, the sum of the  
2 Annual Debt Service remaining to be paid to the last scheduled maturity of the applicable series  
3 of Parity Bonds divided by the number of years such bonds are scheduled to remain outstanding.

4           **“Beneficial Owner”** means, with regard to a Bond, the owner of any beneficial interest  
5 in that Bond.

6           **“Bond Counsel”** means a lawyer or a firm of lawyers, selected by the City, of nationally  
7 recognized standing in matters pertaining to bonds issued by states and their political  
8 subdivisions.

9           **“Bond Insurance”** means any bond insurance, guaranty, surety bond or similar credit  
10 enhancement device providing for or securing the payment of all or part of the principal of and  
11 interest on any Parity Bonds.

12           **“Bond Purchase Contract”** means a written offer to purchase a Series of the Bonds,  
13 which offer has been accepted by the City in accordance with this ordinance. In the case of a  
14 competitive sale, the official notice of sale, the Purchaser’s bid and the award by the City shall  
15 comprise the offer and the award by the City in accordance with this ordinance shall be deemed  
16 the acceptance of that offer for purposes of this ordinance.

17           **“Bond Register”** means the books or records maintained by the Bond Registrar for the  
18 purpose of identifying ownership of each Bond.

19           **“Bond Registrar”** means the Fiscal Agent (unless the Bond Resolution provides for a  
20 different Bond Registrar with respect to a particular Series), or any successor bond registrar  
21 selected in accordance with the Registration Ordinance.

22           **“Bond Resolution”** means a resolution of the City Council adopted pursuant to this  
23 ordinance approving the Bond Sale Terms and taking other actions consistent with this  
24 ordinance.

25           **“Bond Sale Terms”** means the terms and conditions for the sale of a Series including the  
26 amount, date or dates, denominations, interest rate or rates (or mechanism for determining  
27  
28



1 interest rate or rates), payment dates, final maturity, redemption rights, price, and other terms or  
2 covenants set forth in Section 5 of this ordinance.

3 **“Bonds”** means the Drainage and Wastewater System revenue bonds issued pursuant to  
4 this ordinance.

5 **“Capital Appreciation Bond”** means any Parity Bond, all or a portion of the interest on  
6 which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in  
7 the applicable Parity Bond Legislation and is payable only upon redemption or on the maturity  
8 date of such Parity Bond. A Parity Bond issued as a Capital Appreciation Bond, but which later  
9 converts to an obligation on which interest is paid periodically, shall be a Capital Appreciation  
10 Bond until the conversion date and thereafter shall no longer be a Capital Appreciation Bond, but  
11 shall be treated as having a principal amount equal to its Accreted Value on the conversion date.

12 **“CIP”** means those portions of the City’s “2013-2018 Capital Improvement Program”  
13 relating to the Drainage and Wastewater System, adopted by the City in Ordinance 124058,  
14 together with any previously adopted Capital Improvement Program of the City. For purposes of  
15 this ordinance, the CIP includes all amendments, updates, supplements or replacements that may  
16 be adopted from time to time by ordinance.

17 **“City”** means The City of Seattle, Washington, a municipal corporation duly organized  
18 and existing under the laws of the State of Washington.

19 **“City Council”** means the City Council of the City, as duly and regularly constituted  
20 from time to time.

21 **“Code”** means the Internal Revenue Code of 1986, or any successor thereto, as it has  
22 been and may be amended from time to time, and regulations thereunder.

23 **“Construction Account”** means the Drainage and Wastewater Construction Account,  
24 2014, created in the Drainage and Wastewater Fund by this ordinance.

25 **“Contract Resource Obligation”** means an obligation of the City, designated as a  
26 Contract Resource Obligation and entered into in accordance with Section 20 of this ordinance.



1           **“Coverage Requirement”** means, with respect to the Parity Bonds, Net Revenue and  
2 money from any other lawful source at least equal to 1.25 times the Average Annual Debt  
3 Service. *Upon the redemption or defeasance of all outstanding 2004 Bonds, “Coverage*  
4 *Requirement” shall be defined as follows: “Coverage Requirement” means Adjusted Net*  
5 *Revenue equal to at least 1.25 times Adjusted Annual Debt Service.*

6           **“DTC”** means The Depository Trust Company, New York, New York.

7           **“Director of Finance”** means the Director of the Finance Division of the Department of  
8 Finance and Administrative Services of the City, or any other officer who succeeds to  
9 substantially all of the responsibilities of that office.

10           **“Drainage and Wastewater Fund”** means the fund created by Ordinance 84390 and  
11 later renamed by Ordinance 114155, into which is paid the Gross Revenue of the Drainage and  
12 Wastewater System.

13           **“Drainage and Wastewater System”** means the drainage and wastewater system of the  
14 City, including the sanitary sewerage and storm drainage systems, as it now exists (except  
15 properties, interests, and rights under the jurisdiction of the City’s Parks and Recreation  
16 Department, Seattle Center Department, Seattle Public Utilities Water System, City Light  
17 Department and Fleets and Facilities Department), and all additions thereto and betterments and  
18 extensions thereof at any time made, together with any utility systems of the City hereafter  
19 combined with the Drainage and Wastewater System. The Drainage and Wastewater System  
20 shall not include any separate utility system that may be created, acquired or constructed by the  
21 City as provided in Section 19.

22           **“Event of Default”** shall have the meaning assigned to that term in Section 25(a) of this  
23 ordinance.

24           **“Fiscal Agent”** means the fiscal agent of the State, as the same may be designated by the  
25 State from time to time.

26           **“Future Parity Bonds”** means, with reference to any Series of the Bonds, all revenue  
27 bonds and obligations of the Drainage and Wastewater System (other than that Series and any  
28



1 other Parity Bonds then outstanding) issued or entered into after the Issue Date of such Series,  
2 the payment of which constitutes a charge and lien on the Net Revenue equal in rank with the  
3 charge and lien upon such revenue required to be paid into the Parity Bond Account in  
4 accordance with Section 15. Future Parity Bonds may include Parity Payment Agreements and  
5 any other obligations issued in compliance with Section 17.

6 **“Future Parity Bond Legislation”** means any ordinance or resolution passed or adopted  
7 by the City Council providing for the issuance and sale of a series of Future Parity Bonds, and  
8 any other ordinance or resolution amending or supplementing the provisions of any such  
9 ordinance or resolution.

10 **“Government Obligations”** has the meaning given in RCW 39.53.010, as now in effect  
11 or as may hereafter be amended.

12 **“Gross Revenue”** means (a) all income, revenues, receipts and profits derived by the  
13 City through the ownership and operation of the Drainage and Wastewater System; (b) the  
14 proceeds received by the City directly or indirectly from the sale, lease or other disposition of  
15 any of the properties, rights or facilities of the Drainage and Wastewater System; (c) Payment  
16 Agreement Receipts, to the extent that such receipts are not offset by Payment Agreement  
17 Payments; and (d) the investment income earned on money held in any fund or account of the  
18 City, including any bond redemption funds and the accounts therein, in connection with the  
19 ownership and operation of the Drainage and Wastewater System. Gross Revenue does not  
20 include: (a) insurance proceeds compensating the City for the loss of a capital asset; (b) income  
21 derived from investments irrevocably pledged to the payment of any defeased bonds payable  
22 from Gross Revenue; (c) investment income set aside for or earned on money in any fund or  
23 account created or maintained solely for the purpose of complying with the arbitrage rebate  
24 provisions of the Code; (d) any gifts, grants, donations or other funds received by the City from  
25 any State or federal agency or other person if such gifts, grants, donations or other funds are the  
26 subject of any limitation or reservation imposed by the donor or grantor or imposed by law or  
27 administrative regulation to which the donor or grantor is subject, limiting the application of  
28



1 such funds in a manner inconsistent with the application of Gross Revenue hereunder; (e) the  
2 proceeds of any borrowing for capital improvements (or the refinancing thereof); (f) the proceeds  
3 of any liability or other insurance (excluding business interruption insurance or other insurance  
4 of like nature insuring against the loss of revenues); (g) general *ad valorem* taxes, excise taxes  
5 and special assessments, including interest and penalties thereon; and (h) earnings of any  
6 separate utility system that may be created, acquired, or constructed by the City pursuant to  
7 Section 19.

8 **“Independent Utility Consultant”** means an independent person or firm having a  
9 favorable reputation for skill and experience with drainage and wastewater systems of  
10 comparable size and character to the Drainage and Wastewater System in such areas as are  
11 relevant to the purpose for which they were retained.

12 **“Issue Date”** means, with respect to a Bond, the date, as determined by the Director of  
13 Finance, on which that Bond is issued and delivered to the Purchaser in exchange for its  
14 purchase price.

15 **“Letter of Representations”** means the Blanket Issuer Letter of Representations  
16 between the City and DTC dated October 4, 2006, as it may be amended from time to time, or an  
17 agreement with a substitute or successor Securities Depository.

18 **“Maximum Annual Debt Service”** means, at the time of calculation, the maximum  
19 amount of Annual Debt Service which shall become due in the current calendar year or in any  
20 future calendar year on the Parity Bonds then outstanding.

21 **“MSRB”** means the Municipal Securities Rulemaking Board

22 **“Net Revenue”** means, for any period, the Gross Revenue less Operating and  
23 Maintenance Expense.

24 **“Operating and Maintenance Expense”** means all reasonable expenses incurred by the  
25 City in causing the Drainage and Wastewater System to be operated and maintained in good  
26 repair, working order and condition, including without limitation payments (other than payments  
27 out of proceeds of Parity Bonds or other obligations not issued to pay current expenses of the  
28



1 Drainage and Wastewater System) into reasonable reserves for items of operating or  
2 maintenance expense the payment of which is not immediately required, payments of premiums  
3 for insurance, if any, on the Drainage and Wastewater System, any State-imposed taxes, and also  
4 including all payments made to another municipal corporation or other agency for treatment or  
5 disposal of sewage, and amounts due under any Contract Resource Obligation, but excluding  
6 depreciation and amortization, and any City taxes imposed or levied on the Drainage and  
7 Wastewater System or Gross Revenue or payments in lieu of taxes payable from the Gross  
8 Revenue of the Drainage and Wastewater System, and payments of claims or judgments.  
9 Accounting for those expenses shall be in accordance with generally accepted accounting  
10 principles.

11 **“Outstanding Parity Bonds”** means, with reference to any Series of the Bonds, the then  
12 outstanding series of Parity Bonds described in Exhibit A, and any other Parity Bonds  
13 outstanding prior to the Issue Date of that Series.

14 **“Owner”** means, without distinction, the Registered Owner and the Beneficial Owner of  
15 a Bond.

16 **“Parity Bond Account”** means the Drainage and Wastewater Revenue Bond Account,  
17 1990, created by Ordinance 115098 in the Drainage and Wastewater Fund for the purpose of  
18 paying and securing the principal of and interest on Parity Bonds.

19 **“Parity Bond Legislation”** means any ordinance or resolution passed or adopted by the  
20 City Council providing for the issuance and sale of a series of Parity Bonds, and any other  
21 ordinance or resolution amending or supplementing the provisions of any Parity Bond  
22 Legislation.

23 **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds and any outstanding  
24 Future Parity Bonds.

25 **“Parity Conditions”** means the conditions for issuing Future Parity Bonds under the  
26 Parity Bond Legislation.



1           **“Parity Payment Agreement”** means a Payment Agreement under which the City’s  
2 payment obligations are expressly stated to constitute a charge and lien on the Net Revenue  
3 equal in rank with the charge and lien upon such revenue required to be paid into the Parity Bond  
4 Account to pay interest on Parity Bonds.

5           **“Payment Agreement”** means a written agreement for the purpose of managing or  
6 reducing the City’s exposure to fluctuations or levels of interest rates or for other interest rate,  
7 investment, asset or liability management purposes, entered into on either a current or forward  
8 basis by the City and a Qualified Counterparty as authorized by any applicable laws of the State  
9 in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes,  
10 bond anticipation notes, commercial paper or other obligations for borrowed money, or lease,  
11 installment purchase or other similar financing agreements or certificates of participation therein,  
12 that provides for an exchange of payments based on interest rates, ceilings or floors on such  
13 payments, options on such payments, or any combination thereof or any similar device.

14           **“Payment Agreement Payments”** means the amounts periodically required to be paid  
15 by the City to the Qualified Counterparty pursuant to a Payment Agreement.

16           **“Payment Agreement Receipts”** means the amounts periodically required to be paid by  
17 the Qualified Counterparty to the City pursuant to a Payment Agreement.

18           **“Permitted Investments”** means any investments or investment agreements permitted  
19 for the investment of City funds under the laws of the State of Washington, as amended from  
20 time to time.

21           **“Plan of Additions”** means, together, the CIP, as it may be modified from time to time.  
22 The Plan of Additions includes the purchase and installation of all materials, supplies,  
23 appliances, equipment and facilities, the acquisition of all permits, franchises, property and  
24 property rights, other capital assets and all engineering, consulting and other professional  
25 services and studies (whether performed by the City or by other public or private entities)  
26 necessary or convenient to carry out the Plan of Additions. The Plan of Additions includes all  
27 amendments, updates, supplements or replacements to the CIP, all of which automatically shall  
28



1 constitute amendments to the Plan of Additions. The Plan of Additions also may be modified to  
2 include other improvements, without amending the CIP if the City determines by ordinance that  
3 those amendments or other improvements constitute a system or plan of additions to or  
4 betterments or extensions of the Drainage and Wastewater System.

5 **“Principal and Interest Subaccount”** means the subaccount of that name created in the  
6 Parity Bond Account by Ordinance 115098 for the payment of the principal of and interest on  
7 Parity Bonds.

8 **“Purchaser”** means the entity or entities who have been selected in accordance with this  
9 ordinance to serve as underwriter, purchaser or successful bidder in a sale of any Series.

10 **“Qualified Counterparty”** means a party (other than the City or a party related to the  
11 City) who is the other party to a Payment Agreement, (a)(i) whose senior debt obligations are  
12 rated in one of the three highest rating categories of each Rating Agency (without regard to any  
13 gradations within a rating category), or (ii) whose obligations under the Payment Agreement are  
14 guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution  
15 which has been assigned a credit rating in one of the two highest rating categories of each Rating  
16 Agency; and (b) who is otherwise qualified to act as the other party to a Payment Agreement  
17 under any applicable laws of the State.

18 **“Qualified Insurance”** means Bond Insurance provided by an insurance company that,  
19 as of the time of issuance of such Bond Insurance, is rated in one of the two highest rating  
20 categories (without regard to any gradations within a rating category) by at least two nationally  
21 recognized rating agencies.

22 **“Qualified Letter of Credit”** means any letter of credit issued by a financial institution  
23 for the account of the City on behalf of the Beneficial Owner of any Parity Bond, which  
24 institution maintains an office, agency or branch in the United States and, as of the time of  
25 issuance of such letter of credit, is rated in one of the two highest rating categories by at least two  
26 nationally recognized rating agencies.



1           **“RBI”** means *The Bond Buyer* Revenue Bond Index or comparable index, or, if no  
2 comparable index can be obtained, 80% of the interest rate for actively traded 30 year United  
3 States Treasury obligations.

4           **“Rate Stabilization Account”** means the account of that name previously established by  
5 Section 25 of Ordinance 118974.

6           **“Rating Agency”** means any nationally recognized rating agency then maintaining a  
7 rating on a series of Parity Bonds at the request of the City.

8           **“Record Date”** means, unless otherwise defined in the Bond Resolution, in the case of  
9 each interest or principal payment or redemption date, the Bond Registrar’s close of business on  
10 the 15th day of the month preceding the interest or principal payment date. With regard to  
11 redemption of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar’s  
12 close of business on the day prior to the date on which the Bond Registrar sends the notice of  
13 redemption.

14           **“Registered Owner”** means, with regard to a Bond, the person in whose name that Bond  
15 is registered on the Bond Register. For so long as the City uses a book-entry only system under  
16 the Letter of Representations, the Registered Owner shall mean the Securities Depository.

17           **“Registration Ordinance”** means City Ordinance 111724 establishing a system of  
18 registration for the City’s bonds and other obligations pursuant to Seattle Municipal Code  
19 Chapter 5.10, as that chapter now exists or may hereafter be amended.

20           **“Reserve Requirement”** means the least of the Maximum Annual Debt Service at the  
21 time of calculation, 1.25 times Average Annual Debt Service at the time of calculation, or 10%  
22 of the proceeds of each series of then outstanding Parity Bonds, as of the date of delivery of each  
23 series.

24           **“Reserve Security”** means any Qualified Insurance or Qualified Letter of Credit  
25 obtained by the City to satisfy part or all of the Reserve Requirement, and which is not  
26 cancelable on less than three years’ notice.



1           **“Reserve Subaccount”** means the subaccount of that name created in the Parity Bond  
2 Account by Ordinance 115098 for the purpose of securing the payment of the principal of and  
3 interest on Parity Bonds.

4           **“Rule 15c2-12”** means Rule 15c2-12 promulgated by the SEC under the Securities  
5 Exchange Act of 1934, as amended.

6           **“SEC”** means the United States Securities and Exchange Commission.

7           **“Securities Depository”** means DTC, any successor thereto, any substitute securities  
8 depository selected by the City, or the nominee of any of the foregoing. Any successor or  
9 substitute Securities Depository must be qualified under applicable laws and regulations to  
10 provide the services proposed to be provided by it.

11           **“Serial Bonds”** means Parity Bonds maturing in specified years, for which no Sinking  
12 Fund Requirements are mandated.

13           **“Series”** means a series of the Bonds issued pursuant to this ordinance.

14           **“Sinking Fund Requirement”** means, for any calendar year, the principal amount and  
15 premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid  
16 into any Parity Bond Account for such calendar year, as established by the Parity Bond  
17 Legislation authorizing the issuance of such Term Bonds.

18           **“State”** means the State of Washington.

19           **“State Auditor”** means the office of the Auditor of the State or such other department or  
20 office of the State authorized and directed by State law to make audits.

21           **“Tax Credit Subsidy Bond”** means any bond that is designated by the City as a tax  
22 credit bond pursuant to the Code, and which is further designated as a “qualified bond” under  
23 Section 6431 or similar provision of the Code, and with respect to which the City is eligible to  
24 claim a tax credit subsidy payment.

25           **“Tax Credit Subsidy Payment”** means a payment by the federal government with  
26 respect to a Tax Credit Subsidy Bond.



1           **“Tax-Exempt Bond”** means any Bond, the interest on which is intended on the Issue  
2 Date to be excluded from gross income for federal income tax purposes.

3           **“Term Bond”** means any Bond that is issued subject to mandatory redemption prior to  
4 its maturity in periodic mandatory redemption payments.

5           **“ULID”** means a utility local improvement district of the City created for the acquisition  
6 or construction of additions to and betterments and extensions of the Drainage and Wastewater  
7 System.

8           **“ULID Assessments”** means all assessments levied and collected in a ULID, if and only  
9 if those assessments are pledged to be paid into the Parity Bond Account. ULID Assessments  
10 shall include all installments of principal, payments of interest, and penalties and interest on  
11 delinquencies, but shall not include any prepaid assessments paid into a construction fund or  
12 account.

13           **“Undertaking”** means the undertaking to provide continuing disclosure entered into  
14 pursuant to Section 23 of this ordinance, in substantially the form attached as Exhibit B.

15           **“Valuation Date”** means, with respect to any Capital Appreciation Bond, the date or  
16 dates set forth in the relevant Parity Bond Legislation or Bond Purchase Contract on which  
17 specific Accreted Values are assigned to that Capital Appreciation Bond.

18           **“Variable Interest Rate”** means any variable interest rate or rates to be borne by any  
19 Parity Bonds. The method of computing such a variable interest rate shall be set in accordance  
20 with the applicable Parity Bond Legislation, which shall specify either (a) the particular period or  
21 periods of time or manner of determining such period or periods of time for which each value of  
22 such variable interest rate shall remain in effect or (b) the time or times upon which any change  
23 in such variable interest rate shall become effective.

24           **“Variable Interest Rate Bond”** means, for any period of time, any Parity Bond that  
25 bears a Variable Interest Rate during that period, except that a Parity Bond shall not be treated as  
26 a Variable Interest Rate Bond if the net economic effect of interest rates on particular Parity  
27 Bonds of a series and interest rates on other Parity Bonds of the same series, as set forth in the  
28



1 applicable Parity Bond Legislation, or the net economic effect of a Payment Agreement with  
2 respect to a particular Parity Bond, in either case is to produce obligations that bear interest at a  
3 fixed interest rate; and a Parity Bond with respect to which a Payment Agreement is in force  
4 shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment  
5 Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

6 **Section 2. Adoption of Plan of Additions.** The City specifies, adopts and orders the  
7 Plan of Additions to be carried out as generally provided for in the documents comprising the  
8 Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is  
9 declared to be \$525,061,000, of which approximately \$113,000,000 is expected to be financed  
10 from the proceeds of the Bonds and investment earnings thereon.

11 **Section 3. Authorization of Bonds.** The City is authorized to borrow money and  
12 issue Drainage and Wastewater System revenue bonds, payable from the sources described in  
13 Section 13 of this ordinance, in the maximum principal amount stated in Section 5 of this  
14 ordinance to (a) pay part of the cost of carrying out the Plan of Additions; (b) provide for the  
15 Reserve Requirement; (c) capitalize interest on, if necessary, and pay the costs of issuance of the  
16 Bonds; and (d) for other Drainage and Wastewater System purposes approved by ordinance. The  
17 Bonds may be issued in one or more Series and may be combined with other Drainage and  
18 Wastewater System revenue bonds (including refunding bonds) authorized separately. The  
19 Bonds shall be designated Drainage and Wastewater System revenue bonds and shall be  
20 numbered separately and shall have any name, year and series or other label as deemed necessary  
21 or appropriate by the Director of Finance.

22 **Section 4. Manner of Sale of Bonds.** The Director of Finance may provide for the  
23 sale of each Series (or any portion thereof) by public sale, or by a negotiated sale, limited  
24 offering or private placement with a Purchaser chosen through a selection process acceptable to  
25 the Director of Finance. The Director of Finance is authorized to specify a date and time of sale  
26 of and a date and time for delivery of each Series; to give notice of that sale; to determine any  
27 bid parameters or other bid requirements and criteria for determining the award of the bid; to  
28



1 provide for the use of an electronic bidding mechanism; and to specify other matters in his or her  
2 determination necessary, appropriate, or desirable in order to carry out the sale of each Series.  
3 Each Series must be sold on Bond Sale Terms in accordance with Section 5.

4 **Section 5. Bond Sale Terms; Bond Resolution.** The Director of Finance is  
5 appointed to serve as the City's designated representative in connection with the issuance and  
6 sale of the Bonds in accordance with RCW 39.46.040(2) and this ordinance. The Director of  
7 Finance is authorized to accept, on behalf of the City, an offer to purchase the Bonds on Bond  
8 Sale Terms consistent with the parameters set forth in this section. No such acceptance shall be  
9 effective until adoption of a Bond Resolution approving the Bond Sale Terms. Once adopted, the  
10 Bond Resolution shall be deemed a part of this ordinance as if set forth herein.

11 (a) **Maximum Principal Amount.** The Bonds may be issued in one or more Series  
12 and shall not exceed the aggregate principal amount of \$113,000,000.

13 (b) **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by the  
14 Director of Finance, which Issue Date may not be later than December 31, 2016.

15 (c) **Denominations.** The Bonds shall be issued in Authorized Denominations.

16 (d) **Interest Rate(s); Payment Dates.** Each Bond shall bear interest from the Issue  
17 Date or from the most recent date to which interest has been paid or duly provided for,  
18 whichever is later, and shall be payable on dates determined by the Director of Finance. One or  
19 more rates of interest shall be established for each maturity of each Series, which rate or rates  
20 may be fixed interest rates or Variable Interest Rates. Fixed interest rates shall be computed on  
21 the basis of a 360-day year of twelve 30-day months and the net interest cost shall not exceed a  
22 weighted average rate of 10% per annum. Principal payments shall commence on a date and  
23 shall be payable at maturity or have Sinking Fund Requirements on dates determined by the  
24 Director of Finance.

25 (e) **Final Maturity.** The Bonds shall mature no later than 40 years after the Issue  
26 Date.



1           **(f) Redemption Rights.** The Bond Sale Terms may include provisions for the  
2 optional and mandatory redemption of Bonds determined by the Director of Finance, subject to  
3 the following:

4           **(i) Optional Redemption.** Any Bond may be designated as being (A) subject to  
5 redemption at the option of the City prior to its maturity date on the dates and at  
6 the redemption prices set forth in the Bond Purchase Contract; or (B) not subject  
7 to redemption prior to its maturity date. If a Bond is subject to optional  
8 redemption prior to its maturity, it must be subject to such redemption on one or  
9 more dates occurring not more than 10½ years after the Issue Date.

10           **(ii) Mandatory Redemption.** Any Bond may be designated as a Term Bond, subject  
11 to mandatory redemption prior to its maturity on the dates and in Sinking Fund  
12 Requirements consistent with Section 8(b).

13           **(g) Price.** The purchase price for each Series shall be acceptable to the Director of  
14 Finance.

15           **(h) Other Terms and Conditions.**

16           **(i)** As of the Issue Date of each Series, the average expected life of the capital  
17 facilities to be financed with the proceeds (or allocable share of proceeds) of that  
18 Series must exceed the weighted average maturity of the Series (or share thereof)  
19 allocated to financing those capital facilities.

20           **(ii)** As of the Issue Date of each Series, (A) the Finance Director must determine that  
21 the Parity Conditions have been met or satisfied, so that such Series may be  
22 issued as Parity Bonds, and (B) the City Council must find the Bond Resolution  
23 that, in creating the Parity Bond Account and in fixing the amounts to be paid into  
24 it in accordance with this ordinance, the City Council has had due regard for the  
25 cost of maintenance and operation of the Drainage and Wastewater System, and is  
26 not setting aside into the Parity Bond Account a greater amount than in the  
27 judgment of the City Council, based on the rates to be established from time to  
28 time consistent with Section 16(b), will be available over and above such cost of  
maintenance and operation.

**(iii)** The Bond Sale Terms for any Series may provide for Bond Insurance, a Reserve  
Security or other credit enhancement, or for a Parity Payment Agreement. To that  
end, the Bond Sale Terms may include such additional terms, conditions and  
covenants as may be necessary or desirable, including but not limited to:  
restrictions on investment of Bond proceeds and pledged funds, and requirements  
to give notice to or obtain the consent of a credit enhancement provider or a  
Qualified Counterparty.



1 (iv) The Bond Sale Terms must establish the method of providing for the Reserve  
2 Requirement, consistent with Section 15(a)(ii) of this ordinance.

3 (iv) Any Series may be designated or qualified as Tax-Exempt Bonds, Tax Credit  
4 Subsidy Bonds, or other taxable bonds, and may include such additional terms  
5 and covenants relating to federal tax matters as the Director of Finance deems  
6 necessary or appropriate, consistent with Section 22 of this ordinance.

6 **Section 6. Bond Registrar; Registration and Transfer of Bonds.**

7 (a) **Registration of Bonds.** The Bonds shall be issued only in registered form as to  
8 both principal and interest and shall be recorded on the Bond Register.

9 (b) **Bond Registrar; Transfer and Exchange of Bonds.** The Bond Registrar shall  
10 keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds, which  
11 shall be open to inspection by the City at all times. The Bond Register shall contain the name and  
12 mailing address of the Registered Owner of each Bond and the principal amount and number of  
13 each of the Bonds held by each Registered Owner.

14 The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds  
15 transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to  
16 serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers  
17 and duties under this ordinance and the Registration Ordinance.

18 The Bond Registrar shall be responsible for its representations contained in the Bond  
19 Registrar's certificate of authentication on the Bonds. The Bond Registrar may become an  
20 Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the  
21 extent permitted by law, may act as depository for and permit any of its officers or directors to  
22 act as members of, or in any other capacity with respect to, any committee formed to protect the  
23 rights of Owners.

24 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized  
25 Denomination of an equal aggregate principal amount and of the same Series, interest rate and  
26 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and  
27 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Owner  
28



1 or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during  
2 the period between the Record Date and the corresponding interest payment or redemption date.

3 (c) **Securities Depository; Book-Entry Form.** The Bonds initially shall be  
4 registered in the name of the Securities Depository. The Bonds so registered shall be held fully  
5 immobilized in book-entry form by the Securities Depository in accordance with the provisions  
6 of the Letter of Representations. Neither the City nor the Bond Registrar shall have any  
7 responsibility or obligation to participants of the Securities Depository or the persons for whom  
8 they act as nominees with respect to the Bonds regarding accuracy of any records maintained by  
9 the Securities Depository or its participants of any amount in respect of principal of or interest on  
10 the Bonds, or any notice which is permitted or required to be given to Owners hereunder (except  
11 such notice as is required to be given by the Bond Registrar to the Securities Depository).  
12 Registered ownership of a Bond initially held in book-entry form, or any portion thereof, may  
13 not be transferred except: (i) to any successor Securities Depository; (ii) to any substitute  
14 Securities Depository appointed by the City or such substitute Securities Depository's successor;  
15 or (iii) to any person if the Bond is no longer held in book-entry form.

16 Upon the resignation of the Securities Depository from its functions as depository, or  
17 upon a City determination to discontinue services of the Securities Depository, the City may  
18 appoint a substitute Securities Depository. If (i) the Securities Depository resigns from its  
19 functions as depository, and no substitute Securities Depository can be obtained, or (ii) the City  
20 determines that the Bonds are to be in certificated form, then ownership of Bonds may be  
21 transferred to any person as provided herein and the Bonds no longer shall be held in book-entry  
22 form.

23 **Section 7. Payment of Bonds.** Principal of and interest on each Bond shall be  
24 payable solely out of the Parity Bond Account, in lawful money of the United States. Principal of  
25 and interest on each Bond registered in the name of the Securities Depository is payable in the  
26 manner set forth in the Letter of Representations. Interest on each Bond not registered in the  
27 name of the Securities Depository is payable by electronic transfer on the interest payment date,  
28



1 or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered  
2 Owner at the address appearing on the Bond Register on the Record Date. However, the City is  
3 not required to make electronic transfers except pursuant to a request by a Registered Owner in  
4 writing received at least ten days prior to the Record Date and at the sole expense of the  
5 Registered Owner. Principal of each Bond not registered in the name of the Securities  
6 Depository is payable upon presentation and surrender of the Bond by the Registered Owner to  
7 the Bond Registrar. The Bonds are not subject to acceleration under any circumstances.

8 **Section 8. Redemption and Purchase of Bonds.**

9 **(a) Optional Redemption.** All or some of the Bonds may be subject to redemption  
10 prior to their stated maturity dates at the option of the City at the times and on the terms  
11 approved in accordance with Section 5 of this ordinance.

12 **(b) Mandatory Redemption.** If not redeemed or purchased at the City's option prior  
13 to maturity, Term Bonds (if any) shall be redeemed, at a price equal to the principal amount  
14 thereof to be redeemed plus accrued interest, on the dates and in the Sinking Fund Requirements  
15 as set forth in the Bond Resolution. If the City redeems or purchases Term Bonds at the City's  
16 option prior to maturity, the Term Bonds so redeemed or purchased (irrespective of their  
17 redemption or purchase prices) shall be credited at the par amount thereof against the remaining  
18 Sinking Fund Requirements as determined by the Director of Finance. In the absence of a  
19 determination by the Director of Finance or other direction in the Bond Resolution, credit shall  
20 be allocated on a pro rata basis.

21 **(c) Selection of Bonds for Redemption; Partial Redemption.** If fewer than all of  
22 the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance shall  
23 select the Series and maturity or maturities to be redeemed. If fewer than all of the outstanding  
24 Bonds of a maturity of a Series are to be redeemed, the Securities Depository shall select Bonds  
25 registered in the name of the Securities Depository to be redeemed in accordance with the Letter  
26 of Representations, and the Bond Registrar shall select all other Bonds to be redeemed randomly  
27 in such manner as the Bond Registrar shall determine. All or a portion of the principal amount of  
28



1 any Bond that is to be redeemed may be redeemed in any Authorized Denomination. If less than  
2 all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to  
3 the Bond Registrar, there shall be issued to the Registered Owner, without charge, a new Bond  
4 (or Bonds, at the option of the Registered Owner) of the same Series, maturity and interest rate in  
5 any Authorized Denomination in the aggregate principal amount to remain outstanding.

6 (d) **Purchase.** The City reserves the right and option to purchase any or all of the  
7 Bonds offered to the City at any time at any price acceptable to the City plus accrued interest to  
8 the date of purchase.

9 **Section 9. Notice of Redemption.** The City shall cause notice of any intended  
10 redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed  
11 for redemption by first class mail, postage prepaid, to the Registered Owner of any Bond to be  
12 redeemed at the address appearing on the Bond Register on the Record Date, and the  
13 requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed  
14 as so provided, whether or not it is actually received by the Owner of any Bond. Interest on  
15 Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the  
16 Bond or Bonds called are not redeemed when presented pursuant to the call.

17 In the case of an optional redemption, the notice may state that the City retains the right  
18 to rescind the redemption notice and the related optional redemption of Bonds by giving a notice  
19 of rescission to the affected Registered Owners at any time prior to the scheduled optional  
20 redemption date. Any notice of optional redemption that is rescinded by the Director of Finance  
21 shall be of no effect, and the Bonds for which the notice of optional redemption has been  
22 rescinded shall remain outstanding.

23 **Section 10. Failure to Pay Bonds.** If any Bond is not paid when properly presented  
24 at its maturity or redemption date, the City shall be obligated to pay, solely from the Parity Bond  
25 Account and the other sources pledged in this ordinance, interest on that Bond at the same rate  
26 provided in that Bond from and after its maturity or redemption date until that Bond, principal,  
27 premium, if any and interest, is paid in full or until sufficient money for its payment in full is on  
28



1 deposit in the Parity Bond Account and that Bond has been called for payment by giving notice  
2 of that call to the Registered Owner of that Bond.

3 **Section 11. Form and Execution of Bonds.** The Bonds shall be typed, printed or  
4 reproduced in a form consistent with the provisions of this ordinance, the Bond Resolution and  
5 State law, shall be signed by the Mayor and Director of Finance, either or both of whose  
6 signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction  
7 thereof shall be impressed or printed thereon.

8 Only Bonds bearing a certificate of authentication in substantially the following form  
9 (with the designation, year, and Series adjusted consistent with this ordinance), manually signed  
10 by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of  
11 this ordinance: "This Bond is one of the fully registered The City of Seattle, Washington,  
12 [Drainage and Wastewater Revenue Bonds], [Year], [Series], described in [this ordinance]." The  
13 authorized signing of a certificate of authentication shall be conclusive evidence that the Bond so  
14 authenticated has been duly executed, authenticated and delivered and is entitled to the benefits  
15 of this ordinance.

16 If any officer whose manual or facsimile signature appears on a Bond ceases to be an  
17 officer of the City authorized to sign bonds before the Bond bearing his or her manual or  
18 facsimile signature is authenticated or delivered by the Bond Registrar or issued by the City, that  
19 Bond nevertheless may be authenticated, delivered and issued and, when authenticated, issued  
20 and delivered, shall be as binding on the City as though that person had continued to be an  
21 officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City  
22 by any person who, on the actual date of signing of the Bond, is an officer of the City authorized  
23 to sign bonds, although he or she did not hold the required office on the date of issuance of the  
24 Bonds.

25 **Section 12. Construction Account; Deposit of Proceeds.** An account to be known as  
26 the Drainage and Wastewater Construction Account, 2014 is created in the Drainage and  
27 Wastewater Fund. The principal proceeds of the sale of the Bonds remaining after the deposit of  
28



1 accrued interest on the Bonds, if any, into the Principal and Interest Subaccount and the deposit  
2 of any proceeds as determined by the Bond Resolution into the Reserve Subaccount, shall be  
3 deposited into the Construction Account, unless otherwise specified in the Bond Resolution or  
4 directed by the Director of Finance, to be used for the purpose of paying part of the costs of  
5 carrying out the Plan of Additions and to pay capitalized interest on, if necessary, and the costs  
6 of issuance of the Bonds. Until needed to pay such costs, the City may invest principal proceeds  
7 and interest thereon temporarily in any Permitted Investment, and the investment earnings may,  
8 as determined by the Director of Finance, be retained in the Construction Account and be spent  
9 for the purposes of that account or deposited in the Parity Bond Account.

10 **Section 13. Security for the Bonds; Parity with other Bonds.** The Bonds shall be  
11 special limited obligations of the City payable from and secured solely by the Net Revenue and  
12 ULID Assessments, and by money in the Parity Bond Account and the subaccounts therein,  
13 including, without limitation, the Reserve Subaccount. The Net Revenue and all ULID  
14 Assessments are pledged to the payment of the Parity Bonds. This pledge shall constitute a  
15 charge and lien upon the Net Revenue prior and superior to any other charges whatsoever. The  
16 City covenants that for as long as any Bond is outstanding that it will not issue any other revenue  
17 obligations (or create any special fund or account therefor), which will have any priority over or  
18 which will rank on a parity with the payments required in respect of the Bonds and the  
19 Outstanding Parity Bonds, nor will it issue Future Parity Bonds, except in accordance with  
20 Section 17 of this ordinance.

21 The Bonds shall be on a parity with the Outstanding Parity Bonds and all Future Parity  
22 Bonds, without regard to date of issuance or authorization and without preference or priority of  
23 right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other  
24 obligations which are a charge or lien upon the Net Revenues subordinate to the payments  
25 required to be made from Net Revenue into the Parity Bond Account and the subaccounts  
26 therein.



1           The Bonds shall not constitute general obligations of the City, the State or any political  
2 subdivision of the State or a charge upon any general fund or upon any money or other property  
3 of the City, the State or any political subdivision of the State not specifically pledged by this  
4 ordinance.

5           **Section 14. Priority Expenditure of Gross Revenue; Flow of Funds.** The Gross  
6 Revenue (except for earnings on investments in the Parity Bond Account or other bond  
7 redemption fund, arbitrage rebate account, refunding escrow account or other trust account,  
8 unless those earnings are transferred from those accounts or funds to the Drainage and  
9 Wastewater Fund) shall be deposited as received in the Drainage and Wastewater Fund and shall  
10 be applied in the following order of priority:

11           (a) To pay the Operating and Maintenance Expense;

12           (b) To make the required payments into the Principal and Interest Subaccount for all  
13 Parity Bonds;

14           (c) To make the required payments into the Reserve Subaccount for all Parity Bonds;

15           (d) To make all required payments into any revenue bond redemption fund created to  
16 pay and secure the payment of the principal of and interest on any revenue bonds or short-term  
17 obligations of the City having a charge and lien upon the Net Revenue subordinate to the lien  
18 thereon for the payment of the principal of and interest on Parity Bonds; and

19           (e) To retire by redemption and purchase any outstanding revenue bonds or revenue  
20 obligations of the Drainage and Wastewater System; to make necessary additions, betterments,  
21 repairs, extensions and replacements of the Drainage and Wastewater System; to pay City taxes  
22 or other payments in lieu of taxes payable from Gross Revenue; to make deposits to the Rate  
23 Stabilization Account; or for any other lawful Drainage and Wastewater System purpose.

24           **Section 15. Parity Bond Account.** The Parity Bond Account is divided into two  
25 subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount. The Director of  
26 Finance may create sinking fund subaccounts or other subaccounts in the Parity Bond Account  
27  
28



1 for the payment or securing the payment of Parity Bonds as long as the maintenance of such  
2 subaccounts does not conflict with the rights of the owners of Parity Bonds.

3           **(a) Required Payments Into Parity Bond Account.** So long as any Parity Bonds are  
4 outstanding, the City shall set aside and pay into the Parity Bond Account all ULID Assessments  
5 on their collection and, out of the Net Revenue, certain fixed amounts without regard to any  
6 fixed proportion, namely:

7           (i) Into the Principal and Interest Subaccount (A) upon receipt thereof, the accrued  
8 interest, if any, received by the City from the Purchaser, and (B) on or before each  
9 interest or principal and interest payment date of any Parity Bonds an amount  
10 which, together with other money on deposit therein, will be sufficient to pay the  
11 interest, or principal and interest and Sinking Fund Requirements, to become due  
and payable on the Parity Bonds on that payment date, and net payments due on  
Parity Payment Agreements; and

12           (ii) Into the Reserve Subaccount an amount necessary to provide for the Reserve  
13 Requirement for the Parity Bonds within the time and in the manner required by  
14 this ordinance and the Parity Bond Legislation. The amount necessary to satisfy  
15 the Reserve Requirement upon the issuance of a Series may be funded (i) on the  
16 Issue Date, by a deposit of bond sale proceeds or a Reserve Security, or (ii) in  
annual installments from Net Revenue so that the Reserve Requirement is fully  
funded by the fifth anniversary of the Issue Date. The manner of funding the  
Reserve Requirement for the Bonds shall be set forth in the Bond Resolution.

17           The Director of Finance may transfer any money from any funds or accounts of the City  
18 legally available therefor, except bond redemption funds refunding escrow funds or defeasance  
19 funds, to meet the required payments to be made into the Parity Bond Account. The Director of  
20 Finance may provide for the purchase, redemption or defeasance of any Parity Bonds by the use  
21 of money on deposit in any subaccount in the Parity Bond Account as long as the money  
22 remaining in those subaccounts is sufficient to satisfy the required deposits in those subaccounts  
23 for the remaining Parity Bonds.

24           **(b) Reserve Subaccount.** The City covenants that it will at all times so long as any  
25 Parity Bonds are outstanding, maintain the Reserve Subaccount at the Reserve Requirement  
26 (taking into account scheduled payments to fund the Reserve Requirement over time), as it is  
27 adjusted from time to time, except for withdrawals as authorized by this ordinance. The Director  
28



1 of Finance may make withdrawals of cash from the Reserve Subaccount in the event of a  
2 deficiency in the Principal and Interest Subaccount to meet maturing installments of either  
3 principal (or Sinking Fund Requirements) or interest. Any deficiency created in the Reserve  
4 Subaccount by reason of any such withdrawal will then be made up from the ULID Assessments  
5 and Net Revenue first available after making necessary provisions for the required payments into  
6 the Principal and Interest Subaccount. The money in the Reserve Subaccount may be applied to  
7 the payment of the last outstanding Parity Bonds, and when the total amount in the Parity Bond  
8 Account (including investment earnings) equals the total amount of principal and interest for all  
9 then-outstanding Parity Bonds to the last maturity thereof, no further payment need be made into  
10 the Parity Bond Account. Money in the Reserve Subaccount (including investment earnings) in  
11 excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest  
12 Subaccount and spent for the purpose of retiring Parity Bonds or may be deposited in any other  
13 fund or account and spent for any other lawful Drainage and Wastewater System purpose.

14 **(c) Investment of Money in Parity Bond Account.** All money in the Parity Bond  
15 Account may be kept in cash or invested in Permitted Investments maturing not later than the  
16 date when needed (for investments in the Principal and Interest Subaccount) or the last maturity  
17 of any outstanding Parity Bonds (for investments in the Reserve Subaccount). In no event shall  
18 any money in the Parity Bond Account or any other money reasonably expected to be used to  
19 pay principal and/or interest on the Parity Bonds be invested at a yield which would cause any  
20 Series issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds to be arbitrage bonds within  
21 the meaning of Section 148 of the Code. Income from investments in the Principal and Interest  
22 Subaccount shall be deposited in that subaccount. Income from investments in the Reserve  
23 Subaccount shall be deposited in that subaccount until the amount therein is equal to the Reserve  
24 Requirement for all Parity Bonds, and thereafter shall be deposited in the Principal and Interest  
25 Subaccount. Notwithstanding the provisions for deposit or retention of earnings in the Parity  
26 Bond Account, any earnings which are subject to a federal tax or rebate requirement may be  
27 withdrawn from the Parity Bond Account for deposit in a separate fund or account for that  
28



1 purpose. If no longer required for such rebate, money in that separate fund or account shall be  
2 returned to the Parity Bond Account.

3 **(d) Failure to Deposit Money in Parity Bond Account.** If the City fails to set aside  
4 and pay into the Parity Bond Account, or the subaccounts therein, the amounts set forth above,  
5 the registered owner of any of the outstanding Parity Bonds may bring action against the City for  
6 failure to make the required deposits to the Parity Bond Account only in accordance with Section  
7 25 regarding Events of Default.

8 **Section 16. Parity Bond Covenants.** The City covenants with the Owner of each of  
9 Bond at any time outstanding, as follows:

10 **(a) Operation and Maintenance.** It will pay all Operating and Maintenance Expense  
11 and otherwise meet the obligations of the City under this ordinance. It will at all times maintain  
12 and keep the Drainage and Wastewater System in good repair, working order and condition, will  
13 make all necessary and proper additions, betterments, renewals and repairs thereto, and  
14 improvements, replacements and extensions thereof so that at all times the business carried on in  
15 connection therewith will be properly and advantageously conducted, and will at all times  
16 operate the Drainage and Wastewater System and the business in connection therewith in an  
17 efficient manner and at a reasonable cost.

18 **(b) Establishment of Rates and Charges.** It will establish, maintain, revise as  
19 necessary and collect such rates and charges for drainage and wastewater service furnished  
20 which will produce Adjusted Net Revenue each calendar year at least equal to the Coverage  
21 Requirement. It will not change any rate or charge for drainage and wastewater service as now  
22 established by the City that will substantially reduce the annual Gross Revenue below that which  
23 would have been obtained before such change, unless the City shall have on file a certificate  
24 from an Independent Utility Consultant, stating the rates and charges as so changed will provide  
25 Gross Revenue sufficient to comply with all the covenants and requirements of this ordinance,  
26 including the Coverage Requirement.



1           ***Upon the redemption or defeasance of all outstanding 2004 Bonds, this subsection***  
2 ***shall be replaced in its entirety with the following:*** *It will establish, maintain, revise as*  
3 *necessary and collect rates and charges for services and facilities provided by the Drainage and*  
4 *Wastewater System so that Adjusted Net Revenue in each fiscal year will be at least equal to the*  
5 *Coverage Requirement. The failure of the City to comply with this subsection shall not be an*  
6 *Event of Default if the City promptly retains an Independent Utility Consultant to recommend to*  
7 *the City Council adjustments in the rates of the Drainage and Wastewater System necessary to*  
8 *meet the requirements of this subsection and if the City Council adopts the recommended*  
9 *modifications within 180 days of the date the failure became known to the City Council.*

10           **(c) Sale or Disposition of Drainage and Wastewater System.** It will not sell, lease,  
11 mortgage, or in any manner encumber or dispose of all of the property of the Drainage and  
12 Wastewater System unless provision is made for the payment into the Parity Bond Account of an  
13 amount sufficient to pay the principal of and interest on Parity Bonds then outstanding; and it  
14 will not sell, lease, mortgage, or in any manner encumber or dispose of (each a “transfer”) any  
15 part of the property of the Drainage and Wastewater System that is used, useful and material to  
16 the operation thereof, except consistent with one or more of the following:

17           (i) if provision is made for replacement thereof, or for payment into the Parity Bond  
18 Account of the total amount of Gross Revenue received from the portion of the  
19 Drainage and Wastewater System transferred, which shall not be less than an  
20 amount which shall bear the same ratio to the amount of Parity Bonds then  
21 outstanding as the Gross Revenue available for debt service for such outstanding  
22 bonds for the 12 months preceding such transfer from the portion of the Drainage  
23 and Wastewater System so transferred bears to the Gross Revenue available for  
debt service for the then outstanding Parity Bonds from the entire Drainage and  
Wastewater System of the City for the same period. Any such money so paid into  
the Parity Bond Account shall be used to retire such Parity Bonds at the earliest  
possible date; or

24           (ii) if the aggregate depreciated cost value of the property being transferred under this  
25 subsection in any fiscal year comprises no more than 5% of the total assets of the  
Drainage and Wastewater System; or

26           (iii) ***Upon the redemption or defeasance of all outstanding 2004 Bonds: if the***  
27 ***proceeds from such transfer are used to acquire new useful operating facilities or***  
28



1 *properties of the Drainage and Wastewater System, or are used to retire*  
2 *outstanding Parity Bonds or other revenue obligations of the Drainage and*  
3 *Wastewater System, and if, at the time of such transfer, the City has on file a*  
4 *certificate of both the Director of Finance and the Director of Seattle Public*  
5 *Utilities (or any officer who succeeds to substantially all of the responsibilities of*  
6 *either office) demonstrating that in their opinion, upon such transfer and the use*  
7 *of proceeds of the transfer as proposed by the City, the remaining facilities of the*  
8 *Drainage and Wastewater System will retain their operational integrity and,*  
9 *based on the financial statements for the most recent fiscal year available, the*  
10 *proposed transfer would not prevent the Drainage and Wastewater System from*  
11 *complying with the Coverage Requirement during the five fiscal years following*  
12 *the fiscal year in which the transfer is to occur. The certificate shall take into*  
13 *account, (A) the reduction in revenue and expenses, if any, resulting from the*  
14 *transfer; (B) the use of any proceeds of the transfer for the redemption of Parity*  
15 *Bonds; (C) the estimate of revenue from customers anticipated to be served by any*  
16 *additions to and betterments and extensions of the Drainage and Wastewater*  
17 *System financed in part by the proposed portion of the proceeds of the transfer,*  
18 *and (D) any other adjustment permitted in the preparation of a certificate under*  
19 *Section 17(a)(vi). Before such a transfer, the City also must obtain confirmation*  
20 *from each of the Rating Agencies to the effect that the rating then in effect will not*  
21 *be reduced or withdrawn upon such transfer.*

22 **(d) Books and Records.** It will keep proper and separate accounts and records in  
23 which complete and separate entries shall be made of all transactions relating to the Drainage  
24 and Wastewater System, and it will furnish the Registered Owner(s) of the Bonds or any  
25 subsequent Registered Owner(s) thereof, at the written request of such Registered Owner(s),  
26 complete operating and income statements of the Drainage and Wastewater System in reasonable  
27 detail covering any fiscal year not more than six months after the close of such fiscal year and it  
28 will grant any Registered Owner(s) of at least 25% of the outstanding Bonds the right at all  
reasonable times to inspect the entire Drainage and Wastewater System and all records, accounts  
and data of the City relating thereto. Upon request of any Registered Owner of any of the Bonds,  
it also will furnish to such Registered Owner a copy of the most recently completed audit of the  
City's accounts by the State Auditor.

**Section 17. Future Parity Bonds.**

(a) The City reserves the right to issue Future Parity Bonds and to enter into Parity  
Payment Agreements for purposes of the Drainage and Wastewater System or to refund a portion

1 of the Parity Bonds if the following conditions are met and complied with at the time of the  
2 issuance of those Future Parity Bonds or entering into the Parity Payment Agreement:

- 3 (i) There must be no deficiency in the Parity Bond Account and no Event of Default  
4 with respect to any Parity Bonds shall have occurred and be continuing.
- 5 (ii) The Future Parity Bond Legislation must provide that all ULID Assessments shall  
6 be paid directly into the Parity Bond Account.
- 7 (iii) The Future Parity Bond Legislation must provide for the payment of the principal  
8 thereof and the interest thereon out of the Parity Bond Account.
- 9 (iv) The Future Parity Bond Legislation must provide for the payment of any Sinking  
10 Fund Requirements from money in the Principal and Interest Subaccount.
- 11 (v) The Future Parity Bond Legislation must provide for the deposit into the Reserve  
12 Subaccount of (A) an amount, if any, necessary to fund the Reserve Requirement  
13 upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds  
14 or other money legally available; (B) one or more Reserve Securities or an  
15 amount plus Reserve Securities necessary to fund the Reserve Requirement upon  
16 the issuance of those Future Parity Bonds, or (C) amounts necessary to fund the  
17 Reserve Requirement from ULID Assessments and Net Revenue within five years  
18 from the date of issuance of those Future Parity Bonds, in five approximately  
19 equal annual payments. Immediately prior to the issuance of Future Parity Bonds,  
20 amounts then deposited in the Reserve Subaccount shall be valued as determined  
21 on the most recent annual financial report of the City applicable to the Drainage  
22 and Wastewater System, and the additional amounts, if any, needed to be  
23 deposited into the Reserve Subaccount to satisfy the Reserve Requirement shall  
24 be based on that valuation.
- 25 (vi) There shall be on file either:
- 26 (A) A certificate of the Director of Finance or the Director of Seattle Public  
27 Utilities demonstrating that during any 12 consecutive calendar months  
28 out of the immediately preceding 24 calendar months Adjusted Net  
Revenue was at least equal to the Coverage Requirement for all Parity  
Bonds plus the Future Parity Bonds proposed to be issued (and assuming  
that the debt service of the proposed Future Parity Bonds for that 12  
month period was the Average Annual Debt Service for those proposed  
bonds); or
- (B) A certificate of the Director of Seattle Public Utilities or a certificate from  
an Independent Utility Consultant showing that in his or her professional  
opinion the Adjusted Net Revenue will be equal to the Coverage  
Requirement. However, if Future Parity Bonds proposed to be so issued



1 are for the sole purpose of refunding outstanding Parity Bonds, such  
2 certification of coverage shall not be required if the Annual Debt Service  
3 in each year for the refunding bonds is not increased over the amount  
4 required for the bonds to be refunded thereby and the maturities of those  
5 refunding bonds are not extended beyond the maturities of the bonds to be  
6 refunded thereby.

7 The certificate, in estimating the Adjusted Net Revenue shall use the  
8 historical Gross Revenue for any 12 consecutive months out of the 24  
9 months immediately preceding the month of delivery of the Future Parity  
10 Bonds. The Gross Revenue may be adjusted to reflect:

- 11 (1) any changes in rates in effect and being charged or expressly  
12 committed by ordinance of the City Council to be made in the  
13 future;
- 14 (2) income derived from customers of the Drainage and Wastewater  
15 System that have become customers during the 12 consecutive  
16 month period or thereafter adjusted to reflect one year's net  
17 revenue from such customers;
- 18 (3) revenues from any customers to be connected to the Drainage and  
19 Wastewater System who have paid the required connection  
20 charges;
- 21 (4) revenue to be derived from any person, firm, corporation or  
22 municipal corporation under any executed contract for Drainage or  
23 Wastewater service which revenue was not included in the  
24 historical Gross Revenue;
- 25 (5) an estimate of the Gross Revenue to be derived by the City from  
26 customers with improved property available to connect to any  
27 additions to and improvements and extensions of the Drainage and  
28 Wastewater System to be paid for out of the proceeds of the sale of  
the additional Future Parity Bonds or other additions to and  
improvements and extensions of the Drainage and Wastewater  
System then under construction and not fully connected to the  
facilities of the Drainage and Wastewater System when such  
additions, improvements and extensions are completed.

Actual or reasonably anticipated changes in the Operating and  
Maintenance Expense subsequent to such 12 month period shall be added  
or deducted, as is applicable. The use of money other than Gross Revenue  
for the payment of Operating and Maintenance Expense shall not exceed  
per year an amount used for that purpose during the 12 months  
immediately preceding the date of issuance of the Future Parity Bonds.



1            *Upon the redemption or defeasance of all outstanding 2004 Bonds, this subsection (vi)*  
2 *shall be replaced in its entirety with the following:*

3            (vi)    *There shall be on file with the City either:*

4            (A)    *A certificate of the Director of Finance demonstrating that during any 12*  
5 *consecutive calendar months out of the immediately preceding*  
6 *24 calendar months Adjusted Net Revenue was at least equal to the*  
7 *Coverage Requirement for all Parity Bonds plus the Future Parity Bonds*  
8 *proposed to be issued (and assuming that the debt service of the proposed*  
9 *Future Parity Bonds for that 12 month period was the Average Annual*  
10 *Debt Service for those proposed bonds); or*

11            (B)    *A certificate of the Director of Finance and the Director of Seattle Public*  
12 *Utilities (or any officer who succeeds to substantially all of the*  
13 *responsibilities of that office) that in their opinion, Adjusted Net Revenue*  
14 *for the five fiscal years next following the earlier of (1) the end of the*  
15 *period during which interest on those Future Parity Bonds is to be*  
16 *capitalized or, if no interest is capitalized, the fiscal year in which the*  
17 *Future Parity Bonds are issued, or (2) the date on which substantially all*  
18 *new facilities financed with those Future Parity Bonds are expected to*  
19 *commence operations, such Adjusted Net Revenue further adjusted as*  
20 *provided in paragraphs (1) through (4) below, will be at least equal to the*  
21 *Coverage Requirement. That certificate may take into account the*  
22 *following adjustments:*

23            (1)    *Any changes in rates in effect and being charged, or rates expected*  
24 *to be charged in accordance with a program of specific rates, rate*  
25 *levels or increases in overall rate revenue approved by ordinance*  
26 *or resolution;*

27            (2)    *Net revenue from customers of the Drainage and Wastewater*  
28 *System who have become customers during the 12 consecutive*  
29 *month period or thereafter, and their estimate of net revenue from*  
30 *any customers to be connected to the Drainage and Wastewater*  
31 *System who have paid the required connection charges, adjusted to*  
32 *reflect one year's net revenue from those customers;*

33            (3)    *Their estimate of net revenue from customers anticipated to be*  
34 *served by facilities or improvements financed in substantial part by*  
35 *those Future Parity Bonds (or additional Parity Bonds expected to*  
36 *be issued during the five-year period); and*

37            (4)    *Net revenue from any person, firm, corporation or municipal*  
38 *corporation under any executed contract for drainage and*





1 Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit  
2 would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

3 **Section 19. Separate Utility Systems.** The City may create, acquire, construct,  
4 finance, own and operate one or more additional systems for drainage and wastewater service or  
5 other commodity or service relating to the Drainage and Wastewater System. The revenue of that  
6 separate utility system shall not be included in the Gross Revenue and may be pledged to the  
7 payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or  
8 expand the separate utility system. Neither the Gross Revenue nor the Net Revenue shall be  
9 pledged by the City to the payment of any obligations of a separate utility system except (a) as a  
10 Contract Resource Obligation, or (b) with respect to the Net Revenue, on a basis subordinate to  
11 the lien of the Parity Bonds on that Net Revenue.

12 **Section 20. Contract Resource Obligations.** The City may at any time enter into one  
13 or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of  
14 drainage and wastewater services or other commodity or service relating to the Drainage and  
15 Wastewater System, as follows:

16 (a) The City may determine that, and may agree under a Contract Resource  
17 Obligation to provide that, all payments under that Contract Resource Obligation (including  
18 payments prior to the time that drainage and wastewater services or other commodity or service  
19 is being provided, or during a suspension or after termination of supply or service) shall be an  
20 Operating and Maintenance Expense if the following requirements are met at the time such a  
21 Contract Resource Obligation is entered into:

- 22 (i) No Event of Default has occurred and is continuing; and  
23 (ii) There shall be on file a certificate of an Independent Utility Consultant stating  
24 that (A) the payments to be made by the City in connection with the Contract  
25 Resource Obligation are reasonable for the commodity or service rendered;  
26 (B) any facilities to be constructed to provide the commodity or service are sound  
27 from a drainage and wastewater services or other commodity or service planning  
28 standpoint, are technically and economically feasible in accordance with prudent  
utility practice, and are likely to provide supply or transmission no later than a  
date set forth in the Independent Utility Consultant's certification; and (C) the



1 Adjusted Net Revenue (further adjusted by the Independent Utility Consultant's  
2 estimate of the payments to be made in accordance with the Contract Resource  
3 Obligation) for the five fiscal years following the year in which the Contract  
4 Resource Obligation is incurred, as such Adjusted Net Revenue is estimated by  
5 the Independent Utility Consultant in accordance with the provisions of and  
6 adjustments permitted in Section 17(a)(vi)(B), will be at least equal to the  
7 Coverage Requirement.

8 (b) Payments required to be made under Contract Resource Obligations shall not be  
9 subject to acceleration.

10 (c) Nothing in this section shall be deemed to prevent the City from entering into  
11 other agreements for the acquisition of drainage and wastewater services or other commodity or  
12 service from existing facilities and from treating those payments as an Operating and  
13 Maintenance Expense. Nothing in this section shall be deemed to prevent the City from entering  
14 into other agreements for the acquisition of drainage and wastewater services or other  
15 commodity or service from facilities to be constructed and from agreeing to make payments with  
16 respect thereto, such payments constituting a charge and lien on Net Revenue subordinate to the  
17 Parity Bonds.

18 **Section 21. Refunding and Defeasance of the Bonds.** The Bonds are hereby  
19 designated "Refundable Bonds" for purposes of Ordinance 121938, as it may be amended from  
20 time to time. The City may issue refunding bonds pursuant to the laws of the State or use money  
21 available from any other lawful source to pay when due the principal of, premium, if any, and  
22 interest on any Bond, or portion thereof, included in a refunding or defeasance plan, and to  
23 redeem and retire, release, refund or defease those Bonds (the "defeased Bonds") and to pay the  
24 costs of such refunding or defeasance. If money and/or Government Obligations maturing at a  
25 time or times and in an amount sufficient, together with known earned income from the  
26 investment thereof, to redeem and retire, release, refund or defease the defeased Bonds in  
27 accordance with their terms, are set aside in a special trust fund or escrow account irrevocably  
28 pledged to such redemption, retirement or defeasance (the "trust account"), then all right and  
interest of the Owners of the defeased Bonds in the covenants of this ordinance and in the Net



1 Revenue and the funds and accounts pledged to the payment of such defeased Bonds, other than  
2 the right to receive the funds so set aside and pledged, thereafter shall cease and become void.  
3 Such Owners thereafter shall have the right to receive payment of the principal of and interest or  
4 redemption price on the defeased Bonds from the trust account. After establishing and fully  
5 funding such a trust account, the defeased Bonds shall be deemed as no longer outstanding, and  
6 the Director of Finance then may apply any money in any other fund or account established for  
7 the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or  
8 defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be  
9 conducted, in the manner set forth in this ordinance for the redemption of Bonds.

10 If the refunding or defeasance plan provides that the defeased Bonds or the refunding  
11 bonds to be issued be secured by money and/or Government Obligations pending the prior  
12 redemption of the defeased Bonds and if such refunding or defeasance plan also provides that  
13 certain money and/or Government Obligations are pledged irrevocably for the prior redemption  
14 of the defeased Bonds included in that refunding or defeasance plan, then only the debt service  
15 on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is  
16 not so secured by the refunding plan, shall be included in the computation of the Coverage  
17 Requirement for the issuance of Future Parity Bonds and the annual computation of the  
18 Coverage Requirement for determining compliance with the rate covenants.

19 **Section 22. Provisions Relating to Certain Federal Tax Consequences of the**  
20 **Bonds.**

21 (a) **Tax-Exempt Bonds.** The City covenants that it will take all actions, consistent  
22 with the terms of any Series issued as Tax-Exempt Bonds, this ordinance, and the Bond  
23 Resolution, reasonably within its power and necessary to prevent interest on that Series from  
24 being included in gross income for federal income tax purposes, and the City will neither take  
25 any action nor make or permit any use of gross proceeds of that Series or other funds of the City  
26 treated as gross proceeds of that Series at any time during the term of such Series which will  
27 cause interest on such Series to be included in gross income for federal income tax purposes. The  
28



1 City also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of  
2 the Code is applicable to any Series issued as Tax-Exempt Bonds, take all actions necessary to  
3 comply (or to be treated as having complied) with that requirement in connection with that  
4 Series, including the calculation and payment of any penalties that the City has elected to pay as  
5 an alternative to calculating rebatable arbitrage, and the payment of any other penalties if  
6 required under Section 148 of the Code to prevent interest on such Series from being included in  
7 gross income for federal income tax purposes.

8 (b) **Tax-Credit Subsidy Bonds or other Taxable Bonds.** The Director of Finance  
9 may, without further action by the City Council, make provision in the Bonds or other written  
10 document for such additional covenants of the City as may be necessary or appropriate in order  
11 for the City to receive from the United States Treasury the applicable Tax Credit Subsidy  
12 Payments in respect of any Series issued as Tax Credit Subsidy Bonds, or otherwise become and  
13 remain eligible for tax benefits under the Code.

14 **Section 23. Official Statement; Continuing Disclosure.**

15 (a) **Preliminary Official Statement.** The Director of Finance and other appropriate  
16 City officials are directed to cause the preparation of and review the form of a preliminary  
17 official statement in connection with each sale of one or more Series to the public. For the sole  
18 purpose of the Purchaser's compliance with paragraph (b)(1) of Rule 15c2-12, the Director of  
19 Finance is authorized to deem that preliminary official statement final as of its date, except for  
20 the omission of information permitted to be omitted by Rule 15c2-12. The City approves the  
21 distribution to potential purchasers of the Bonds of a preliminary official statement that has been  
22 deemed final in accordance with this subsection.

23 (b) **Final Official Statement.** The City approves the preparation of a final official  
24 statement for each sale of one or more Series to be sold to the public in the form of the  
25 preliminary official statement with such modifications and amendments as the Director of  
26 Finance deems necessary or desirable, and further authorizes the Director of Finance to execute  
27 and deliver such final official statement to the Purchaser. The City authorizes and approves the  
28



1 distribution by the Purchaser of that final official statement to purchasers and potential  
2 purchasers of the Bonds.

3 (c) **Undertaking to Provide Continuing Disclosure.** To meet the requirements of  
4 paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for a Series, the  
5 Director of Finance is authorized to execute the Undertaking in substantially the form attached as  
6 Exhibit B.

7 **Section 24. Supplemental or Amendatory Ordinances.**

8 (a) This ordinance shall not be supplemented or amended in any respect subsequent  
9 to the Issue Date, except as provided in and in accordance with and subject to the provisions of  
10 this section.

11 (b) The City may, from time to time and at any time, without the consent of or notice  
12 to the owners of the Parity Bonds, pass supplemental or amendatory ordinances for any of the  
13 following purposes:

- 14 (i) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance  
15 in a manner not adverse to the owners of any Parity Bonds;
- 16 (ii) To impose upon the Bond Registrar (with its consent) for the benefit of the  
17 owners of any Parity Bonds any additional rights, remedies, powers, authority,  
18 security, liabilities or duties which may lawfully be granted, conferred or imposed  
19 and which are not contrary to or inconsistent with this ordinance as theretofore in  
20 effect;
- 21 (iii) To add to the covenants and agreements of, and limitations and restrictions upon,  
22 the City in this ordinance other covenants, agreements, limitations and restrictions  
23 to be observed by the City which are not contrary to or inconsistent with this  
24 ordinance as theretofore in effect;
- 25 (iv) To confirm, as further assurance, any pledge under, and the subjection to any  
26 claim, lien or pledge created or to be created by this ordinance of any other  
27 money, securities or funds;
- 28 (v) To authorize different denominations of the Bonds and to make correlative  
amendments and modifications to this ordinance regarding exchangeability of  
Bonds of different authorized denominations, redemptions of portions of Bonds of  
particular authorized denominations and similar amendments and modifications of  
a technical nature;

- 1 (vi) To comply with any future federal law or interpretation to preserve the exclusion  
2 of the interest on the Tax-Exempt Bonds from gross income for federal income  
3 tax purposes and the entitlement of the City to receive from the United States  
4 Treasury the applicable Tax Credit Subsidy Payments in respect of any Series  
5 sold and issued as Tax Credit Subsidy Bonds;
- 6 (vii) To modify, alter, amend or supplement this ordinance in any other respect which  
7 is not materially adverse to the owners of the Parity Bonds and which does not  
8 involve a change described in subsection (c) of this section; and
- 9 (viii) To add to the covenants and agreements of, and limitations and restrictions upon,  
10 the City in this ordinance, other covenants, agreements, limitations and  
11 restrictions to be observed by the City which are requested by a provider of Bond  
12 Insurance or provider of a Reserve Security and which are not materially adverse  
13 to the owners of the Parity Bonds.

14 Before the City may pass any such supplemental or amendatory ordinance pursuant to  
15 this subsection, there must be delivered to the City an opinion of Bond Counsel, stating that such  
16 supplemental or amendatory ordinance is authorized or permitted by this ordinance and will,  
17 upon the effective date thereof, be valid and binding upon the City in accordance with its terms,  
18 and will not adversely affect the exclusion from gross income for federal income tax purposes of  
19 interest on any Tax-Exempt Bonds.

20 (c) Except for any supplemental or amendatory ordinance passed pursuant to  
21 subsection (b) of this section, subject to the terms and provisions contained in this subsection (c)  
22 and not otherwise:

- 23 (i) With the consent of registered owners of not less than 60% in aggregate principal  
24 amount of the Parity Bonds then outstanding, the City Council may pass any  
25 supplemental or amendatory ordinance deemed necessary or desirable by the City  
26 for the purpose of modifying, altering, amending, supplementing or rescinding, in  
27 any particular, any of the terms or provisions contained in this ordinance.  
28 However, unless approved in writing by the registered owner of each Parity Bond  
then outstanding, nothing contained in this section shall permit, or be construed as  
permitting (A) a change in the times, amounts or currency of payment of the  
principal of or interest on any outstanding Parity Bond, or a reduction in the  
principal amount or redemption price of any outstanding Parity Bond or a change  
in the method of determining the rate of interest thereon, (B) a preference or  
priority of any Parity Bond over any other Parity Bond, or (C) a reduction in the  
aggregate principal amount of Parity Bonds.

- 1 (ii) If at any time the City Council passes a supplemental or amendatory ordinance for  
2 any of the purposes of this subsection (c), the Bond Registrar shall cause notice of  
3 the proposed supplemental or amendatory ordinance to be given by first class  
4 United States mail to all registered owners of the then outstanding Parity Bonds,  
5 to each provider of Bond Insurance or a Reserve Security, and to each Rating  
6 Agency. Such notice shall briefly set forth the nature of the proposed  
7 supplemental or amendatory ordinance and shall state that a copy is on file at the  
8 office of the City Clerk for inspection by all owners of the outstanding Parity  
9 Bonds.
- 10 (iii) Within two years after the date of the mailing of such notice, such supplemental  
11 or amendatory ordinance, substantially as described in such notice, may go into  
12 effect, but only if there shall have first been delivered to the Bond Registrar  
13 (A) the required consents, in writing, of registered owners of the Parity Bonds,  
14 and (B) an opinion of Bond Counsel stating that such supplemental or amendatory  
15 ordinance is authorized or permitted by this ordinance and, upon the effective date  
16 thereof, will be valid and binding upon the City in accordance with its terms, will  
17 not adversely affect the exclusion from gross income for federal income tax  
18 purposes of interest on any Tax-Exempt Bonds.
- 19 (iv) If registered owners of not less than the percentage of Parity Bonds required by  
20 this subsection (c) shall have consented to and approved the passage of such a  
21 supplemental or amendatory ordinance, no owner of a Parity Bond shall have any  
22 right to object to the passage of such supplemental ordinance, or to object to any  
23 of the terms and provisions contained therein or the operation thereof, or in any  
24 manner to question the propriety of the passage thereof, or to enjoin or restrain the  
25 City from passing the same or the City, any authorized official thereof, or the  
26 Bond Registrar from taking any action pursuant to the provisions thereof.
- 27 (d) The Registered Owners from time to time of the outstanding Bonds, by taking and  
28 holding the same, shall be deemed to have consented to the adoption by the City of any  
supplemental or amendatory ordinance or resolution passed pursuant to the provisions of this  
section for any one or more of the following purposes:
- (i) When calculating "Annual Debt Service," to permit or require Tax Credit Subsidy  
Payments expected to be received by the City in any period to be credited against  
amounts required to be paid in respect of interest on the Parity Bonds in that  
period; and
- (ii) To permit or require Tax Credit Subsidy Payments to be deposited into the  
Principal and Interest Subaccount and credited against the Net Revenue otherwise  
required to be deposited into the Principal and Interest Subaccount.



1 (e) Upon the effective date of any supplemental or amendatory ordinance pursuant to  
2 the provisions of this section, this ordinance shall be, and be deemed to be, modified and  
3 amended in accordance therewith, and the respective rights, duties and obligations under this  
4 ordinance of the City, the Bond Registrar and all owners of Parity Bonds then outstanding shall  
5 thereafter be determined, exercised and enforced under this ordinance subject in all respects to  
6 such modifications and amendments.

7 **Section 25. Defaults and Remedies.**

8 (a) **Events of Default.** The following shall constitute Events of Default with respect  
9 to the Bonds:

- 10 (i) If a default is made in the payment of the principal of or interest on any of the  
11 Bonds when the same shall become due and payable; or  
12 (ii) If the City defaults in the observance and performance of any other of the  
13 covenants, conditions and agreements on the part of the City set forth in this  
14 ordinance or in any Parity Bond Legislation (except as otherwise provided herein  
15 or in such Parity Bond Legislation) and such default or defaults have continued  
16 for a period of six months after the City has received from the Bond Owners'  
17 Trustee (as defined below) or from the Registered Owners of not less than 25% in  
18 principal amount of the Parity Bonds, a written notice specifying and demanding  
19 the cure of such default. However, if the default in the observance and  
20 performance of any other of the covenants, conditions and agreements is one  
21 which cannot be completely remedied within the six months after written notice  
22 has been given, it shall not be an Event of Default with respect to the Bonds as  
23 long as the City has taken active steps within the six months after written notice  
24 has been given to remedy the default and is diligently pursuing such remedy.

25 Notwithstanding anything in this section to the contrary, the failure of the City or any obligated  
26 person to comply with the Undertaking shall not constitute an Event of Default under this  
27 ordinance, the Bond Resolution or the Bonds, and the sole remedy of any holder of a Bond shall  
28 be to seek an order of specific performance from an appropriate court to compel the City to  
comply with the Undertaking.

(b) **Bond Owners' Trustee.** So long as such Event of Default has not been remedied,  
a trustee (the "Bond Owners' Trustee") may be appointed by the registered owners of 25% in  
principal amount of the then outstanding Parity Bonds, by an instrument or concurrent



1 instruments in writing signed and acknowledged by such registered owners of the Parity Bonds  
2 or by their attorneys-in-fact duly authorized and delivered to such Bond Owners' Trustee,  
3 notification thereof being given to the City. That appointment shall become effective  
4 immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee  
5 appointed under the provisions of this subsection shall be a bank or trust company organized  
6 under the laws of the State of Washington or the State of New York or a national banking  
7 association. The bank or trust company acting as Bond Owners' Trustee may be removed at any  
8 time, and a successor Bond Owners' Trustee may be appointed, by the registered owners of a  
9 majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in  
10 writing signed and acknowledged by such registered owners of the Parity Bonds or by their  
11 attorneys-in-fact duly authorized. The Bond Owners' Trustee may require such security and  
12 indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in  
13 the performance of its duties.

14 In the event that any Event of Default in the sole judgment of the Bond Owners' Trustee  
15 is cured and the Bond Owners' Trustee furnishes to the City a certificate so stating, that Event of  
16 Default shall be conclusively deemed to be cured and the City, the Bond Owners' Trustee and  
17 the registered owners of the Parity Bonds shall be restored to the same rights and position which  
18 they would have held if no Event of Default had occurred.

19 The Bond Owners' Trustee appointed in the manner herein provided, and each successor  
20 thereto, is declared to be a trustee for the registered owners of all the Parity Bonds and is  
21 empowered to exercise all the rights and powers herein conferred on the Bond Owners' Trustee.

22 **(c) Suits at Law or in Equity.** Upon the happening of an Event of Default and  
23 during the continuance thereof, the Bond Owners' Trustee may, and upon the written request of  
24 the registered owners of not less than 25% in principal amount of the Parity Bonds outstanding  
25 shall, take such steps and institute such suits, actions or other proceedings, all as it may deem  
26 appropriate for the protection and enforcement of the rights of the registered owners of the Parity  
27 Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate  
28

1 relief, and may enforce the specific performance of any covenant, agreement or condition  
2 contained in this ordinance or in any of the Parity Bonds.

3 Nothing contained in this section shall, in any event or under any circumstance, be  
4 deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the  
5 remedy of acceleration is expressly denied to the registered owners of the Parity Bonds under  
6 any circumstances including, without limitation, upon the occurrence and continuance of an  
7 Event of Default.

8 Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder  
9 shall be brought in its name as the Bond Owners' Trustee and all such rights of action upon or  
10 under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bond  
11 Owners' Trustee without the possession of any of those Parity Bonds and without the production  
12 of the same at any trial or proceedings relative thereto except where otherwise required by law.  
13 Any such suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for  
14 the ratable benefit of all of the registered owners of those Parity Bonds, subject to the provisions  
15 of this ordinance. The respective registered owners of the Parity Bonds, by taking and holding  
16 the same, shall be conclusively deemed irrevocably to appoint the Bond Owners' Trustee the true  
17 and lawful trustee of the respective registered owners of those Parity Bonds, with authority to  
18 institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums  
19 becoming distributable on account of those Parity Bonds; to execute any paper or documents for  
20 the receipt of money; and to do all acts with respect thereto that the registered owner himself or  
21 herself might have done in person. Nothing herein shall be deemed to authorize or empower the  
22 Bond Owners' Trustee to consent to accept or adopt, on behalf of any registered owner of the  
23 Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of  
24 any registered owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the  
25 claims of the registered owners thereof in any receivership, insolvency, liquidation, bankruptcy,  
26 reorganization or other proceeding to which the City is a party.



1           **(d) Application of Money Collected by Bond Owners' Trustee.** Any money  
2 collected by the Bond Owners' Trustee at any time pursuant to this section shall be applied in the  
3 following order of priority:

- 4           (i) to the payment of the charges, expenses, advances and compensation of the Bond  
5 Owners' Trustee and the charges, expenses, counsel fees, disbursements and  
6 compensation of its agents and attorneys; and  
7  
8           (ii) to the payment to the persons entitled thereto of all installments of interest then  
9 due on the Parity Bonds in the order of maturity of such installments and, if the  
10 amount available shall not be sufficient to pay in full any installment or  
11 installments maturing on the same date, then to the payment thereof ratably,  
12 according to the amounts due thereon to the persons entitled thereto, without any  
13 discrimination or preference; and  
14  
15           (iii) to the payment to the persons entitled thereto of the unpaid principal amounts of  
16 any Parity Bonds which shall have become due (other than Parity Bonds  
17 previously called for redemption for the payment of which money is held pursuant  
18 to the provisions hereto), whether at maturity or by proceedings for redemption or  
19 otherwise, in the order of their due dates and, if the amount available shall not be  
20 sufficient to pay in full the principal amounts due on the same date, then to the  
21 payment thereof ratably, according to the principal amounts due thereon to the  
22 persons entitled thereto, without any discrimination or preference.

16           **(e) Duties and Obligations of Bond Owners' Trustee.** The Bond Owners' Trustee  
17 shall not be liable except for the performance of such duties as are specifically set forth herein.  
18 During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and  
19 powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a  
20 prudent person would exercise or use under the circumstances in the conduct of his or her own  
21 affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act  
22 hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure  
23 to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee  
24 shall be determined solely by the express provisions of this ordinance, and no implied powers,  
25 duties or obligations of the Bond Owners' Trustee shall be read into this ordinance.

26           The Bond Owners' Trustee shall not be required to expend or risk its own funds or  
27 otherwise incur individual liability in the performance of any of its duties or in the exercise of  
28



1 any of its rights or powers as the Bond Owners' Trustee, except as may result from its own  
2 negligent action, its own negligent failure to act or its own willful misconduct.

3 The Bond Owners' Trustee shall not be bound to recognize any person as a registered  
4 owner of any Parity Bond until his or her title thereto, if disputed, has been established to its  
5 reasonable satisfaction.

6 The Bond Owners' Trustee may consult with counsel and the opinion of such counsel  
7 shall be full and complete authorization and protection in respect of any action taken or suffered  
8 by it hereunder in good faith and in accordance with the opinion of such counsel. The Bond  
9 Owners' Trustee shall not be answerable for any neglect or default of any person, firm or  
10 corporation employed and selected by it with reasonable care.

11 **(f) Suits by Individual Parity Bond Owners Restricted.** No owner of any one or  
12 more Parity Bonds shall have any right to institute any action, suit or proceeding at law or in  
13 equity for the enforcement of same unless:

- 14 (i) an Event of Default has happened and is continuing; and  
15 (ii) a Bond Owners' Trustee has been appointed; and  
16 (iii) such owner previously shall have given to the Bond Owners' Trustee written  
17 notice of the Event of Default on account of which such suit, action or proceeding  
18 is to be instituted; and  
19 (iv) the registered owners of 25% in principal amount of the Parity Bonds, after the  
20 occurrence of such Event of Default, have made written request of the Bond  
21 Owners' Trustee and have afforded the Bond Owners' Trustee a reasonable  
22 opportunity to institute such suit, action or proceeding; and  
23 (v) there have been offered to the Bond Owners' Trustee security and indemnity  
24 satisfactory to it against the costs, expenses and liabilities to be incurred therein or  
25 thereby; and  
26 (vi) the Bond Owners' Trustee has refused or neglected to comply with such request  
27 within a reasonable time.  
28

No owner of any Parity Bond shall have any right in any manner whatever by his or her action to  
affect or impair the obligation of the City to pay from the Net Revenue the principal of and  
interest on such Parity Bonds to the respective registered owners thereof when due.



1           **Section 26. General Authorization.** In addition to the specific authorizations in this  
2 ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of  
3 the City are each authorized and directed to do everything as in his or her judgment may be  
4 necessary, appropriate, or desirable in order to carry out the terms and provisions of, and  
5 complete the transactions contemplated by, this ordinance. In particular and without limiting the  
6 foregoing:

7           (a) The Director of Finance may, in his or her discretion and without further action  
8 by the City Council: (i) issue requests for proposals for underwriting or financing facilities and  
9 execute engagement letters with underwriters, bond insurers or other financial institutions based  
10 on responses to such requests, (ii) change the Bond Registrar or Securities Depository for the  
11 Bonds; and (iii) take such actions on behalf of the City as are necessary or appropriate for the  
12 City to designate, qualify or maintain the tax-exempt treatment with respect to any Series issued  
13 as Tax-Exempt Bonds, to receive from the United States Treasury the applicable Tax Credit  
14 Subsidy Payments in respect of any Series issued as Tax-Credit Subsidy Bonds and to otherwise  
15 receive any other federal tax benefits relating to the Bonds that available to the City; and

16           (b) Each of the Mayor and the Director of Finance is separately authorized to execute  
17 and deliver (i) any and all contracts or other documents as are consistent with this ordinance and  
18 for which the City's approval is necessary or to which the City is a party (including but not  
19 limited to agreements with escrow agents, refunding trustees, providers of Bond Insurance or  
20 Reserve Securities, remarketing agents, underwriters, lenders, fiscal agents, Qualified  
21 Counterparties, custodians, and the Bond Registrar); and (ii) such other contracts or documents  
22 incidental to the issuance and sale of a Series; the establishment of the initial interest rate or rates  
23 on a Bond; or the tender, purchase, remarketing, or redemption of a Bond, as may in his or her  
24 judgment be necessary or appropriate.

25           **Section 27. Severability.** The provisions of this ordinance are declared to be separate  
26 and severable. If a court of competent jurisdiction, all appeals having been exhausted or all  
27 appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as  
28



1 to any person or circumstance, such offending provision shall, if feasible, be deemed to be  
2 modified to be within the limits of enforceability or validity. However, if the offending provision  
3 cannot be so modified, it shall be null and void with respect to the particular person or  
4 circumstance, and all other provisions of this ordinance in all other respects, and the offending  
5 provision with respect to all other persons and all other circumstances, shall remain valid and  
6 enforceable.

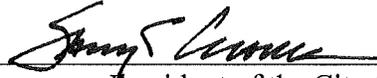
7 **Section 28. Ratification of Prior Acts.** Any action taken consistent with the authority  
8 of this ordinance, after its passage but prior to the effective date, is ratified, approved and  
9 confirmed.

10 **Section 29. Section Headings.** Section headings in this ordinance are used for  
11 convenience only and shall not constitute a substantive portion of this ordinance.

12 **Section 30. Effective Date.** This ordinance shall take effect and be in force 30 days  
13 after its approval by the Mayor, but if not approved and returned by the Mayor within ten days  
14 after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.



1 Passed by the City Council the 25<sup>th</sup> day of Nov., 2013, and signed by me in open  
2 session in authentication of its passage this 25<sup>th</sup> day of Nov., 2013.

3  
4 

5 President of the City Council

6 Approved by me this 3rd day of Dec, 2013.

7  
8 

9 Michael McGinn, Mayor

10 Filed by me this 4<sup>th</sup> day of December, 2013.

11  
12  
13 

14 Monica Martinez Simmons, City Clerk

15 (SEAL)

16  
17  
18 Attachments:

19 Exhibit A – List of Outstanding Parity Bonds

20 Exhibit B – Form of Undertaking to Provide Continuing Disclosure

**EXHIBIT A**

**OUTSTANDING DRAINAGE AND WASTEWATER PARITY BONDS**

Issue Name	Dated Date	Original Par Amount	Bond Legislation
Drainage and Wastewater Revenue Bonds, 2004	10/28/2004	\$62,010,000	Ord 121938 Res 30716
Drainage and Wastewater Revenue and Refunding Bonds, 2006	11/01/2006	\$121,765,000	Ord 121938 Ord 122209 Res 30927
Drainage and Wastewater Revenue Bonds, 2008	04/16/2008	\$84,645,000	Ord 122637 Res 31050
Drainage and Wastewater Revenue Bonds, Series 2009A (Taxable Build America Bonds – Direct Payment)	12/17/2009	\$102,535,000	Ord 123055 Res 31177
Drainage and Wastewater Improvement and Refunding Revenue Bonds, Series 2009B	12/17/2009	\$36,680,000	Ord 121938 Ord 122209 Ord 122637 Ord 123055 Res 31177
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012	06/27/2012	\$222,090,000	Ord 121938 Ord 122209 Ord 123753 Res 31387



**EXHIBIT B**

**FORM OF UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE**

The City of Seattle, Washington (the "City") makes the following written Undertaking for the benefit of the owners of the City's Drainage and Wastewater Improvement Revenue Bonds, 2014 (the "Bonds"), for the sole purpose of assisting the Purchaser in meeting the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for the Bonds. Capitalized terms used but not defined below shall have the meanings given in Ordinance \_\_\_\_\_ and Resolution \_\_\_\_\_ (together, the "Bond Legislation").

(a) Undertaking to Provide Annual Financial Information and Notice of Listed Events. The City undertakes to provide or cause to be provided, either directly or through a designated agent, to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(i) Annual financial information and operating data regarding the Drainage and Wastewater System of the type included in the final official statement for the Bonds and described in subsection (b) of this section ("annual financial information");

(ii) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(iii) Timely notice of a failure by the City to provide required annual financial information on or before the date specified in subsection (b) of this section.



1 (b) Type of Annual Financial Information Undertaken to be Provided. The annual  
financial information that the City undertakes to provide in subsection (a) of this section:

2 (i) Shall consist of annual financial information and operating data  
3 regarding the Drainage and Wastewater System of the type included in the final official  
4 statement for the Bonds as follows: (1) annual financial statements of the Drainage and  
5 Wastewater System prepared in accordance with generally accepted accounting principles  
6 applicable to governmental units (except as otherwise noted therein), as such principles may be  
7 changed from time to time and as permitted by State law, which financial statements will not be  
8 audited, except, that if and when audited financial statements are otherwise prepared and  
available to the City they will be provided; (2) a statement of authorized, issued and  
9 outstanding bonded debt secured by revenues of the Drainage and Wastewater System; (3) debt  
10 service coverage ratios; (4) general customer statistics, such as number and type of customers  
11 and revenues by customer class; and (5) current drainage rate and wastewater rates;

12 (ii) Shall be provided not later than the last day of the ninth month after the  
13 end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal  
14 year may be changed as required or permitted by State law, commencing with the City's fiscal  
15 year ending December 31, 20\_\_; and

16 (iii) May be provided in a single or multiple documents, and may be  
17 incorporated by specific reference to documents available to the public on the Internet website  
18 of the MSRB or filed with the SEC.

19 (c) Amendment of Undertaking. The Undertaking is subject to amendment after the  
20 primary offering of the Bonds without the consent of any holder of any Bond, or of any broker,  
21 dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB,  
22 under the circumstances and in the manner permitted by Rule 15c2-12. The City will give  
23 notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking  
24 and a brief statement of the reasons for the amendment. If the amendment changes the type of  
25 annual financial information to be provided, the annual financial information containing the  
26 amended financial information will include a narrative explanation of the effect of that change  
27 on the type of information to be provided.

28 (d) Beneficiaries. The Undertaking evidenced by this section shall inure to the  
benefit of the City and any Beneficial Owner of Bonds, and shall not inure to the benefit of or  
create any rights in any other person.

(e) Termination of Undertaking. The City's obligations under this Undertaking  
shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the  
outstanding Bonds. In addition, the City's obligations under this Undertaking shall terminate if  
those provisions of Rule 15c2-12 which require the City to comply with this Undertaking  
become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion

1 of nationally recognized bond counsel or other counsel familiar with federal securities laws  
2 delivered to the City, and the City provides timely notice of such termination to the MSRB.

3 (f) Remedy for Failure to Comply with Undertaking. As soon as practicable after  
4 the City learns of any failure to comply with the Undertaking, the City will proceed with due  
5 diligence to cause such noncompliance to be corrected. No failure by the City or other  
6 obligated person to comply with the Undertaking shall constitute a default in respect of the  
7 Bonds. The sole remedy of any Beneficial Owner of a Bond shall be to take such actions as  
8 that Beneficial Owner deems necessary, including seeking an order of specific performance  
9 from an appropriate court, to compel the City or other obligated person to comply with the  
10 Undertaking.

11 (g) Designation of Official Responsible to Administer Undertaking. The Director  
12 of Finance of the City (or such other officer of the City who may in the future perform the  
13 duties of that office) or his or her designee is the person designated, in accordance with the  
14 Bond Legislation, to carry out the Undertaking of the City in respect of the Bonds set forth in  
15 this section and in accordance with Rule 15c2-12, including, without limitation, the following  
16 actions:

17 (i) Preparing and filing the annual financial information undertaken to be  
18 provided;

19 (ii) Determining whether any event specified in subsection (a) has occurred,  
20 assessing its materiality, where necessary, with respect to the Bonds, and preparing and  
21 disseminating any required notice of its occurrence;

22 (iii) Determining whether any person other than the City is an "obligated  
23 person" within the meaning of the Rule with respect to the Bonds, and obtaining from such  
24 person an undertaking to provide any annual financial information and notice of listed events  
25 for that person in accordance with the Rule;

26 (iv) Selecting, engaging and compensating designated agents and  
27 consultants, including but not limited to financial advisors and legal counsel, to assist and  
28 advise the City in carrying out the Undertaking; and

(v) Effecting any necessary amendment of the Undertaking.



**2014 BUDGET LEGISLATION FISCAL NOTE**

<b>Department:</b>	<b>Contact Person/Phone:</b>	<b>CBO Analyst/Phone:</b>
Finance and Administrative Services (FAS)	Michael Van Dyck/4-8347	Jennifer Devore/5-1328

**Legislation Title:**

AN ORDINANCE relating to the drainage and wastewater system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the existing drainage and wastewater system; authorizing the issuance and sale of drainage and wastewater revenue bonds, in one or more series, for the purposes of paying part of the cost of carrying out that system or plan, providing for the reserve requirement, and paying the costs of issuance of the bonds; providing for certain terms, conditions, covenants and the manner of sale of the bonds; describing the lien of the bonds; creating certain accounts of the City relating to the bonds; and ratifying and confirming certain prior acts.

**Summary and background of the Legislation:**

Although the Budget, CIP, and adopted rates make specific assumptions about the use of debt financing for a certain share of the CIP, separate authorization for the issuance of bonds is technically required.

The Drainage and Wastewater bond sale is anticipated to occur in early to mid-2014. The bond proceeds, combined with internally generated funds, will support the Drainage and Wastewater capital program for about 18 months.

The bond sizing is based on the adopted budget and rates, planned cash flow, and cash contribution targets. The bond proceeds will be used to make a deposit to the construction fund, to meet a debt service reserve requirement, and to pay costs of issuance.

The proposed issue is for \$113 million of 30-year, fixed-rate bonds. Total annual debt service is expected to be about \$7.8 million starting in 2015. SPU's adopted rates incorporate the debt service costs resulting from this bond issue.

These bonds will finance improvements to the City's drainage and wastewater system, including projects designed to meet federal and state regulatory requirements. For further information about SPU's capital projects, please see the Proposed 2014-2019 CIP.

X This legislation has financial implications.

**Other Implications:**



**a) Does the legislation have indirect financial implications, or long-term implications?**

The Drainage and Wastewater Fund will be obligated to pay annual debt service on these bonds through their term.

**b) What is the financial cost of not implementing the legislation?**

Financing the utility's CIP completely from cash would require massive cuts in capital and/or operating programs or massive rate increases. Since the capital improvements financed with this debt have a long useful life and interest rates are currently low, it is more practical to spread the costs of these improvements over current and future beneficiaries by issuing bonds.

**c) Does this legislation affect any departments besides the originating department?**

This legislation affects FAS, which will coordinate the issuance of bonds.

**d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?**

There are no viable alternatives aside from funding the Drainage and Wastewater CIP completely from cash. As noted above, this would require massive cuts in capital and/or operating programs or massive rate increases or some combination of both.

**e) Is a public hearing required for this legislation?**

No.

**f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**

No.

**g) Does this legislation affect a piece of property?**

No.

**h) Other Issues:**

None.

**List attachments to the fiscal note below:**

None.



**City of Seattle**  
Office of the Mayor

September 23, 2013

Honorable Sally J. Clark  
President  
Seattle City Council  
City Hall, 2<sup>nd</sup> Floor

Dear Council President Clark:

I am pleased to transmit the attached proposed Council Bill, which will authorize the issuance of up to \$113 million of Drainage and Wastewater Revenue Bonds as assumed in the 2014 Proposed Budget and Proposed 2014-2019 Capital Improvement Program (CIP). Together with cash from operations, the bond proceeds authorized by this bill will support the City's capital program and pay costs associated with the bond issuance.

These bonds will finance improvements to the City's drainage and wastewater system, including projects designed to meet federal and state regulatory requirements.

Thank you for your consideration of this legislation. Should you have questions, please contact Michael Van Dyck in the Department of Finance and Administrative Services (FAS) at 684-8347.

Sincerely,

Michael McGinn  
Mayor of Seattle

cc: Honorable Members of the Seattle City Council



**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

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FOSTER PEPPER PLLC

[FORM OF BOND COUNSEL OPINION]

[Date]

The City of Seattle, Washington

Re: The City of Seattle, Washington  
\$133,180,000 Drainage and Wastewater Improvement and Refunding Revenue Bonds,  
2014

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above referenced bonds (the "Bonds"). In our capacity as bond counsel, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued by the City pursuant to Ordinance 124337, Ordinance 121938 (as amended by Ordinance 122209 and Ordinance 122637 and amended and restated by Ordinance 124338), and Resolution 31531 (together, the "Bond Legislation") to provide the funds (i) to pay for part of the costs of various projects of the Drainage and Wastewater System, (ii) to make a deposit into the Reserve Subaccount, (iii) to refund certain of the City's outstanding Drainage and Wastewater Revenue Bonds, 2004 and Drainage and Wastewater Revenue and Refunding Bonds, 2006, and (iv) to pay the costs of issuance of the Bonds and administering the Refunding Plan, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of capitalized terms used and not otherwise defined herein.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington.

2. The City has duly authorized and approved the Bond Legislation and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and the ordinances of the City relating thereto.

3. The Bonds constitute valid obligations of the City payable solely out of the Net Revenue of the Drainage and Wastewater System and money in the Parity Bond Account (including the Reserve Subaccount therein) and the Rate Stabilization Account, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the principles of equity if equitable remedies are sought.

4. The Bonds are not general obligations of the City.

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

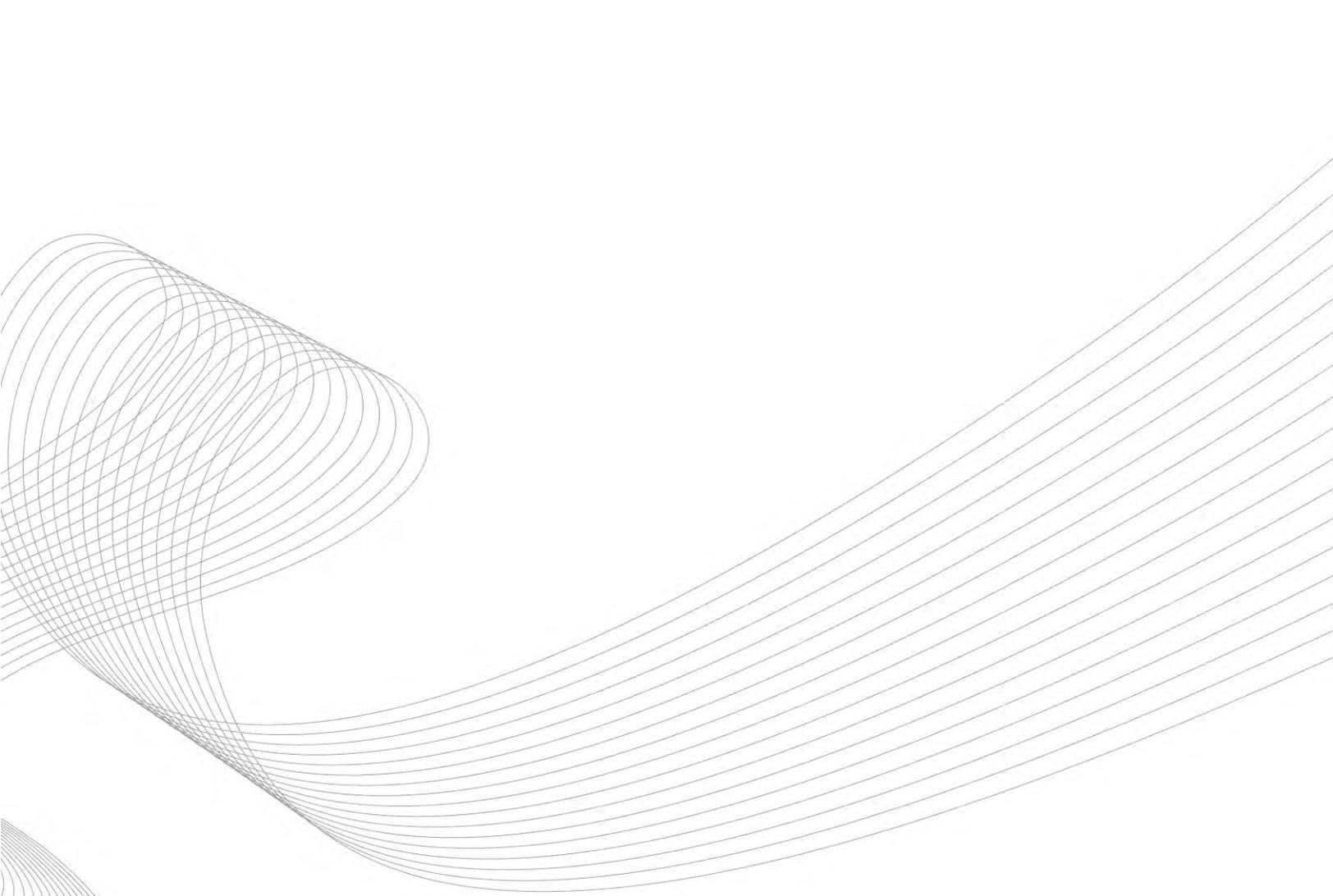
We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds. We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

**APPENDIX C**

**2013 AUDITED FINANCIAL STATEMENTS OF THE DRAINAGE AND WASTEWATER FUND**

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

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

December 31, 2013 and 2012

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

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

### **Report on 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, 2013 and 2012, 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 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, 2013 and 2012, 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.

### ***Emphasis of Matter***

As discussed in Note 13 to the financial statements, the Fund adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the restatement of previously reported amounts for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

### ***Other Matters***

The accompanying management discussion and analysis is not part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The supplemental information following the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental information following the financial statements has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Moss Adams LLP*

Seattle, Washington  
April 29, 2014

**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, 2013 and 2012. 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, 2013 and 2012, 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, 2013 and 2012. 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, 2013 and 2012. 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.

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

---

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The Fund adopted GASB Statement No. 65 during fiscal year 2013. With the implementation of this statement, the Fund's 2012 financial statements have been restated to conform with the new reporting and accounting requirements. The statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**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.

**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, 2013 and 2012, the Fund's assets and deferred outflows of resources exceeded liabilities, resulting in a surplus of total assets of \$295.6 million and \$271.0 million, respectively. In 2013, the Fund's overall position improved, with an increase in net position of \$24.6 million (9.1%) as compared to an increase in net position of \$0.8 million (0.3%) in 2012. The following summary statements of net position present the assets of the Fund and show the mix of liabilities and net position used to acquire these assets:

**STATEMENTS OF NET POSITION**

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)
<b>ASSETS</b>			
Current assets	\$ 118,469,314	\$ 100,945,852	\$ 71,511,695
Capital assets, net	765,496,217	699,131,240	663,434,318
Other	111,118,802	179,031,335	107,312,039
Total assets	<u>995,084,333</u>	<u>979,108,427</u>	<u>842,258,052</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>6,054,354</u>	<u>6,428,342</u>	<u>4,151,939</u>
Total assets and deferred outflows of resources	<u>\$ 1,001,138,687</u>	<u>\$ 985,536,769</u>	<u>\$ 846,409,991</u>

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

---

**FINANCIAL ANALYSIS (CONTINUED)**

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)
<b>LIABILITIES</b>			
Current liabilities	\$ 63,638,332	\$ 59,447,182	\$ 55,753,517
Revenue bonds	547,321,148	564,542,092	481,470,708
Other	94,545,484	90,536,749	38,926,782
Total liabilities	<u>705,504,964</u>	<u>714,526,023</u>	<u>576,151,007</u>
<b>NET POSITION</b>			
Net investment in capital assets	271,755,951	242,182,374	233,514,676
Restricted	20,523,523	18,956,455	17,171,506
Unrestricted	3,354,249	9,871,917	19,572,802
Total net position	<u>295,633,723</u>	<u>271,010,746</u>	<u>270,258,984</u>
Total liabilities and net position	<u>\$ 1,001,138,687</u>	<u>\$ 985,536,769</u>	<u>\$ 846,409,991</u>

**2013 Compared to 2012**

**Assets** - Current assets increased \$17.5 million (17.4%) over the prior year primarily due to increases totaling \$20.1 million in operating cash and equity in pooled investments, accounts receivable, net from the Combined Customer Service System, interest and dividends, unbilled revenues, due from other funds, and materials and supplies inventory. These increases were offset by a decrease of \$2.6 million in due from other governments.

Other assets decreased \$67.9 million (37.9%) from 2012. This is mostly attributable to a decrease in restricted cash and equity in pooled investments of \$52.6 million for use toward construction projects and reduction in environmental costs and recoveries of \$18.3 million due to expensing deferred costs related to cleanup of contamination along the Duwamish River. External infrastructure costs and regulatory assets also decreased by \$0.8 million due to amortization. Other charges increased \$3.8 million mainly due to the Long Term Control Plan and Meadowbrook pond sediments. The projects identified in the Long Term Control Plan will ultimately enhance the water quality of Ballard, North Union Bay, Interbay, Fremont/Wallingford, Duwamish, West Seattle, Montlake, Leschi, Union Bay, East Waterway, and Lake Union/Portage Bay.

**Liabilities** - Current liabilities increased \$4.2 million (7.1%) from 2012. This is mostly attributable to increases in accounts payable, due to other funds, due to other governments, revenue bonds due within one year, and credits and other.

Other liabilities increased \$4.0 million (4.4%). This is due to increases totaling \$5.4 million in environmental liabilities, loans, vendor and other deposits payable, and unfunded other post employment benefits. These increases were offset by a decrease in claims payable of \$1.4 million.

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

---

**FINANCIAL ANALYSIS (CONTINUED)**

**Net Position** - The largest portion of the Fund's net position (\$271.8 million or 91.9%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less 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 2013, net investment in capital assets increased \$29.6 million from 2012 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position (\$20.5 million or 6.9%) represent resources that are subject to restrictions on how they may be used. This portion of net position increased \$1.6 million from 2012. This change was primarily due to the increase in other charges.

The remaining portion of the Fund's net position (\$3.4 million or 1.1%) represent resources that are unrestricted and may be used to meet the Fund's obligations to creditors. Unrestricted net position decreased \$6.5 million from 2012 in part due to a higher percentage of capital projects funded with operating cash as compared to the prior year.

**2012 Compared to 2011**

**Assets** - Current assets increased \$29.4 million (41.2%) over the prior year primarily due to increases totaling \$34.7 million in operating cash and equity in pooled investments, unbilled revenue, due from other governments, and materials and supplies inventory. These increases were offset by decreases totaling \$5.3 million in restricted cash and equity in pooled investments, due from other funds, and accounts receivable, net from the Combined Customer Service System.

Other assets increased \$71.7 million (66.8%) from 2011. This is mostly attributable to an increase in restricted cash and equity in pooled investments of \$50.1 million resulting from new debt issued in 2012 and spending on construction projects. The environmental costs and recoveries increased \$15.8 million as a result of deferring costs related to cleanup of contamination along the Duwamish River. Regulatory assets increased \$1.4 million due to issuing 2012 bond and establishing regulatory asset for unamortized debt issuance costs, offset by a decrease of \$0.4 million in external infrastructure costs. In addition, other charges increased \$4.8 million mainly due to the Long Term Control Plan. The projects identified in the plan will ultimately enhance the water quality of Ballard, North Union Bay, Interbay, Fremont/Wallingford, Duwamish, West Seattle, Montlake, Leschi, Union Bay, East Waterway, and Lake Union/Portage Bay.

**Liabilities** - Current liabilities increased \$3.7 million (6.6%) from 2011. This is mostly attributable to increases in accounts payable, interest payable, and revenue bonds due within one year, totaling \$4.7 million, offset by a decrease of \$1.0 million in claims payable.

**SEATTLE PUBLIC UTILITIES -  
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**FINANCIAL ANALYSIS (CONTINUED)**

Other liabilities increased \$51.6 million (132.6%). This is due to an increase in environmental liabilities (see Note 9), offset by a decrease in loans (see Note 10) and a decrease in claims payable.

**Net Position** - The largest portion of the Fund's net position (\$242.2 million or 89.4%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less 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 2012, net investment in capital assets increased \$8.7 million from 2011 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position (\$19.0 million or 7.0%) represent resources that are subject to restrictions on how they may be used. This portion of net position increased \$1.8 million from 2011. This change was primarily due to an increase in other charges.

The remaining portion of the Fund's net position (\$9.9 million or 3.6%) represent resources that are unrestricted and may be used to meet the Fund's obligations to creditors. Unrestricted net position decreased \$9.7 million from 2011 in part due to a higher percentage of capital projects funded with operating cash as compared to the prior year.

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>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)
Operating revenues	\$ 333,760,233	\$ 304,001,717	\$ 278,956,907
Operating expenses	<u>(275,112,916)</u>	<u>(258,684,757)</u>	<u>(253,209,880)</u>
Net operating income	58,647,317	45,316,960	25,747,027
Other income (expenses)	(16,401,438)	(15,751,552)	(15,790,809)
Fees, contributions, and grants and special items	<u>(17,622,902)</u>	<u>(28,813,646)</u>	<u>8,013,707</u>
Change in net position	<u>\$ 24,622,977</u>	<u>\$ 751,762</u>	<u>\$ 17,969,925</u>

**SEATTLE PUBLIC UTILITIES -  
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**FINANCIAL ANALYSIS (CONTINUED)**

**2013 Compared to 2012**

Current year operating revenues increased approximately \$29.8 million (9.8%) from 2012. This is primarily due to a \$21.7 million increase in wastewater revenues resulting from an average increase in rates of 9.1%, offset by a decrease in consumption of 0.5%. Drainage revenues also increased \$8.8 million due to increase in rates while other operating revenues decreased by \$0.7 million due to decrease in engineering services.

Operating expenses increased \$16.4 million (6.4%) from 2012. This increase was mainly attributable to higher wastewater treatment cost of \$13.7 million due to an increase in King County's treatment rate by 10.2%. Another notable factor affecting the increase in operating expenses includes increases in city business and occupation and other taxes of \$3.6 million due to overall increase in revenues. Field operations increased \$7.6 million while utility systems management decreased \$6.8 million mainly due to the reorganization of work groups between the branches. Moreover, staff realignments from project delivery and customer services branches to the corporate asset management division in the general and administrative branch reduced costs by a net \$1.9 million.

Nonoperating revenues (expenses) increased by \$0.6 million as compared to 2012. Interest expense increased \$0.8 million, offset by \$1.6 million increase in premium amortization as a result of issuing a new 2012 bond. In addition, fair market value adjustment decreased by \$1.7 million as the value of bond investments decrease inversely while interest rates increase.

Capital contributions and grants decreased \$1.7 million mainly due to a decrease in grant billings of \$3.5 million as available grant funding diminished, offset by an increase of \$1.8 million in capital contributions. The Fund had a decrease in environmental remediation expenses of \$12.9 million.

**2012 Compared to 2011**

Current year operating revenues increased approximately \$25.0 million (9.0%) from 2011. This is primarily due to a \$16.5 million increase in wastewater revenues resulting from an average increase in rates of 3.9% and increase in consumption of 3.6%. Drainage revenue also increased \$7.9 million due to increase in rates.

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**FINANCIAL ANALYSIS (CONTINUED)**

Operating expenses increased \$5.5 million (2.2%) from 2011. Notable factors affecting this change include increases in city business and occupation and other taxes of \$3.5 million related to the overall increase in revenues. Depreciation and other amortization also increased \$1.4 million due to an increase in depreciable assets. Additional increases to expenses include \$1.0 million in the project delivery branch related to the First Hill Streetcar project, \$0.8 million in customer services branch as a result of federal government drainage levy write-off, \$0.7 million in the utility systems management branch due to increase in mainline inspection and cleaning, and \$0.7 million in the field operations branch as general management and apprenticeship programs increased. These increases were offset by a decrease of \$2.7 million in general and administrative branch as risk financing liabilities decreased and other postemployment benefit liability increased.

Nonoperating revenues (expenses) remained stable at \$15.8 million as compared to 2011. Interest expense increased \$0.6 million, offset by \$0.5 million increase in premium amortization as a result of issuing a new 2012 bond.

Capital contributions and grants increased \$0.8 million mainly due to an increase in grant billings of \$2.7 million for Capital Hill Water Quality Improvements, Midvale Stormwater Facility, and King County Flood Control Meadowbrook projects, offset by a decrease of \$1.9 million in capital contributions. The Fund had an increase in environmental remediation expenses of \$37.6 million.

**CAPITAL ASSETS**

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

**SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land and land rights	\$ 19,474,903	\$ 19,583,084	\$ 14,279,516
Buildings	7,181,503	7,436,540	7,745,381
Structures	117,454,430	117,155,245	114,758,607
Machinery and equipment	479,418,707	460,902,462	450,664,575
Computer systems	12,444,964	9,926,960	12,492,853
Construction in progress	128,551,817	83,224,105	62,822,427
Other property	<u>969,893</u>	<u>902,844</u>	<u>670,959</u>
Capital assets, net of accumulated depreciation	<u>\$ 765,496,217</u>	<u>\$ 699,131,240</u>	<u>\$ 663,434,318</u>

**SEATTLE PUBLIC UTILITIES -  
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**CAPITAL ASSETS (CONTINUED)**

**2013 Compared to 2012**

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2013 was \$765.5 million. This represented an increase of approximately \$66.4 million (9.5%) compared to 2012. Highlights of the Fund's major capital assets placed in service during 2013 included the following:

- \$8.3 million for construction of stormwater detention pond to reduce flooding near North 107th Street and Midvale.
- \$6.9 million for construction of swales in the Cascade Neighborhood to improve runoff from Capital Hill.
- \$5.6 million for the relocation and replacement of wastewater and drainage infrastructure as part of the SDOT Mercer East Transportation Improvements Project.
- \$5.0 million to replace sewer pipelines throughout several locations within the city.
- \$3.2 million to upgrade the Maximo system.
- \$1.6 million in emergency rehabilitation work on sewer mainlines.
- \$1.1 million for the completion of the Madison Valley stormwater flood control facilities.
- \$1.0 million for SCADA installations at various wastewater infrastructure monitoring sites.

Highlights of the Fund's major construction projects in progress at the end of 2013 include the following:

- \$45.3 million for construction of 2 million gallons of storage for the combined sewer system in the Windermere drainage basin.
- \$24.9 million for construction of two combined sewer overflow facilities in the South Genesee area.
- \$16.3 million for construction of combined sewer overflow storage facilities in Henderson North basins.
- \$4.3 million to build a pump station and a water quality facility near 7th and Riverside in South Park.
- \$3.7 million for improvements to the Delridge combined sewer overflow facilities.
- \$2.7 million to develop natural drainage system at Venema Creek.
- \$2.5 million for bored tunnel portion of the Alaskan Way Viaduct and Seawall Replacement projects.

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**CAPITAL ASSETS (CONTINUED)**

- \$2.0 million to replace damaged culvert at 35th Avenue Northeast and restore floodplain area at the confluence of Thornton Creek.
- \$1.9 million for major enhancements to the I-SCADA data management program and IMS web site portal application.
- \$1.6 million for construction of new pipeline in the 52<sup>nd</sup> Ave South.
- \$1.4 million for implementation of the Ballard Natural Drainage System.
- \$1.1 million to construct sewer and stormwater improvements in Broadview's 12<sup>th</sup> Ave NW basin.
- \$1.1 million to divert a portion of the creek flow to create a natural creek mouth of Mapes Creek in Beer Sheva Park.
- \$1.1 million to construct new side sewers, collector sewers and connections as a result of Seawall Replacement project.
- \$1.0 million to construct new stormwater drainage system in a small area of South Park.

**2012 Compared to 2011**

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2012 was \$699.1 million. This represented an increase of approximately \$35.7 million (5.4%) compared to 2011. Highlights of the Fund's major capital assets placed in service during 2012 included the following:

- \$6.2 million for the completion of the Madison Valley Phase II project.
- \$5.3 million to replace sewer pipelines throughout several locations within the city.
- \$3.2 million to build a pump station and a water quality facility near 7th and Riverside in South Park.
- \$1.4 million in emergency rehabilitation work on sewer mainlines.
- \$1.2 million to improve surface water system field equipment.
- \$1.1 million to improve and replace a gate in the Windermere basin.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CAPITAL ASSETS (CONTINUED)**

Highlights of the Fund's major construction projects in progress at the end of 2012 include the following:

- \$23.6 million for improvements to the Windermere combined sewer overflow storage.
- \$11.6 million for improvements to the South Henderson combined sewer overflow storage.
- \$9.8 million for improvements to the South Genesee combined sewer overflow facilities.
- \$7.8 million for a detention project to reduce flooding near North 107th Street and Midvale.
- \$4.9 million for the relocation and replacement of wastewater related facilities in the Mercer Corridor.
- \$4.3 million in Capital Hill water quality improvements.
- \$3.7 million to build a pump station and a water quality facility near 7th and Riverside in South Park.
- \$2.3 million to upgrade the Maximo system.
- \$1.7 million for improvements to the Delridge combined sewer overflow facilities.
- \$1.7 million to develop natural drainage system at Venema Creek.
- \$1.5 million to review conceptual designs, business case development, negotiation of agreements, and project management related to the Alaskan Way Viaduct bored tunnel project.
- \$1.4 million to replace damaged culvert at 35th Avenue Northeast and restore floodplain area at the confluence of Thornton Creek.
- \$1.0 million for major enhancements to the I-SCADA data management program and IMS web site portal application.

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

**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.

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**DEBT ADMINISTRATION (CONTINUED)**

**2013 Compared to 2012**

At the end of 2013, the Fund had \$525.3 million in bonded debt, as compared to \$540.5 million in 2012, all of which was secured solely by drainage and wastewater system revenues. There were no new bonds issued in 2013.

At the end of 2013, the Fund had an outstanding loan balance of \$18.4 million compared to \$17.7 million in 2012. During 2013, the Fund borrowed an additional \$0.4 million from the Washington State Department of Commerce for the Midvale project and \$1.3 million from the Washington State Department of Ecology for the Capital Hill Water Quality project.

Additional information about the Fund's long-term debt can be found in Notes 4 and 10.

**2012 Compared to 2011**

At the end of 2012, the Fund had \$540.5 million in bonded debt, as compared to \$486.6 million in 2011, all of which was secured solely by drainage and wastewater system revenues. The key factor in this increase of \$53.9 million was the issuance of \$222.1 million new debt, offset by refunding \$151.9 million of 2001 bond, 2002 bond, and partially 2004 bond and payments of \$16.3 million of debt principal.

In 2012, the Fund was approved for a water pollution control revolving fund loan of \$1,857,150 from the Washington State Department of Ecology for design and construction of a stormwater facility in the Capital Hill area of Seattle from which no funds have been drawn. The Fund did not make any additional draws on existing loans in 2012 (see Note 10).

**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,	
	2013	2012 (As Restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Operating cash and equity in pooled investments	\$ 74,502,511	\$ 60,207,512
Receivables		
Accounts, net of allowance	21,171,279	17,434,638
Interest and dividends	447,978	121,609
Unbilled revenues	18,043,479	16,728,475
Notes, and other contracts	49,042	46,815
Due from other funds	1,015,322	680,374
Due from other governments	2,266,634	4,853,465
Materials and supplies inventory	938,554	827,973
Prepayments and other current assets	34,515	44,991
Total current assets	<u>118,469,314</u>	<u>100,945,852</u>
<b>NONCURRENT ASSETS</b>		
Restricted cash and equity in pooled investments	47,873,429	100,442,808
Prepayments long-term	725,621	760,136
Notes and contracts receivable	1,210,467	1,259,509
Environmental costs and recoveries	4,849,507	23,189,224
External infrastructure costs	19,616,799	20,223,378
Regulatory assets - bond issue costs	3,542,883	3,701,676
Other charges	33,300,096	29,454,604
Capital assets		
Land and land rights	19,474,903	19,583,084
Plant in service, excluding land	902,671,203	861,228,220
Less accumulated depreciation	(286,171,599)	(265,807,013)
Construction in progress	128,551,817	83,224,105
Other property, net	969,893	902,844
Total noncurrent assets	<u>876,615,019</u>	<u>878,162,575</u>
Total assets	995,084,333	979,108,427
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on refunded debt	6,054,354	6,428,342
Total assets and deferred outflows of resources	<u>\$ 1,001,138,687</u>	<u>\$ 985,536,769</u>

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

	December 31,	
	2013	2012 (As Restated)
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 11,944,809	\$ 11,124,890
Salaries, benefits, and payroll taxes payable	2,187,966	1,703,025
Compensated absences payable	397,926	377,496
Due to other funds	5,536,439	4,858,162
Due to other governments	11,624,345	10,443,300
Interest payable	6,934,251	7,113,121
Taxes payable	334,038	288,932
Revenue bonds due within one year	15,825,000	15,215,000
Claims payable	1,922,207	2,458,707
Environmental liabilities	1,805,212	1,679,343
Loans payable, due within one year	1,116,399	1,085,194
Other	4,009,740	3,100,012
Total current liabilities	<u>63,638,332</u>	<u>59,447,182</u>
<b>NONCURRENT LIABILITIES</b>		
Compensated absences payable	4,125,640	4,022,592
Claims payable	6,502,498	7,863,341
Environmental liabilities	63,655,889	59,855,766
Loans	17,242,849	16,608,794
Vendor and other deposits payable	536,488	33,484
Unfunded other post employment benefits	2,378,401	1,943,931
Other noncurrent liabilities	103,719	208,841
Revenue bonds	525,280,000	540,495,000
Less bonds due within one year	(15,825,000)	(15,215,000)
Bond discount and premium, net	37,866,148	39,262,092
Total noncurrent liabilities	<u>641,866,632</u>	<u>655,078,841</u>
Total liabilities	<u>705,504,964</u>	<u>714,526,023</u>
<b>NET POSITION</b>		
Net investment in capital assets	271,755,951	242,182,374
Restricted for		
External infrastructure costs	7,130,843	7,181,829
Other charges	13,392,680	11,774,626
Unrestricted	3,354,249	9,871,917
Total net position	<u>295,633,723</u>	<u>271,010,746</u>
Total liabilities and net position	<u>\$ 1,001,138,687</u>	<u>\$ 985,536,769</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,	
	2013	2012
		(As Restated)
<b>OPERATING REVENUES</b>		
Charges for services and other revenues	\$ 333,760,233	\$ 304,001,717
<b>OPERATING EXPENSES</b>		
Planning and development	2,334,654	2,101,137
Utility systems management	10,545,768	17,304,177
Field operations	27,176,807	19,587,958
Project delivery	10,020,333	12,363,376
Customer services	4,108,949	6,055,771
Wastewater treatment	139,433,612	125,743,876
General and administrative	17,046,124	14,692,264
City business and occupation taxes	38,852,253	35,374,947
Other taxes	4,339,943	4,172,248
Depreciation and other amortization	21,254,473	21,289,003
Total operating expenses	275,112,916	258,684,757
<b>OPERATING INCOME</b>	58,647,317	45,316,960
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment and interest income	2,009,540	3,269,810
Interest expense	(21,361,044)	(21,703,780)
Amortization of bonds premiums and discounts, net	1,395,944	897,638
Amortization of refunding loss	(373,988)	(323,896)
Gain (loss) on sale of capital assets	(167,451)	41,000
Contributions and grants	1,974,585	2,061,760
Others, net	120,976	5,916
Total nonoperating revenues (expenses)	(16,401,438)	(15,751,552)
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS, TRANSFERS, AND SPECIAL ITEMS</b>	42,245,879	29,565,408
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>	6,546,159	8,252,261
<b>ENVIRONMENTAL REMEDIATION</b>	(24,169,061)	(37,065,907)
<b>CHANGE IN NET POSITION</b>	24,622,977	751,762
<b>NET POSITION</b>		
Beginning of year	271,010,746	270,258,984
End of year	\$ 295,633,723	\$ 271,010,746

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

	Years Ended December 31,	
	2013	2012
		(As Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 329,789,633	\$ 308,772,630
Cash paid to suppliers	(156,949,272)	(148,169,113)
Cash paid to employees	(50,923,303)	(48,798,401)
Cash paid for taxes	(42,716,088)	(39,185,230)
Net cash provided by operating activities	<u>79,200,970</u>	<u>72,619,886</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants received	1,946,381	1,702,187
Payments for environmental liabilities	(1,903,351)	(1,001,459)
Net cash provided by noncapital financing activities	<u>43,030</u>	<u>700,728</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of bonds and other long-term debt	1,739,977	255,886,458
Principal payments on long-term debt and refunding	(16,309,601)	(173,901,508)
Capital expenditures and other charges paid	(83,635,360)	(56,117,496)
Interest paid on long-term debt	(26,021,620)	(24,378,191)
Build America Bonds federal interest subsidy	1,817,762	1,885,646
Capital fees and grants received	4,381,277	3,106,511
Debt issuance costs	-	(1,573,320)
Proceeds from sale of capital assets	643,776	43,502
Net cash provided by (used in) capital and related financing activities	<u>(117,383,789)</u>	<u>4,951,602</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Loss) gain on investments	<u>(134,591)</u>	<u>1,329,363</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>		
	(38,274,380)	79,601,579
<b>CASH AND EQUITY IN POOLED INVESTMENTS</b>		
Beginning of year	<u>160,650,320</u>	<u>81,048,741</u>
End of year	<u>\$ 122,375,940</u>	<u>\$ 160,650,320</u>
<b>CASH AT THE END OF THE YEAR CONSISTS OF</b>		
Operating cash and equity in pooled investments	\$ 74,502,511	\$ 60,207,512
Noncurrent restricted cash and equity in pooled investments	<u>47,873,429</u>	<u>100,442,808</u>
Total cash at the end of the year	<u>\$ 122,375,940</u>	<u>\$ 160,650,320</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,	
	2013	2012 (As Restated)
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 58,647,317	\$ 45,316,960
Adjustments to reconcile net operating income to net cash from operating activities		
Depreciation and amortization	21,254,473	21,289,003
Nonoperating revenues and expenses	1,268,530	2,428,678
Changes in operating assets and liabilities		
Accounts receivable	(3,736,641)	2,516,638
Unbilled revenues	(1,315,004)	(814,016)
Due from other funds	(334,947)	1,190,499
Due from other governments	1,079,987	(190,980)
Materials and supplies inventory	(110,580)	(257,808)
Other assets	91,807	89,478
Accounts payable	819,919	2,487,315
Salaries, benefits, and payroll taxes payable	484,941	301,769
Compensated absences payable	123,478	(24,866)
Due to other funds	678,277	161,244
Due to other governments	1,181,046	104,203
Claims payable	(1,897,343)	(1,967,761)
Taxes payable	45,107	42,587
Other liabilities	920,603	(53,057)
Total adjustments	<u>20,553,653</u>	<u>27,302,926</u>
Net cash from operating activities	<u>\$ 79,200,970</u>	<u>\$ 72,619,886</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contributed infrastructure	<u>\$ 4,521,405</u>	<u>\$ 1,983,248</u>

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

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**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 2013 and 2012, the Fund paid \$10,325,448 and \$8,910,471, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$38,852,253 and \$35,374,947 to the City for business and occupation utility taxes in 2013 and 2012, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$2,062,980 in 2013 and \$1,778,216 in 2012 from the City for wastewater services provided. The Fund also collected \$5,150,236 in 2013 and \$4,936,578 in 2012 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, Combined Customer Services System ("CCSS"). 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 \$1,604,865 and \$1,470,251 in 2013 and 2012, respectively. The Fund paid \$220,537 and \$301,990 for CCSS services in 2013 and 2012, respectively, which does not include reimbursements to SCL for the Fund's share of capital costs to upgrade the CCSS system.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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NOTES TO FINANCIAL STATEMENTS**

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

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.

**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 to form a pool of cash that is managed by the City's Finance and Administration Services Department. Under the City's investment policy, the Finance and Administration Services Department invests all temporary cash surpluses either directly or through a "sweep account." 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. The Fund's share of the pool is included in the accompanying Statements of Net Position under the caption "cash and equity in pooled investments." The pool operates like a demand deposit account in that all City departments may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. Cash and equity in pooled investments are reported at fair value. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, a portion of which is scheduled to be spent in 2014, bond reserve funds and vendor's escrow deposits.

**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.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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NOTES TO FINANCIAL STATEMENTS**

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

**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, 2013 and 2012, the Fund's allowance for doubtful accounts was \$315,093 and \$877,428, 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.

**Environmental Costs and Recoveries** - The Fund is involved in several remediation efforts around the City (see Note 9). 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. In 2012, \$16,612,500 of environmental costs were deferred as regulatory assets and fully amortized in 2013 as they were recovered through rates.

**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 leasehold improvements and plans, such as the Combined Sewer Overflow Update plan and the Comprehensive Ditch and Culvert plan. The Fund amortizes these charges over a 5 to 30 year period.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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NOTES TO FINANCIAL STATEMENTS**

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

**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.

**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.

**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 - 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.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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**Note 1 - Operations and Summary of Significant Accounting Policies (Continued)**

**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.

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. The Fund does not have any deferred inflows of resources as of December 31, 2013 and 2012.

**Environmental Liabilities** - The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 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 9 for site descriptions.

**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.

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

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

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.

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  
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NOTES TO FINANCIAL STATEMENTS**

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**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 other non-utility revenues at the rate of 1.8% from January through June 2013 and 1.5% thereafter.

**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 inflow 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, 2013 and 2012 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, 2013 and 2012.

**Accounting Changes** - GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement is effective for periods beginning after December 15, 2012. The financial statements reflect these changes for the periods presented, see Note 13 for additional information.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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**Note 1 - Operations and Summary of Significant Accounting Policies (Continued)**

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is effective for periods beginning after June 15, 2014. The Fund is evaluating the impact of this standard on the financial statements, but anticipates recording amounts for the unfunded portion of the pension plan. At this time, those amounts are not yet known.

**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, accrued sick leave, capitalized interest, depreciation, environmental liabilities, risk liabilities, 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 reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

**Note 2 - Cash and Investments**

**Custodial Credit Risk - Deposits** - As of December 31, 2013 and 2012, the City's pool contained cash on deposit with the City's custodial banks in the amounts of \$12,431,810 and \$18,082,491, respectively. The deposits in excess of \$250,000 in 2013 and 2012 were uninsured and uncollateralized. As such, these deposits were 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 -  
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**Note 2 - Cash and 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.

**Investments** - As of December 31, the City's pooled investments were as follows:

	2013		2012	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	\$ 853,631,386	1141	\$ 803,856,889	851
U.S. Government Obligations	227,659,850	902	67,448,440	482
State and Local Governments	156,812,737	818	182,163,719	549
Commercial Paper	154,962,668	47	176,955,311	40
Repurchase Agreements	44,756,478	2	162,390,595	2
Total	\$ 1,437,823,119		\$ 1,392,814,954	
Portfolio Weighted Average Maturity		914		592

As of December 31, the Fund's share of the City pool was as follows:

	2013	2012
Operating cash and equity in pooled investments	\$ 74,502,511	\$ 60,207,512
Restricted cash and equity in pooled investments	47,873,429	100,442,808
Total	\$ 122,375,940	\$ 160,650,320
Balance as a percentage of City pool cash and investments	8.5%	11.5%

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Cash and Investments (Continued)**

**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.

**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, 2013 and 2012, 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.

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, 2013, these investments were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's Rating Service. As of December 31, 2012, these investments were rated Aaa, and Aa1 by Moody's Investors Service and AAA and AA+ by Standard & Poor's Rating Service.

**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	2013		2012	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal National Mortgage Association	\$ 329,389,682	23%	\$ 243,725,925	18%
Federal Home Loan Mortgage Corp	\$ 285,535,430	20%	\$ 126,065,840	9%
United States Government	\$ 227,659,850	16%	\$ 67,448,440	5%
Freddie Mac Multifamily Securities	\$ 107,594,143	7%	\$ 80,726,450	6%
Federal Home Loan Bank	\$ 86,497,845	6%	\$ 258,633,251	19%
Wells Fargo	\$ 44,756,478	3%	\$ 162,390,595	12%

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

**Note 3 - Capital Assets**

Capital asset activity consisted of the following for the year ended December 31, 2013:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 14,092,883	\$ 46,498	\$ -	\$ 14,139,381
Structures	156,718,161	4,528,458	-	161,246,619
Machinery and equipment	640,463,045	30,922,811	(226,613)	671,159,243
Computer systems	49,954,131	6,395,330	(223,501)	56,125,960
Total capital assets, excluding land	861,228,220	41,893,097	(450,114)	902,671,203
Less accumulated depreciation	(265,807,013)	(20,657,041)	292,455	(286,171,599)
	595,421,207	21,236,056	(157,659)	616,499,604
Construction in progress	83,224,105	87,254,552	(41,926,840)	128,551,817
Land and land rights	19,583,084	545,387	(653,568)	19,474,903
Other property	902,844	67,049	-	969,893
Capital assets, net	<u>\$ 699,131,240</u>	<u>\$ 109,103,044</u>	<u>\$ (42,738,067)</u>	<u>\$ 765,496,217</u>

Capital asset activity consisted of the following for the year ended December 31, 2012:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 14,099,729	\$ (6,846)	\$ -	\$ 14,092,883
Structures	150,321,057	6,397,104	-	156,718,161
Machinery and equipment	618,945,605	21,646,212	(128,772)	640,463,045
Computer systems	48,542,129	1,412,002	-	49,954,131
Total capital assets, excluding land	831,908,520	29,448,472	(128,772)	861,228,220
Less accumulated depreciation	(246,247,104)	(19,688,681)	128,772	(265,807,013)
	585,661,416	9,759,791	-	595,421,207
Construction in progress	62,822,427	61,887,286	(41,485,608)	83,224,105
Land and land rights	14,279,516	5,303,568	-	19,583,084
Other property	670,959	231,885	-	902,844
Capital assets, net	<u>\$ 663,434,318</u>	<u>\$ 77,182,530</u>	<u>\$ (41,485,608)</u>	<u>\$ 699,131,240</u>

During 2013 and 2012, the Fund capitalized interest costs relating to construction of \$4,501,589 and \$3,335,599, respectively.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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**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 \$14,606,063 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, 2013 and 2012 were \$525,280,000 and \$540,495,000, respectively.

Revenue bonds outstanding as of December 31, 2013 and 2012 consisted of the following Municipal Drainage and Wastewater bonds:

<u>Name of Issue</u>	<u>Issuance Date</u>	<u>Maturity Years</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>	<u>Bonds Outstanding, 2013</u>	<u>Bonds Outstanding, 2012</u>
2004 parity bonds	10/28/04	2005-2034	2.25-5.125%	\$ 62,010,000	\$ 8,870,000	\$ 10,260,000
2006 parity refunding bonds	11/1/06	2007-2037	4.0-5.0%	121,765,000	100,115,000	104,205,000
2008 parity bonds	4/16/08	2009-2038	4.0-5.0%	84,645,000	77,360,000	78,935,000
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	23,225,000	26,585,000
2012 parity refunding bonds	6/27/12	2012-2042	2.0-5.0%	222,090,000	213,175,000	217,975,000
				<u>\$ 629,725,000</u>	<u>\$ 525,280,000</u>	<u>\$ 540,495,000</u>

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>
2014	\$ 15,825,000	\$ 25,282,453	\$ 41,107,453
2015	16,415,000	24,619,803	41,034,803
2016	17,220,000	23,898,828	41,118,828
2017	18,070,000	23,123,578	41,193,578
2018	18,905,000	22,251,865	41,156,865
2019 - 2023	102,510,000	96,859,504	199,369,504
2024 - 2028	114,185,000	70,686,929	184,871,929
2029 - 2033	105,810,000	41,868,004	147,678,004
2034 - 2038	90,805,000	17,432,784	108,237,784
2039 - 2043	25,535,000	2,304,665	27,839,665
	<u>\$ 525,280,000</u>	<u>\$ 348,328,413</u>	<u>\$ 873,608,413</u>

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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**Note 4 - Revenue Bonds (Continued)**

The following table shows the revenue bond activity during the year ended December 31, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 540,495,000	\$ -	\$ (15,215,000)	\$ 525,280,000	\$ 15,825,000
Add (deduct) deferred amounts:					
Issuance premiums	39,879,863	-	(1,419,704)	38,460,159	-
Issuance discounts	(617,771)	-	23,760	(594,011)	-
Total bonds payable	<u>\$ 579,757,092</u>	<u>\$ -</u>	<u>\$ (16,610,944)</u>	<u>\$ 563,146,148</u>	<u>\$ 15,825,000</u>

The following table shows the revenue bond activity during the year ended December 31, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 486,610,000	\$ 222,090,000	\$ (168,205,000)	\$ 540,495,000	\$ 15,215,000
Add (deduct) deferred amounts:					
Issuance premiums	9,633,210	33,796,457	(3,549,804)	39,879,863	-
Issuance discounts	(1,077,502)	-	459,731	(617,771)	-
Total bonds payable	<u>\$ 495,165,708</u>	<u>\$ 255,886,457</u>	<u>\$ (171,295,073)</u>	<u>\$ 579,757,092</u>	<u>\$ 15,215,000</u>

**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. As of December 31, 2013, \$42,540,000 of defeased bonds were not redeemed yet, as shown below:

Name of Issue	Amount Outstanding at December 31, 2012	Additions	Redemptions	Amount Outstanding at December 31, 2013
2004 Parity	<u>\$ 42,540,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,540,000</u>

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**Note 4 - Revenue Bonds (Continued)**

In 2012, \$151,860,000 bonds were defeased of which \$109,320,000 were redeemed, as shown below:

Name of Issue	Amount Outstanding at December 31, 2011	Additions	Redemptions	Amount Outstanding at December 31, 2012
2001 Parity	\$ -	\$ 48,880,000	\$ (48,880,000)	\$ -
2002 Parity Refunding	-	60,440,000	(60,440,000)	-
2004 Parity	-	42,540,000	-	42,540,000
	\$ -	\$ 151,860,000	\$ (109,320,000)	\$ 42,540,000

In June 2012, the Fund issued \$222,090,000 of Drainage and Wastewater Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2012 and ending in 2042, at interest rates ranging from 2.0 percent and 5.0 percent. A portion of the proceeds were used to fully refund 2001 and 2002 bonds and partially refund 2004 bonds. As a result of the refunding, the Fund reduced total debt service requirements by \$32.3 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$24.3 million.

**Debt Service Coverage** - 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 average annual debt service. For 2013, net revenue available for debt service, as defined by the bond covenants, was 398% of average annual debt service.

Net revenue available for debt service for the year ended December 31, 2013 is determined as follows:

Net operating income	\$ 58,647,317
Add:	
City taxes	38,852,253
Depreciation and amortization	21,254,473
Investment income	2,009,540
Claims expense	(921,606)
Adjusted net revenue available for debt service	\$ 119,841,977
Debt service requirement	\$ 30,124,428
Coverage	398%

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**Note 5 - Leases**

The Fund has non-cancelable operating lease commitments for real and personal property, with payments of \$100,325 and \$110,248 in 2013 and 2012, respectively. Rents are paid as they become due and payable. Minimum lease payments under the leases for the years ended December 31, are as follows:

2014	\$ 100,237
2015	97,489
2016	83,754
2017	30,994
2018	30,994
2019-2020	<u>61,988</u>
	<u>\$ 405,456</u>

**Note 6 - Retirement and Other Postemployment Benefit Plans**

**Pension Costs** - All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the "System"), a cost-sharing public employee retirement system operated by the City. The System is a single-employer defined benefit plan in which benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service, and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances.

City employees are required to contribute 10.03% of their annual base salaries to the System. The City's contribution rate increased to 12.89% for 2013 from 11.01% for 2012. 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, 2013, 2012 and 2011, were \$5,401,854, \$4,323,607, and \$3,465,961, respectively.

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, telephone: (206) 386-1293, or [www.seattle.gov/retirement/annual\\_report.htm](http://www.seattle.gov/retirement/annual_report.htm).

**SEATTLE PUBLIC UTILITIES -  
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**Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)**

Employer contributions for the City are as follows (dollars in millions):

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2011	\$ 50.2	\$ 50.2	100%
2012	\$ 62.4	\$ 62.4	100%
2013	\$ 76.9	\$ 76.9	100%

Actuarial data and assumptions

Valuation date	January 1, 2013
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	30 years, open
Asset valuation method	5-Year Smoothing Method
Investment rate of return	7.75%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age <sup>1</sup> (b)	Unfunded AAL (UAAL) <sup>2</sup> (b-a)	Funded Ratio (a/b)	Covered Payroll <sup>3</sup> (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2011	\$ 2,013.7	\$ 2,709.0	\$ 695.4	74.3%	\$ 563.2	123.5%
January 1, 2012	\$ 1,954.3	\$ 2,859.3	\$ 905.0	68.3%	\$ 557.0	162.5%
January 1, 2013	\$ 1,920.1	\$ 3,025.3	\$ 1,105.2	63.5%	\$ 567.8	194.6%

<sup>1</sup> Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

<sup>2</sup> Actuarial accrued liabilities less actuarial value of assets.

<sup>3</sup> Covered payroll includes compensation paid to all active employees on which contributions are calculated.

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**Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)**

**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.

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 \$2.4 million in 2012 and \$3.9 million in 2011.

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**Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)**

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net OPEB obligation for fiscal years ended December 31, 2012 and 2011. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2012. The Fund has accrued \$2,378,401 to the plan as of December 31, 2013, as a reasonable estimate of expected contributions.

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 8,064,000	\$ 11,286,000
Interest on net OPEB obligation	1,340,000	1,212,000
Adjustment to annual required contribution	<u>(1,969,000)</u>	<u>(1,673,000)</u>
Annual OPEB cost (expense)	7,435,000	10,825,000
Expected contribution (employer-paid benefits)	<u>(2,441,000)</u>	<u>(3,889,000)</u>
Increase in net OPEB obligation	4,994,000	6,936,000
Net OPEB obligation, beginning of year	<u>34,548,000</u>	<u>27,612,000</u>
Net OPEB obligation, end of year	<u>\$ 39,542,000</u>	<u>\$ 34,548,000</u>
Fund's allocated share of city liability	<u>\$ 1,943,931</u>	<u>\$ 1,894,828</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 -  
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NOTES TO FINANCIAL STATEMENTS**

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**Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)**

Significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.88%
Health care cost trend rates - medical	Traditional and Preventive Plans: 9.0%, decreasing by 0.5% for each year for 4 years  Group Health Standard and Deductible Plans: 8.5%, decreasing by 0.5% for each year for 7 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 three years and General Service Retirees based on the RP-2000 Combined Healthy Males and Females, with ages set back one year.
Marital status	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64: 87.09% to 172.99% for retirees, and 101.19% to 172.99% for spouses.  Retirees' spouses pay a lower premium than retirees.
Other considerations	Active employees with current spousal and/or dependent coverage are assumed to elect same plan and coverage after retirement.

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**Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
January 1, 2010	\$ -	\$ 93.5	\$ 93.5	0.0%	\$ 869.1	10.8%
January 1, 2011	\$ -	\$ 99.4	\$ 99.4	0.0%	\$ 866.2	11.5%
January 1, 2012	\$ -	\$ 74.7	\$ 74.7	0.0%	\$ 891.6	8.4%

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/](http://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 2013 and 2012, 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, 0.675% and 0.784%, respectively. Claims expected to be paid within one year were \$1,922,207 and \$2,458,707 as of December 31, 2013 and 2012, respectively. The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	2013	2012
Beginning liability, undiscounted	\$ 10,634,695	\$ 12,605,951
Payments	(975,738)	(1,092,510)
Incurred claims and change in estimate	(1,008,004)	(878,746)
Ending liability, undiscounted	\$ 8,650,953	\$ 10,634,695
Ending liability, discounted (recorded balance at December 31)	\$ 8,424,705	\$ 10,322,048

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

**SEATTLE PUBLIC UTILITIES -  
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**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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beginning liability	\$ 4,400,088	\$ 4,424,954
Additions	4,623,070	4,514,910
Reductions	<u>(4,499,592)</u>	<u>(4,539,776)</u>
Ending liability	<u>\$ 4,523,566</u>	<u>\$ 4,400,088</u>

**Note 9 - 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. No specific requirements for remediation by potentially responsible parties (“PRPs”) have been decided by the EPA as of the date of this report, except related to specific “early action sites” which are or have been under Administrative Orders on Consent (“AOC”). 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 regulators recommended an option and the fund recorded an estimate of its share of the estimated total cost. The EPA announced their proposed cleanup plan in February 2013 for public comment. EPA is expected to issue a Record of Decision in 2014.

The Fund, together with other PRPs, has voluntarily agreed to initiate clean-up of two early action sites identified during the RI under EPA issued AOC: Slip 4 and T-117.

**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. Subsequent to an agreement between the EPA, the Port of Seattle (“Port”), King County and the City, the Port alone signed the order. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the work required by the EPA. No specific requirements for remediation by PRPs have been made by the EPA as of the date of this report. The RI and FS are anticipated to be completed by 2014.

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**Note 9 - 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 RI is expected to be completed in 2014 followed by the FS in 2015. A Clean-up Action Plan is expected from the Department of Ecology in about 2016.

**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 7<sup>th</sup> 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.

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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**Note 9 - 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 \$4.8 million and \$4.9 million as of December 31, 2013 and 2012, respectively. During 2012, the Fund received an environmental cost recovery of \$1.6 million from Seattle City Light related to the Duwamish and East Waterway Sites.

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

	<u>2013</u>	<u>2012</u>
Beginning environmental liability, net of recovery	\$ 61,535,109	\$ 8,555,825
Payments or amortization	(1,903,351)	(2,617,893)
Incurred environmental liability	5,829,343	55,597,177
Ending environmental liability, net of recovery	<u>\$ 65,461,101</u>	<u>\$ 61,535,109</u>

The provision for environmental liabilities included in current and non-current liabilities at December 31 are:

	<u>2013</u>	<u>2012</u>
Environmental liability, current	\$ 1,805,212	\$ 1,679,343
Environmental liability, noncurrent	63,655,889	59,855,766
Ending liability	<u>\$ 65,461,101</u>	<u>\$ 61,535,109</u>

**Note 10 - 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. The fund also financed the purchase of land with a small loan in the amount of \$161,000 from a private party.

In 2013, the Fund made an additional draw of \$425,582 on a public works trust fund loan from the Washington State Department of Commerce for construction and site improvements in the Midvale area of Seattle. Amounts borrowed under this agreement accrue interest at 0.5% per annum and are to be repaid by June 2031.

**SEATTLE PUBLIC UTILITIES -  
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**Note 10 - Loans (Continued)**

In addition, the Fund was approved for a water pollution control revolving fund loan in 2012 in the amount of \$1,857,150 from the Washington State Department of Ecology for design and construction of a stormwater facility in the Capital Hill area of Seattle. In 2013, the Fund borrowed \$1,334,279 which included capitalized interest.

Loans outstanding as of December 31, 2013 and 2012 are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding 2013	Loans Outstanding 2012
Private Loan	1999-2013	7.0%	\$ 161,100	\$ -	\$ 10,276
Midvale	2013-2031	0.25%	4,000,000	3,811,873	3,574,418
Thornton Creek Natural Drainage Systems	2006-2024	0.5%	3,700,000	2,154,706	2,350,588
High Point Natural Drainage Systems	2010-2029	1.5%	2,679,413	2,175,685	2,299,445
South Park Flood Control and Local Drainage Program	2007-2025	0.5%	3,400,000	2,365,473	2,562,596
Ballard Green Streets ARRA Project	2011-2020	2.9%	603,209	457,898	516,059
Thornton Creek Water Quality Project	2011-2030	1.5%	6,983,021	6,059,334	6,380,606
Capital Hill Water Quality Project	2015-2034	2.6%	1,334,279	1,334,279	-
			<u>\$ 22,861,022</u>	<u>\$ 18,359,248</u>	<u>\$ 17,693,988</u>

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

Years Ending December 31,	Principal	Interest	Total
2014	\$ 1,116,399	\$167,205	\$ 1,283,604
2015	1,161,480	208,624	1,370,104
2016	1,189,077	178,533	1,367,610
2017	1,199,428	165,687	1,365,115
2018	1,209,979	152,641	1,362,620
2019-2023	5,988,933	568,367	6,557,300
2024-2028	4,712,639	270,645	4,983,284
2029-2033	1,737,425	48,747	1,786,172
2034-2038	43,888	574	44,462
	<u>\$ 18,359,248</u>	<u>\$ 1,761,023</u>	<u>\$ 20,120,271</u>

**SEATTLE PUBLIC UTILITIES -  
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**Note 10 - Loans (Continued)**

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

	<u>2013</u>	<u>2012</u>
Net loans, beginning of year	\$ 17,693,988	\$ 18,597,762
Loan proceeds	1,759,861	-
Principal payments	<u>(1,094,601)</u>	<u>(903,774)</u>
Net loans, end of year	<u>\$ 18,359,248</u>	<u>\$ 17,693,988</u>
Loans due within one year	<u>\$ 1,116,399</u>	<u>\$ 1,085,194</u>
Loans, noncurrent	<u>\$ 17,242,849</u>	<u>\$ 16,608,794</u>

**Note 11 - 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, 2013, the Seattle Housing Authority receivable was \$1,252,189.

In addition, the Fund has an agreement with private individuals for a sewer connection charge contract. The receivable was \$7,320 at December 31, 2013. Notes and contracts receivable are composed of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Seattle Housing Authority receivable	\$ 1,252,189	\$ 1,298,008
Dalcerro receivable	<u>7,320</u>	<u>8,316</u>
Total notes and contracts receivable	<u>1,259,509</u>	<u>1,306,324</u>
Due within one year	<u>(49,042)</u>	<u>(46,815)</u>
Total non-current notes and contracts receivable	<u>\$ 1,210,467</u>	<u>\$ 1,259,509</u>

**Note 12 - 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 \$137,656,267 and \$124,513,897 for fiscal years 2013 and 2012, respectively.

**SEATTLE PUBLIC UTILITIES -  
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**Note 13 - Adoption of New Accounting Pronouncement**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statement periods beginning after December 15, 2012, with the effects of the accounting change to be applied retroactively by restating the financial statements. The Fund adopted this new pronouncement in the current year and, accordingly, has restated amounts of effected balances within the financial statements as of December 31, 2012. The amounts related to bond issue costs of \$3,701,676 have been included in our rate-setting structure and were reclassified into the regulatory asset account; as such, there is no impact to net position for 2012.

	2012 As Previously Reported	2012 As Restated	Effect of Restatement
<b>Statement of Net Position</b>			
<i>Assets</i>			
Prepayments and other current assets	\$ 10,475	\$ 44,991	\$ 34,516
Prepayments long-term	-	760,136	760,136
Unamortized bond issue costs	3,450,269	-	(3,450,269)
Regulatory assets - bond issue costs	-	3,701,676	3,701,676
<i>Deferred Outflows of Resources</i>			
Unamortized loss on refunded debt	-	6,428,342	6,428,342
<i>Liabilities</i>			
Loss on advanced refunding	(7,474,401)	-	7,474,401
<i>Net Position</i>			
Net investment in capital assets	230,457,310	242,182,374	11,725,064
External infrastructure costs	6,834,126	7,181,829	347,703
Other charges	9,953,654	11,774,626	1,820,972
Unrestricted	9,077,264	9,871,917	794,653
<b>Statement of Revenues, Expenses and Changes in Net Position</b>			
General and administrative	14,658,027	14,692,264	34,237
Depreciation and other amortization	21,156,763	21,289,003	132,240
Amortization of refunding loss	(351,384)	(323,896)	27,488
Amortization of debt costs	(138,989)	-	138,989
<b>Statement of Cash Flows</b>			
Operating income	45,483,437	45,316,960	(166,477)
Depreciation and amortization	21,156,763	21,289,003	132,240
Other assets	-	89,478	89,478

**SUPPLEMENTAL INFORMATION**

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

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**Statistics Required for Revenue Bond Continuing Disclosure**

Wastewater System Operating Statistics

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Population Served	602,000	612,000	612,100	616,500	626,600
Billed Wastewater Revenues	\$ 183,841	\$ 184,107	\$ 203,590	\$ 236,935	\$ 244,476
Billed Wastewater Volume (MG)					
Residential	7,995	7,824	7,400	7,707	7,594
Commercial	13,246	13,049	12,803	13,217	13,218
Total	<u>21,241</u>	<u>20,873</u>	<u>20,203</u>	<u>20,924</u>	<u>20,812</u>
Gallons Used per Day per Capita	96.7	93.4	90.4	93.0	91.0

Drainage and Wastewater - 2013 Accounts and Billed Revenues

	<u>Drainage</u>	<u>Wastewater</u>
<b>Customer Accounts</b>		
Residential	147,934	152,872
Commercial	<u>65,038</u>	<u>19,660</u>
Total	<u><u>212,972</u></u>	<u><u>172,532</u></u>
<b>Billed Revenue</b>		
Residential	\$ 41,709,795	\$ 89,478,069
Commercial	<u>42,447,353</u>	<u>154,997,529</u>
Total	<u><u>\$ 84,157,148</u></u>	<u><u>\$ 244,475,598</u></u>

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

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Major Wastewater Customers - 2013 Annual Billed Revenues and Volumes

<u>Name</u>	<u>Revenue</u>	<u>Volume</u>
University of Washington	\$ 6,359,038	672,821
Seattle Housing Authority	\$ 3,198,645	279,014
City of Seattle	\$ 2,062,980	211,492
King County	\$ 1,340,774	115,627
Port of Seattle	\$ 1,255,439	157,052
Darigold	\$ 1,080,912	78,422
Swedish Medical Center	\$ 953,752	89,460
Harborview Medical Center	\$ 820,284	77,483
Virginia Mason	\$ 900,897	77,723
Seattle Public Schools	\$ 750,306	73,143

Major Drainage Customers - 2013 Annual Billed Revenues and Acreage

<u>Name</u>	<u>Revenue</u>	<u>Acres</u>
City of Seattle	\$ 5,150,236	5,957
Port of Seattle	\$ 3,533,031	997
Seattle Public Schools	\$ 1,648,544	685
King County	\$ 1,568,699	597
BNSF Rwy Co.	\$ 1,226,006	417
University of Washington	\$ 1,354,178	571
United States Government	\$ 730,582	301
Seattle Housing Authority	\$ 738,458	331
Union Pacific Railroad Co.	\$ 508,832	154
Seattle Community Colleges	\$ 282,392	158

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

Wastewater Rates

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Volume rate per ccf</b>	\$ 8.89	\$ 8.98	\$ 10.28	\$ 10.68	\$ 11.65	\$ 11.75

**Note:** 1 CCF equals 748 gallons. Wastewater rate increased 9.1% and 3.9% in 2013 and 2012, respectively.

Drainage Rates

<b>Flat Rate per Parcel</b>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>% Impervious Space</u>
Single Family Residential*						
< 3,000 sq. ft.	\$ 104.90	\$ 134.06	\$ 149.33	\$ 164.05	\$ 180.96	
3,000 - 4,999 sq. ft.	\$ 152.46	\$ 173.10	\$ 192.79	\$ 212.92	\$ 234.87	
5,000 - 6,999 sq. ft.	\$ 206.09	\$ 234.94	\$ 261.66	\$ 289.11	\$ 318.92	
7,000 - 9,999 sq. ft.	\$ 261.35	\$ 298.32	\$ 332.23	\$ 365.97	\$ 403.70	
<b>Rate per 1,000 sq. ft.</b>						
Undeveloped						0 - 15%
Regular	\$ 17.18	\$ 19.72	\$ 21.96	\$ 23.31	\$ 25.71	
Low Impact	\$ 10.39	\$ 12.35	\$ 13.76	\$ 13.65	\$ 15.06	
Light						16 - 35%
Regular	\$ 25.69	\$ 29.62	\$ 32.98	\$ 36.05	\$ 39.76	
Low Impact	\$ 19.35	\$ 23.47	\$ 24.14	\$ 28.35	\$ 31.27	
Medium						36 - 65%
Regular	\$ 37.32	\$ 42.89	\$ 47.76	\$ 52.35	\$ 57.75	
Low Impact	\$ 30.28	\$ 34.43	\$ 38.35	\$ 42.11	\$ 46.45	
High	\$ 48.26	\$ 56.57	\$ 63.01	\$ 70.23	\$ 77.48	66 - 85%
Very High	\$ 57.32	\$ 66.90	\$ 74.49	\$ 83.08	\$ 91.65	86 - 100%

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

**APPENDIX D**  
**DEMOGRAPHIC AND ECONOMIC INFORMATION**

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## DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the fourteenth most populated county in the United States. Of the State's population, 29% reside in King County, and of the County's population, 32% live in the City of Seattle.

### Population

Historical and current population figures for the State, the County, and the City are given below.

<b>POPULATION</b>			
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>
1980 <sup>(1)</sup>	4,130,163	1,269,749	493,846
1990 <sup>(1)</sup>	4,866,692	1,507,319	516,259
2000 <sup>(1)</sup>	5,894,121	1,737,034	563,374
2007 <sup>(2)</sup>	6,488,800	1,861,300	586,200
2008 <sup>(2)</sup>	6,587,600	1,884,200	592,800
2009 <sup>(2)</sup>	6,668,200	1,909,300	602,000
2010 <sup>(1)</sup>	6,724,540	1,931,249	608,660
2011 <sup>(2)</sup>	6,767,900	1,942,600	612,100
2012 <sup>(2)</sup>	6,817,770	1,957,000	616,500
2013 <sup>(2)</sup>	6,882,400	1,981,900	626,600

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

### Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division (the cities of Seattle, Bellevue, and Everett), the County, the State, and the United States.

<b>PER CAPITA INCOME</b>					
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Seattle MD	\$ 54,621	\$ 50,644	\$ 51,370	\$ 53,931	\$ 56,267
King County	58,628	53,933	54,927	57,837	60,090
State of Washington	44,106	41,504	42,024	43,878	46,045
United States	40,947	38,637	39,791	41,560	43,735

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

## Construction

The table below lists the value of housing construction for which building permits have been issued by entities within the City. The value of public construction is not included in this table.

### CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multifamily Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2009	216	\$ 47,666,932	562	\$ 67,880,407	\$ 115,547,339
2010	241	53,269,934	2,456	192,261,935	245,531,869
2011	316	71,808,767	2,857	376,591,834	448,400,601
2012	498	120,592,378	6,799	984,110,088	1,104,702,466
2013	822	205,297,350	5,855	805,297,482	1,010,594,832
2013 <sup>(1)</sup>	215	52,936,147	1,304	176,874,263	229,810,410
2014 <sup>(1)</sup>	390	94,132,712	1,897	255,937,632	350,070,344

(1) Estimates through April.

Source: U.S. Bureau of the Census

## Retail Activity

The following table presents taxable retail sales in King County and Seattle.

### KING COUNTY AND THE CITY OF SEATTLE TAXABLE RETAIL SALES

Year	King County	Seattle
2008	\$ 45,711,920,389	\$ 17,096,581,492
2009	39,594,903,520	15,101,407,742
2010	39,275,353,140	14,783,168,932
2011	40,846,118,928	15,751,585,856
2012	43,506,804,227	17,162,539,275
2013 <sup>(1)</sup>	46,601,199,029	18,258,200,846

(1) Preliminary.

Source: Washington State Department of Revenue

## Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2013.

### PUGET SOUND AREA MAJOR EMPLOYERS

<u>Employer</u>	<u>Employees<sup>(1)</sup></u>
The Boeing Company	85,000
Joint Base Lewis-McChord	56,000
Navy Region Northwest	43,000
Microsoft Corp.	41,700
University of Washington	29,800
Providence Health and Services	20,200
Wal-Mart Stores, Inc.	18,000
Fred Meyer Stores	14,600
King County Government	13,000
U.S. Postal Service	11,900
City of Seattle	12,370 <sup>(2)</sup>
Starbucks Corp.	10,800
MultiCare Health System	10,300
Franciscan Health System	9,900
Nordstrom, Inc.	9,300
Costco Wholesale Corp.	8,900
PeaceHealth	8,800

(1) Does not include part-time or seasonal employment figures. Amazon.com Inc. did not participate in the survey that produced the table, but if it had, it is likely that it would have been ranked in this list of major employers.

(2) Source: City of Seattle. Figure includes temporary workers.

Source: *Puget Sound Business Journal Book of Lists, 2014*

**KING COUNTY**  
**RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT**  
**AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT<sup>(1)</sup>**

	<b>Annual Average</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Civilian Labor Force	1,117,710	1,111,000	1,114,310	1,118,930	1,139,610
Total Employment	1,021,770	1,009,510	1,023,300	1,042,540	1,079,950
Total Unemployment	95,940	101,490	91,010	76,390	59,660
Percent of Labor Force	8.6%	9.1%	8.2%	6.8%	5.2%
<b>NAICS INDUSTRY</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Total Nonfarm	1,153,542	1,134,767	1,153,692	1,181,900	1,232,500
Total Private	986,342	967,808	988,767	1,016,467	1,065,150
Goods Producing	160,442	148,158	148,942	154,375	159,483
Natural Resources and Mining	508	467	525	425	450
Construction	57,142	49,675	48,258	50,625	53,217
Manufacturing	102,792	98,017	100,192	103,308	105,800
Services Providing	993,100	986,608	1,004,750	1,027,525	1,073,017
Trade, Transportation, and Utilities	209,175	206,350	211,158	216,975	225,133
Information	80,192	79,408	80,183	81,058	82,258
Financial Activities	72,783	69,233	68,717	68,458	70,683
Professional and Business Services	176,792	176,675	184,567	192,408	200,217
Educational and Health Services	137,683	138,142	141,750	144,867	163,283
Leisure and Hospitality	108,117	108,700	111,075	114,933	119,858
Other Services	41,158	41,142	42,375	43,392	44,233
Government	167,200	166,958	164,925	165,433	167,350
Workers in Labor/Management Disputes	-	-	-	-	-
	<b>Apr. 2014</b>				
Civilian Labor Force	1,163,960				
Total Employment	1,114,030				
Total Unemployment	49,930				
Percent of Labor Force	4.3%				

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

**APPENDIX E**  
**BOOK-ENTRY TRANSFER SYSTEM**

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## BOOK-ENTRY TRANSFER SYSTEM

*The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the “beneficial owners”) should confirm the following with DTC or its participants (the “Participants”).*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the

Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

*The following information has been provided by the City.*

The City and the Bond Registrar may treat DTC (or its nominee) as the sole and exclusive Registered Owner of the Bonds registered in such name for the purposes of payment of the principal of and premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Registered Owners of Bonds under the Bond Legislation, registering the transfer of Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds, and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or such participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to Registered Owners of Bonds under the Bond Legislation; (v) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner of the Bonds.