ERRATA NOTICE

OFFICIAL STATEMENT DATED MAY 20, 2015

THE CITY OF SEATTLE, WASHINGTON
$340,840,000
WATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2015

The City of Seattle's debt service coverage calculations on bonds issued by its Water System have been revised from what was shown on Table 9 of the Official Statement for the above referenced bond issue. The changes to the calculation methodology were made in order to more accurately reflect the definitions for Adjusted Net Revenue and Adjusted Annual Debt Service contained in the authorizing bond ordinances. The changes primarily involve excluding capital contributions and grants from Adjusted Net Revenue and removing from Adjusted Annual Debt Service the amounts associated with interest accruals on bonds that have been refunded. For 2014, this revised calculation changed Parity Lien debt service coverage from the 1.93x originally included in Table 9 to 1.91x. A corrected version of Table 9 and its footnotes is attached.

This coverage calculation revision was also made to Note 4 of the City's 2014 Audited Financial Statements for its Water Fund, which was attached to the Official Statement as Appendix C. In addition, in reviewing those 2014 Audited Financial Statements, two clerical errors were discovered with regards to Note 6 on pension disclosure. The pension funding status table was inadvertently replaced with the OPEB funding table, and the display of the investment rate of return assumption for the City's pension funds was shown as 750% rather than 7.5%. These errors have been corrected and revised Audited Financial Statements now match what was shown in the body of the Official Statement. In addition, certain minor corrections were made to the Statements of Cash Flows in the Audited Financial Statements. The revised 2014 Audited Financial Statements for the Water Fund will be posted on the MSRB's investor information site, *www.emma.msrb.org*, when they become available from the auditor, which is expected to be within the next seven business days.

Dated June 30, 2015

Table 9
Operating Results

	Actual					Projected		
	2010	2011	2012	2013	2014	2015	2016	2017
Operating Revenue								
Water Sales	$ 181,515,455	$ 181,413,127	$ 202,581,225	$ 224,151,972	$ 233,582,577	$ 229,105,085	$ 231,719,868	$ 235,595,413
(Deposits to)/Withdrawals from Revenue Stabilization Fund (1)	3,000,000	1,522,974	(3,354,240)	(7,000,000)	(8,171,712)	0	0	8,300,000
Other	10,688,010	11,636,551	14,247,183	18,441,763	17,535,644	17,202,370	17,948,637	18,306,965
Total Operating Revenue	$ 195,203,465	$ 194,572,652	$ 213,474,168	$ 235,593,735	$ 242,946,509	$ 246,307,455	$ 249,668,505	$ 262,202,378
Other Income								
Interest Income-Other	$ 3,206,775	$ 2,887,919	$ 2,842,209	$ 1,535,841	$ 3,082,424	$ 2,623,060	$ 2,926,583	$ 2,936,012
Gain/(Loss) on Sale of Assets, and Others-net	1,661,609	1,591,017	2,314,745	595,779	296,657	2,961,329	1,017,482	966,183
Total Other Income	$ 4,868,384	$ 4,478,936	$ 5,156,955	$ 2,131,620	$ 3,379,081	$ 5,584,389	$ 3,944,065	$ 3,902,195
Operating Expenses								
Operating and Maintenance Expenses								
Expenses	$ 79,662,813	$ 77,923,361	$ 80,902,240	$ 88,810,449	$ 92,838,728	$ 104,936,703	$ 111,325,971	$ 114,717,382
Taxes Other Than City Taxes	7,035,586	7,231,727	8,064,491	9,035,669	9,483,508	9,840,416	9,858,472	9,887,388
Other Expenses								
City Taxes (2)	29,454,840	23,279,845	25,937,913	28,776,311	30,656,984	30,547,878	31,052,572	31,789,018
Depreciation and Amortization	48,085,386	46,061,914	48,492,784	49,909,099	51,466,239	52,238,233	53,021,806	53,817,133
Total Operating Expenses	$ 164,238,626	$ 154,496,847	$ 163,397,429	$ 176,531,527	$ 184,445,459	$ 197,563,230	$ 205,258,822	$ 210,210,922
Other Income (Expenses)								
Interest Expenses and Amortization of Debt Issue Costs								
and Net Discount	$ (47,307,331)	$ (46,289,430)	$ (43,494,878)	$ (41,323,434)	$ (39,488,993)	$ (41,351,996)	$ (38,683,524)	$ (38,859,937)
Fees, Contributions, Grants and Transfers	12,183,558	3,531,294	8,927,636	8,320,853	9,113,707	13,650,299	11,506,841	7,777,151
Total Other Income (Expenses)	$ (35,123,773)	$ (42,758,136)	$ (34,567,242)	$ (33,002,580)	$ (30,375,286)	$ (27,701,697)	$ (27,176,683)	$ (31,082,786)
Net Income	$ 709,451	$ 1,796,605	$ 20,666,453	$ 28,191,248	$ 31,504,845	$ 26,626,917	$ 21,177,065	$ 24,810,865
Other Revenue Available for Debt Service								
City Taxes (3)	$ 29,454,840	$ 23,279,845	$ 25,937,913	$ 28,776,311	$ 30,656,984	$ 30,547,878	$ 31,052,572	$ 31,789,018
Depreciation and Amortization	48,085,386	46,061,914	48,492,784	49,909,099	51,466,239	52,238,233	53,021,806	53,817,133
Interest Expense	50,268,364	49,214,734	46,693,709	44,501,317	43,020,609	43,903,613	41,153,621	41,332,586
Loss (Gain) on Disposition of Fixed Asset	(153,772)	(276,325)	174,880	1,254,351	916,625	-	-	-
Operating and Capital Grants and Contributions	(1,309,540)	(1,491,395)	(4,256,440)	(4,243,113)	(1,881,713)	(7,872,173)	(5,552,892)	(1,706,507)
Earnings from Investment in Reserve	(166,874)	(137,413)	(131,117)	(112,575)	(141,633)	(166,842)	(166,842)	(185,669)
Capitalized Interest	(2,697,823)	(2,635,254)	(2,050,043)	(1,108,155)	(1,504,324)	(1,504,324)	(1,504,324)	(1,504,324)
Accrued and Other Non-Cash Items	$ (10,254,449)	$ (1,435,627)	$ (4,763,210)	$ (3,234,844)	$ (7,164,330)	$ (4,199,168)	$ (4,196,445)	$ (4,279,764)
Insurance Proceeds			$ (1,133,742)					
Adjusted Gross Revenue (4)	$ 113,935,584	$ 114,377,083	$ 129,631,186	$ 143,933,638	$ 146,873,304	$ 139,574,133	$ 134,984,561	$ 144,073,339
Debt Service (5)								
Adjusted Annual Parity Debt Service (6)	$ 72,647,066	$ 78,414,794	$ 76,765,524	$ 77,310,229	$ 76,772,248	$ 77,467,316	$ 81,796,414	$ 80,902,259
Subordinate Lien Debt Service (7)	870,641	1,041,421	1,173,772	1,618,659	1,348,810	1,333,766	1,998,726	1,976,864
Total Debt Service	$ 73,517,707	$ 79,456,215	$ 77,939,296	$ 78,928,888	$ 78,121,058	$ 78,801,081	$ 83,795,139	$ 82,879,123
Debt Service Coverage								
Parity Lien Debt Service Coverage	1.57	1.46	1.69	1.86	1.91	1.80	1.65	1.78
Overall Debt Service Coverage	1.55	1.44	1.66	1.82	1.88	1.77	1.61	1.74

NOTES TO TABLE:

(1) Withdrawals from the Rate Stabilization Account are added to and deposits are deducted from Operating Revenues. Withdrawals from the Rate Stabilization Account are available for payment of debt service and increase debt service coverage. Deposits to the Rate Stabilization Account reduce revenue available for payment of debt service and lower debt service coverage.

(2) The City currently levies a tax of 15.54% upon total gross income of the Water System from its retail business within and outside the City. This rate was temporarily 19.87% from March 31, 2009, through December 31, 2010. See "Water Rates."

(3) Under the City Charter, City taxes on the Water System may be paid only after ample provisions have been made for debt service and obligations of the Water System as well as for necessary betterments and replacements for the current year.

(4) Revenue available for debt service = net income + City taxes + depreciation + interest expense + debt cost amortization + accrued and other non-cash expenses - operating grants - capital grants and contributions - non-revenue related insurance proceeds.

(5) Assumes the issuance of the Bonds and the defeasance of the Refunded Bonds on June 10, 2015.

(6) Adjusted Annual Parity Debt Service = annual debt service on all Parity Bonds outstanding - earnings from investments in Reserve Subaccount.

(7) Includes Public Works Assistance Account loans. See "Security for the Bonds—Other Outstanding Obligations."

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OFFICIAL STATEMENT

New Issue	**Moody's Rating: Aa1**
Book-Entry Only	**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" herein.

THE CITY OF SEATTLE, WASHINGTON

$340,840,000

WATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2015

DATED: DATE OF INITIAL DELIVERY **DUE: AS SHOWN ON PAGE i**

The City of Seattle, Washington (the "City"), will issue its Water System Improvement and Refunding Revenue Bonds, 2015 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as bond 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, 2015. 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 U.S. Bank National Association), 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 Water System, to refund certain outstanding obligations of the Water System, and to pay the administrative 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 Bonds."

The Bonds are special limited obligations of the City payable from and secured solely by the Bond Account. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account, and the Construction Account (with certain limited exceptions) are pledged to the payment of all Parity Bonds, including the Bonds. This pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other liens and charges. 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 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 Water System, are pledged to the payment of the Bonds.

The Bonds are offered for delivery by the Underwriter of the Bonds, 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 available for delivery at DTC's facilities in New York, New York, or delivered to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about June 10, 2015.

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 in making an informed investment decision.

Dated: May 20, 2015

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 Water Fund's Audited Financial Statement that is included in Appendix C speaks only as of the date of 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 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 number for a specific maturity is 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.

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

$340,840,000

WATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2015

SERIAL BONDS

Due May 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
Nov. 1, 2015	$ 4,350,000	2.00%	0.13%	100.731	812728TD5
2016	12,880,000	2.00%	0.27%	101.539	812728TE3
2017	9,275,000	5.00%	0.70%	108.065	812728TF0
2018	10,850,000	5.00%	1.15%	110.917	812728TG8
2019	18,460,000	5.00%	1.40%	113.587	812728TH6
2020	19,780,000	5.00%	1.60%	115.934	812728TJ2
2021	17,995,000	5.00%	1.86%	117.443	812728TK9
2022	19,050,000	5.00%	2.06%	118.796	812728TL7
2023	20,015,000	5.00%	2.25%	119.780	812728TM5
2024	21,060,000	5.00%	2.43%	120.437	812728TN3
2025	22,110,000	5.00%	2.55%	121.297	812728TP8
2026	20,135,000	5.00%	2.68%	120.038 (1)	812728TQ6
2027	17,640,000	5.00%	2.80%	118.890 (1)	812728TR4
2028	18,540,000	5.00%	2.91%	117.849 (1)	812728TS2
2029	15,150,000	5.00%	2.99%	117.098 (1)	812728TT0
2030	9,900,000	5.00%	3.07%	116.354 (1)	812728TU7
2031	10,355,000	4.00%	3.68%	102.630 (1)	812728TV5
2032	10,785,000	4.00%	3.74%	102.130 (1)	812728TW3
2033	6,760,000	4.00%	3.78%	101.798 (1)	812728TX1
2034	7,035,000	4.00%	3.82%	101.468 (1)	812728TY9
2035	7,320,000	4.00%	3.81%	101.550 (1)	812728TZ6
2036	7,620,000	4.00%	3.85%	101.221 (1)	812728UA9
2037	7,935,000	4.00%	3.88%	100.974 (1)	812728UB7
2038	8,260,000	4.00%	3.91%	100.729 (1)	812728UC5
Subtotal	$ 323,260,000				

TERM BONDS

Due May 1	Amount	Interest Rate	Yield	Price	CUSIP Number
2045	$ 17,580,000	4.00%	4.030%	99.478	812728UD3

(1) Priced to the May 1, 2025, 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
Jean Godden	Council Member
Bruce Harrell	Council Member
Nick Licata	Council Member
Mike O'Brien	Council Member
John Okamoto	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
Kimberly Collier	Deputy Director for Human Resources and Service Equity
Susan Sánchez	Deputy Director for Customer Service
Sherri Crawford	Interim Deputy Director for Finance and Administration
Melina Thung	Deputy Director for Utility Services
Vladimir Khazak	Interim Deputy Director for Project Delivery
Nancy Ahern(1)	Interim Deputy Director for Drainage and Wastewater Line of Business
[Vacant]	Deputy Director for Solid Waste Line of Business
Rick Scott	Deputy Director for Water Line of Business and Shared Services

BOND COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR

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

BOND REGISTRAR

Washington State Fiscal Agent
U.S. Bank National Association

(1) Madeline Fong Goddard has been announced as the new Deputy Director for Drainage and Wastewater Line of Business and is expected to begin June 22, 2015.

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OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

$340,840,000

WATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2015

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 $340,840,000 aggregate principal amount of its Water System Improvement and Refunding Revenue Bonds, 2015 (the "Bonds"). 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 water system (the "Water System").

Appendix A to this Official Statement is a copy of Ordinance 124340. Appendix B includes the form of the legal opinion of Foster Pepper PLLC of Seattle, Washington ("Bond Counsel"). Appendix C contains the audited 2014 financial statements of the Water 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 the Bond Legislation (defined below).

All of the summaries of provisions of the State 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, Ordinance 124340, authorizing the new money portion of the Bonds, passed by the City Council on November 25, 2013 (together with Ordinance 121939, authorizing the refunding portion of the Bonds, as amended by Ordinance 122837 and amended and restated by Ordinance 124339, the "Bond Ordinance"), and Resolution 31586, adopted by the City Council on May 20, 2015 (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 May 1 in the years and 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, 2015, 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, which will act as the initial Securities Depository for the Bonds. The Bonds will be held in fully immobilized book-entry form by the Securities Depository. 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 U.S. Bank National Association in Seattle, Washington (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, principal payment, or redemption date. Record Date means, in the case of each interest or principal payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest or principal payment date. With regard to redemption of a Bond prior to its maturity, the Record Date means the Bond Registrar's close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption. 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 appointed 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 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 or draft 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. The City, however, 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 Bonds

Optional Redemption. The Bonds maturing on and before May 1, 2025, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after May 1, 2026, prior to their stated maturity dates at any time on and after May 1, 2025, as a whole or in part, at a price equal to 100% of the stated principal amount to be redeemed 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 described below, the Term Bonds maturing on May 1, 2045, will be called for redemption at a price equal to 100% of the stated principal amount to be redeemed plus accrued interest to the date fixed for redemption on May 1 in the years and amounts as follows:

TERM BONDS

Years	Amounts
2039	$ 2,220,000
2040	2,310,000
2041	2,405,000
2042	2,505,000
2043	2,605,000
2044	2,710,000
2045[1]	2,825,000

(1) Maturity.

If the City redeems all or a portion of the Term Bonds under the optional redemption provisions described above or purchases Term Bonds, the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited at the stated principal 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, credit will be allocated on a *pro rata* basis.

Selection of Bonds for Redemption. If fewer than all of the outstanding Bonds are selected 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 a single maturity of the Bonds 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 randomly in such manner as the Bond Registrar determines.

All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any Authorized Denomination.

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 "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 in the open market any of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase.

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.

Refunding or Defeasance of Bonds

The City may issue refunding obligations 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 a 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 City 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 as specified under "Redemption of Bonds—Notice of Redemption," 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.

Defaults and Remedies; No Acceleration of the Parity Bonds

The Bond Legislation does not enumerate events of default or remedies upon an event of default. In the event of a default, Bond owners would be permitted to pursue remedies permitted by State law.

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

USE OF PROCEEDS

Purpose

The Bonds are being issued to pay for part of the costs of various projects of the City's Water System, to refund certain outstanding obligations of the Water System described below under "Refunding Plan," and to pay the administrative 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:

SOURCES OF FUNDS		
Stated Principal Amount of Bonds	$	340,840,000
Net Original Issue Premium		43,378,277
Total Sources of Funds	$	384,218,277
USES OF FUNDS		
Construction Account Deposit	$	51,381,702
Refunding Escrow Deposit		330,918,516
Parity Bond Account Deposit		9,590
Costs of Issuance[1]		1,908,469
Total Uses of Funds	$	384,218,277

(1) Includes legal fees, financial advisory and rating agency fees, printing costs, underwriter's discount, and other costs of issuing the Bonds and refunding the Refunded Bonds, defined below under "Refunding Plan."

Refunding Plan

A portion of the proceeds of the Bonds will be used to refund the bonds identified below (together, the "Refunded Bonds"). The refunding will be undertaken to achieve debt service savings.

REFUNDED BONDS

Bond	Maturity Date	Par Amount	Coupon (%)	Call Price (%)	Call Date	CUSIP Numbers
Water System and Refunding Revenue Bonds, 2003 [1]						
Serials	9/1/2015	$ 2,035,000	5.000	100	7/10/2015	812728SX2
	9/1/2016	2,160,000	5.000	100	7/10/2015	812728SY0
	9/1/2017	2,290,000	5.000	100	7/10/2015	812728SZ7
	9/1/2018	2,425,000	5.000	100	7/10/2015	812728TA1
	9/1/2019	2,600,000	5.000	100	7/10/2015	812728TB9
	9/1/2020	2,770,000	5.000	100	7/10/2015	812728TC7
Subtotal		$ 14,280,000				
Water System Revenue Refunding Bonds, 2005						
Serials	9/1/2016	$ 5,805,000	5.000	100	9/1/2015	812728LW1
	9/1/2017	6,090,000	5.000	100	9/1/2015	812728LX9
	9/1/2018	6,385,000	5.000	100	9/1/2015	812728LY7
	9/1/2019	6,695,000	5.000	100	9/1/2015	812728LZ4
	9/1/2020	7,025,000	5.000	100	9/1/2015	812728MA8
	9/1/2021	7,380,000	5.000	100	9/1/2015	812728MB6
	9/1/2022	7,745,000	5.000	100	9/1/2015	812728MC4
	9/1/2023	8,130,000	5.000	100	9/1/2015	812728MD2
	9/1/2024	8,540,000	5.000	100	9/1/2015	812728ME0
	9/1/2025	8,955,000	5.000	100	9/1/2015	812728MF7
	9/1/2026	9,395,000	5.000	100	9/1/2015	812728MG5
2029 Term	9/1/2029	20,160,000	4.625	100	9/1/2015	812728MH3
Subtotal		$ 102,305,000				

(1) The 2003 Bonds were previously partially refunded. The 2003 Refunding Candidates consist of the remaining unrefunded balances.

REFUNDED BONDS (CONTINUED)

Bond	Maturity Date	Par Amount	Coupon (%)	Call Price (%)	Call Date	CUSIP Numbers
Water System Revenue and Refunding Bonds, 2006						
Serials	2/1/2018	$ 2,730,000 (1)	5.000	100	2/1/2017	812728MW0
	2/1/2019	2,870,000 (1)	5.000	100	2/1/2017	812728MX8
	2/1/2020	3,020,000 (1)	5.000	100	2/1/2017	812728MY6
	2/1/2021	3,175,000 (1)	5.000	100	2/1/2017	812728MZ3
	2/1/2022	3,335,000 (1)	5.000	100	2/1/2017	812728NA7
	2/1/2023	3,505,000 (1)	5.000	100	2/1/2017	812728NB5
	2/1/2024	3,685,000 (1)	5.000	100	2/1/2017	812728NC3
	2/1/2025	3,875,000 (1)	5.000	100	2/1/2017	812728ND1
	2/1/2026	4,075,000 (1)	5.000	100	2/1/2017	812728NE9
	2/1/2027	4,285,000 (1)	5.000	100	2/1/2017	812728NF6
	2/1/2028	4,500,000 (1)	5.000	100	2/1/2017	812728NG4
Subtotal		$ 39,055,000				
Water System Improvement and Refunding Revenue Bonds, 2008						
Serials	2/1/2019	7,010,000	5.000	100	2/1/2018	812728PG2
	2/1/2020	7,370,000	5.000	100	2/1/2018	812728PH0
	2/1/2021	7,750,000	5.000	100	2/1/2018	812728PJ6
	2/1/2022	8,145,000	5.000	100	2/1/2018	812728PK3
	2/1/2023	8,560,000	5.000	100	2/1/2018	812728PL1
	2/1/2024	9,005,000	5.000	100	2/1/2018	812728PM9
	2/1/2025	9,460,000	5.000	100	2/1/2018	812728PN7
	2/1/2026	6,840,000	5.000	100	2/1/2018	812728PP2
	2/1/2027	7,195,000	5.000	100	2/1/2018	812728PQ0
	2/1/2028	7,565,000	5.000	100	2/1/2018	812728PR8
	2/1/2029	7,950,000	5.000	100	2/1/2018	812728PS6
2033 Term	2/1/2033	31,785,000	5.250	100	2/1/2018	812728PW7
2038 Term	2/1/2038	31,135,000	5.250	100	2/1/2018	812728QB2
Subtotal		$ 149,770,000				
Total		$ 305,410,000				

(1) Partial maturities.

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 interest on the Refunded Bonds when due up to and including the respective Call Dates shown in the table above and 100% of the principal of the Refunded Bonds on those respective Call Dates.

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 (i) the computations of the adequacy of the cash and 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, and (ii) the computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), 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 payable solely from the Bond Account. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account, and the Construction Account (with certain limited exceptions) are pledged to the payment of all Parity Bonds, including the Bonds. This pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other charges. See Appendix A—Bond Ordinance—Section 13. The City has reserved the right to combine the Water 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, 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 Water System, are pledged to the payment of the Bonds.

The Water Revenue Bond Account (the "Bond Account") has been created in the Water 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 Bond Account on or prior to the respective dates on which principal and interest are payable, all utility local improvement district ("ULID") assessments on their collection (except for ULID assessments deposited in a construction account) and certain amounts from the Net Revenue of the Water System sufficient to pay such principal and interest when due. See Appendix A—Bond Ordinance—Section 15.

Reserve Subaccount

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. So long as any Parity Bonds remain outstanding, the City is required to maintain the Reserve Subaccount at the lesser of (i) Maximum Annual Debt Service or (ii) 125% of Average Annual Debt Service on the Parity Bonds (the "Reserve Requirement"). Under the Bond Legislation, the City must fund any increase in the Reserve Requirement due to the issuance of the Bonds from Parity Bond proceeds, Net Revenue in no more than five annual installments, or a Reserve Security. See Appendix A—Bond Ordinance—Section 15(a)(ii).

Upon the issuance of the Bonds, the Reserve Requirement is expected to be funded as shown in the following table. Under the Bond Legislation, each of the surety policies shown in the following table qualifies as a Reserve Security 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—Section 1 for definitions of Reserve Security and Qualified Insurance.

RESERVE ACCOUNT SUMMARY

Bond Issue	Surety Bonds	Surety Provider	Expiration Date	Current Ratings Moody's	S&P
1993[1]	$ 19,069,616	AMBAC	12/01/2023	Withdrawn	
1997[1]	3,783,203	NPFG[2]	08/01/2026	A3	AA-
1998[1]	5,397,000	AMBAC	10/01/2027	Withdrawn	
1999[1]	4,431,090	NPFG[2]	03/01/2029	A3	AA-
1999B[1]	9,440,403	NPFG[2]	07/01/2029	A3	AA-
2001	1,279,360	NPFG[2]	11/01/2031	A3	AA-
2003	4,256,356	NPFG[3]	09/01/2033	A3	AA-
2004	3,474,371	NPFG[3]	09/01/2034	A3	AA-
2006	3,110,214	Assured Guaranty[4]	02/01/2037	Aa3	AA-
Total Surety Bond Amounts	$ 54,241,613				
Cash Deposit from 2008 Bond Proceeds	$ 8,936,113				
Cash Deposit from 2010 Bond Proceeds	7,748,123				
Total Cash and Surety Bonds	$ 70,925,849				
Reserve Fund Requirement	$ 54,331,059				

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

(2) National Public Finance Guarantee Corp., a wholly-owned subsidiary of MBIA, Inc. (“NPFG”). Originally insured by Financial Guaranty Insurance Company.

(3) Originally insured by MBIA.

(4) Originally insured by Financial Security Assurance Inc..

Outstanding Parity Bonds

The outstanding 2005 Bonds, 2006 Bonds, 2008 Bonds, 2010A Bonds, 2010B Bonds, and 2012 Bonds issued by the City and secured by revenues of the Water System 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

Bond Description	Original Par Amount	Outstanding Principal on 6/10/2015
Water System Revenue and Refunding Bonds, 2003	$ 271,320,000	$ - [1]
Water System Revenue and Refunding Bonds, 2005	138,040,000	5,540,000 [1]
Water System Revenue and Refunding Bonds, 2006	189,970,000	118,620,000 [1]
Water System Revenue and Refunding Bonds, 2008	205,080,000	19,045,000 [1]
Water System Revenue Bonds, 2010A	109,080,000	109,080,000
Water System Revenue and Refunding Bonds, 2010B	81,760,000	58,100,000
Water System Refunding Revenue Bonds, 2012	238,770,000	226,565,000
Water System Improvement and Refunding Revenue Bonds, 2015	340,840,000	340,840,000
Total	$ 1,574,860,000	$ 877,790,000

(1) Excludes the Refunded Bonds, expected to be defeased on June 10, 2015. See "Use of Proceeds—Refunding Plan."

Other Outstanding Obligations

The City has entered into agreements with the Washington State Department of Community, Trade and Economic Development under its Public Works Assistance Account Loan Program for the construction of certain capital improvements since 1993. The loans currently in place or available to the City are described below. These loans are secured by a lien on Net Revenue of the Water System junior to that of the Parity Bonds.

PUBLIC WORKS ASSISTANCE ACCOUNT LOANS
(AS OF DECEMBER 31, 2014)

Year of Agreement	Amount Outstanding	Interest Rate
2005	$ 2,551,579	1.50%
2007	2,468,889	1.50%
2008	2,073,158	1.50%
2010	2,420,248	1.50%
2010	6,607,582	1.50%
2014	- [1]	1.50%
Total	$ 16,121,456	

(1) Maximum principal amount of loan is not to exceed $12,120,000. The City expects to draw the full amount within the next 12 months.

Future 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:

(i) a certificate of the Director of Finance showing that, during any 12 consecutive months out of the preceding 24 months, Adjusted Net Revenue was at least equal to 1.25 times the Adjusted Annual Debt Service (the "Coverage Requirement") for all Parity Bonds plus the Future Parity Bonds to be issued, or

(ii) a certificate of the Director of Finance and the Director of SPU stating that, in their opinion, the Adjusted Net Revenue (taking into account certain permitted revenue adjustments) will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on the Future Parity Bonds to be issued is capitalized or, if no interest is capitalized, the year in which the Future Parity Bonds are issued, or (b) the date on which substantially all the facilities financed with those Future Parity Bonds are expected to commence operations.

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.

Parity Payment Agreements. The City may enter into Parity Payment Agreements 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.

Contract Resource Obligations. The City may enter into Contract Resource Obligations to acquire water supply, transmission, 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.

Rate Covenant

The City has covenanted to establish, maintain, and collect rates and charges for water service that will produce Adjusted Net Revenue of the Water System in each fiscal year at least equal to the Coverage Requirement. See Appendix A—Bond Ordinance—Section 1 for definitions of "Adjusted Net Revenue" and "Adjusted Annual Debt Service" and—Section 16(b).

Rate Stabilization Account. The City may deposit Gross Revenue and any other money received by the Water System into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the Water System. Such deposits and withdrawals may be made up to and including the date that is 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year. As of December 31, 2014, the balance in the Rate Stabilization Account was $27.8 million. The rate proposal currently under consideration by the City Council also includes authorization to withdraw up to $8.3 million from the Rate Stabilization Account during the period 2015-2017. See "Water System—Financial Policies" and 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 Water System, sale of the Water System, and preservation of tax exemption of interest on the Bonds. See Appendix A—Bond Ordinance—Section 16.

Separate Utility Systems

The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission, or other commodity or service. The revenue of the separate system will not be included in Gross Revenue, 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 Water 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.

Combined Utility Systems

The City has reserved the right to combine the Water System with other City utility systems, including their funds and accounts. See the definition of "Municipal Water System" in Appendix A—Bond Ordinance—Section 1. Also see "Seattle Public Utilities—Administrative Structure" for a description of existing City utilities that have reserved the right to combine with other City utilities.

Debt Service Requirements

The following table shows the debt service scheduled to be paid from the Net Revenue of the Water System.

DEBT SERVICE ON THE OUTSTANDING PARITY BONDS(1)

Year	2003(2)	2005(2)	2006(2)	2008(2)	2010A(3)	2010B	2012	The Bonds Principal	The Bonds Interest	Total
2015	$ 357,000	$ 8,336,825	$ 12,120,375	$ 10,658,650	$ 6,100,956	$ 8,067,000	$ 21,498,650	$ 4,350,000	$ 6,144,702	$ 77,277,158
2016	-	-	11,134,125	6,836,375	6,100,956	8,071,600	21,467,400	12,880,000	15,472,800	81,963,256
2017	-	-	11,130,500	6,832,000	6,100,956	8,077,200	21,410,650	9,275,000	15,112,125	77,938,431
2018	-	-	8,465,500	6,836,750	6,100,956	8,088,400	21,373,400	10,850,000	14,609,000	76,324,006
2019	-	-	8,461,875	-	9,460,956	4,769,600	21,343,400	18,460,000	13,876,250	76,372,081
2020	-	-	8,469,000	-	9,409,044	4,777,850	21,398,900	19,780,000	12,920,250	76,755,044
2021	-	-	8,466,375	-	9,357,229	4,789,350	22,569,150	17,995,000	11,975,875	75,152,979
2022	-	-	8,468,625	-	9,304,914	4,800,950	22,676,650	19,050,000	11,049,750	75,350,889
2023	-	-	8,465,250	-	9,243,120	4,810,450	22,429,900	20,015,000	10,073,125	75,036,845
2024	-	-	8,470,625	-	9,184,699	4,825,450	13,149,400	21,060,000	9,046,250	65,736,424
2025	-	-	8,469,125	-	9,109,559	4,840,200	13,150,400	22,110,000	7,967,000	65,646,284
2026	-	-	8,465,375	-	9,033,152	4,849,200	13,154,900	20,135,000	6,910,875	62,548,502
2027	-	-	8,463,750	-	8,966,001	4,867,200	13,151,650	17,640,000	5,966,500	59,055,101
2028	-	-	8,458,625	-	8,885,868	-	13,159,250	18,540,000	5,062,000	54,105,743
2029	-	-	13,068,588	-	8,804,708	-	13,155,650	15,150,000	4,219,750	54,398,696
2030	-	-	6,920,900	-	8,716,804	-	13,163,150	9,900,000	3,593,500	42,294,354
2031	-	-	6,918,538	-	8,626,705	-	13,164,150	10,355,000	3,138,900	42,203,293
2032	-	-	6,920,713	-	8,520,033	-	10,217,400	10,785,000	2,716,100	39,159,246
2033	-	-	6,916,975	-	8,412,265	-	10,221,600	6,760,000	2,365,200	34,676,040
2034	-	-	6,916,875	-	8,297,817	-	4,960,800	7,035,000	2,089,300	29,299,792
2035	-	-	6,919,738	-	8,178,560	-	-	7,320,000	1,802,200	24,220,497
2036	-	-	6,920,000	-	8,056,639	-	-	7,620,000	1,503,400	24,100,039
2037	-	-	6,917,213	-	7,926,465	-	-	7,935,000	1,192,300	23,970,978
2038	-	-	-	-	7,792,745	-	-	8,260,000	868,400	16,921,145
2039	-	-	-	-	7,649,888	-	-	2,220,000	658,800	10,528,688
2040	-	-	-	-	7,507,601	-	-	2,310,000	568,200	10,385,801
2041	-	-	-	-	-	-	-	2,405,000	473,900	2,878,900
2042	-	-	-	-	-	-	-	2,505,000	375,700	2,880,700
2043	-	-	-	-	-	-	-	2,605,000	273,500	2,878,500
2044	-	-	-	-	-	-	-	2,710,000	167,200	2,877,200
2045	-	-	-	-	-	-	-	2,825,000	56,500	2,881,500
Total	$ 357,000	$ 8,336,825	$ 195,928,663	$ 31,163,775	$ 214,848,593	$ 75,634,450	$ 326,816,450	$ 340,840,000	$ 172,249,352	$ 1,365,818,107

(1) Totals may not add due to rounding.

(2) Excludes the Refunded Bonds.

(3) Does not reflect the 35% federal interest rate subsidy associated with the 2010A Bonds. See “Federal Sequestration.”

Federal Sequestration

The sequestration provisions of the Budget Control Act of 2011 went into effect on March 1, 2013, and are currently scheduled to remain in effect through federal fiscal year 2024. With respect to the City's outstanding water system revenue Build America Bonds issued in 2010, 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 payments from the federal government that came due in federal fiscal year 2014 were reduced by 7.2% ($153,744), payments in federal fiscal year 2015 have been or will be reduced by 7.3% ($155,879), and payments in federal fiscal year 2016 will be reduced by 6.8% ($145,203). The City has sufficient cash available in the Water Fund to make timely debt service payments through its 2015 budget cycle, and does not expect sequestration to materially adversely affect its ability to make debt service payments in the current or future years.

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 Water System, including the Water Fund, with other City utility systems, funds, and accounts. The City also has reserved the right to combine the Drainage and Wastewater System (including the Drainage and Wastewater Fund) and the Solid Waste System (including the Solid Waste Fund) with other City utility systems, funds and accounts.

Management

SPU consists of the Director's Office and eight Executive Branches: Human Resources and Service Equity, Customer Service, Finance and Administration, Utility Services, Project Delivery, Drainage and Wastewater, Solid Waste, and Water and Shared Services. This organizational structure was created in 2014 as part of the implementation of SPU's Strategic Business Plan, which is intended to guide the utility's business through 2020. One of the primary changes was to create management positions with direct responsibility for each of the three utility lines of business. 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 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.

Kimberly Collier, Deputy Director for Human Resources and Service Equity Branch. Ms. Collier was appointed to establish and lead the branch in 2009. The Human Resources and Service Equity branch is comprised of four corporate services divisions: Human Resources, HR Operations and Data Management, Safety and Environmental Health, and Environmental Justice and Service Equity. 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.

Susan Sánchez, Deputy Director for Customer Service. Ms. Sánchez was appointed as 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 Director for the Customer Programs and Contract Management Division, which manages the City's graffiti abatement and education, waste prevention, resource conservation, and community stewardship programs. She 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 Planning, Policy, and Major Projects Division for the Seattle Department of Transportation. Ms. Sánchez holds a bachelor's degree in urban planning from the University of Washington.

Melina Thung, Deputy Director for Utility Services. Ms. Thung was appointed to this position in 2014 and oversees the branch's activities, including implementation of SPU's Strategic Business Plan, asset management standards and methods, corporate policy and strategy, climate adaptation, web services, and risk and quality assurance for the branch. Prior to holding this position, she was Deputy Director for Finance and Administration and also formerly served SPU in the roles of finance director, budget analyst, budget manager, and environmental planner. Ms. Thung 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.

Sherri Crawford, Interim Deputy Director for Finance and Administration. Ms. Crawford was appointed to this position in 2014 and oversees the branch's activities, including finance, information technology, and fleet and facilities management. Prior to holding this position, she was Finance Director for SPU. She held similar positions at the Cities of Auburn and Tacoma. Ms. Crawford holds a bachelor's degree in business administration from the University of Wisconsin and a master's degree in public administration from Seattle University.

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 Alaskan Way Tunnel project 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).

Nancy Ahern, Interim Deputy Director for Drainage and Wastewater Line of Business. Ms. Ahern was appointed to this position in 2015 and oversees the operations of SPU's Drainage and Wastewater business. Prior to this position, she served as the Deputy Director for Utility Systems Management. Before joining SPU in 2001, she spent more than 15 years in state and local government service, focusing on utilities and natural resource management. She served as manager of the Water and Land Resources Division in the King County Department of Natural Resources, and prior to that, she worked in the City of Bellevue Utilities Department for six years and for the Puget Sound Water Quality Authority. Ms. Ahern holds a bachelor's degree in biology and environmental studies from Principia College, a master's degree in organizational systems and renewal from Seattle University, and a Ph.D. degree in natural resource management from the University of Michigan. Ms. Ahern will be retiring from SPU at the end of May 2015; her replacement is expected to be named at that time.

[Vacant], Deputy Director for Solid Waste Line of Business. The newly created position of Deputy Director for Solid Waste Line of Business is currently unoccupied. This position is expected to be filled by the end of 2015. Until the position is filled, the solid waste planning area is being directed by Ms. Ahern and the solid waste operations function is being led by Rick Scott.

Rick Scott, Deputy Director for Water Line of Business and Shared Services. Mr. Scott was appointed as Deputy Director of the Water Line of Business and Shared Services in November 2014. He also leads the shared services functions that support SPU's three lines of business, which include drinking water, solid waste, and drainage and wastewater. He joined SPU in 2010 as Director of SPU's Distribution and Transmission Division and was appointed Deputy Director of the former Field Operations and Maintenance branch in 2011. Prior to joining SPU, he served as the Water Treatment superintendent for the City of Glendale Arizona, where he worked for 24 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.

Employment Retirement System and Employee Relations

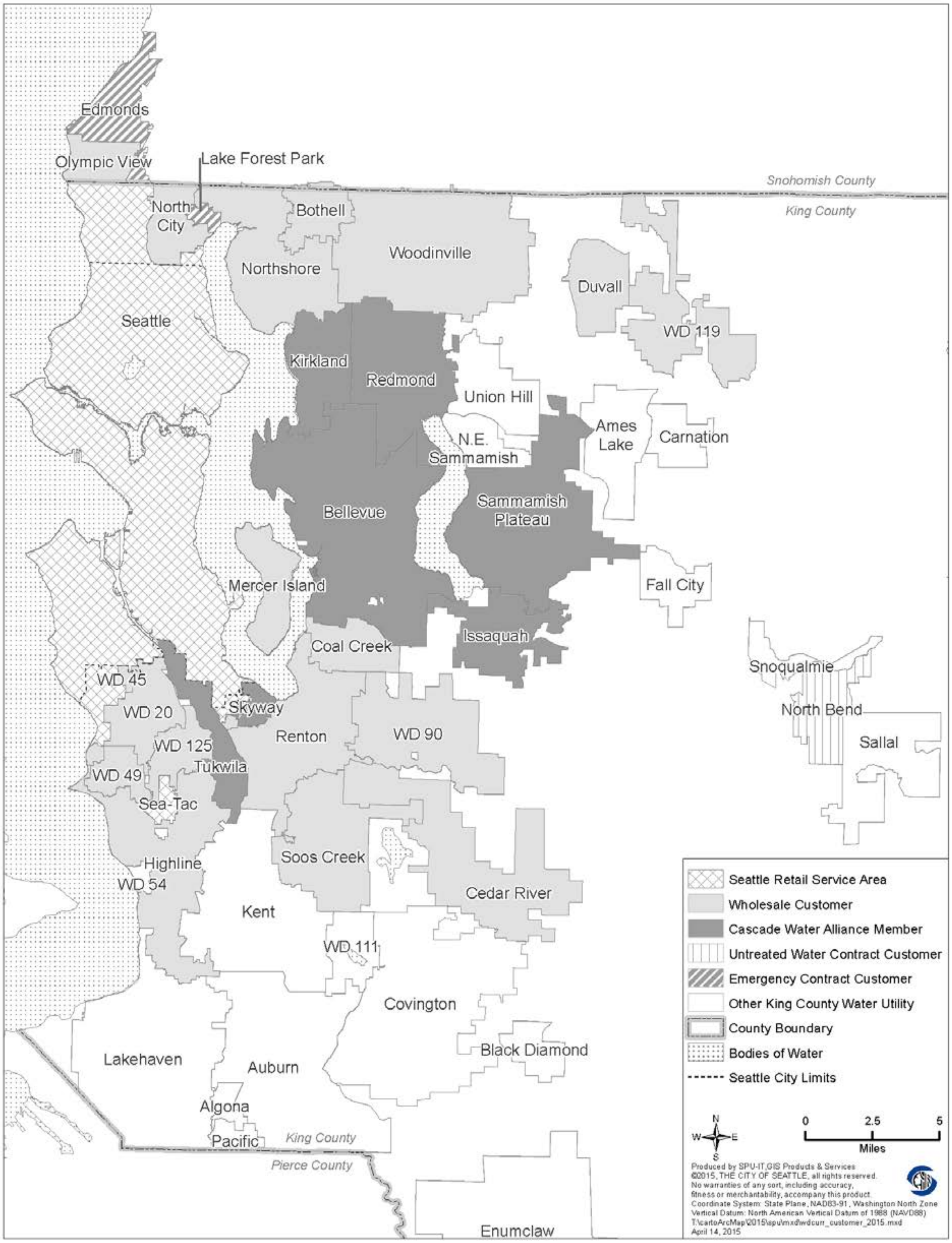
Currently SPU has approximately 1,400 employees, approximately 70% of whom are represented under one of ten labor agreements with the Coalition of City Unions. See "The City of Seattle—Labor Relations."

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."

WATER SYSTEM

General

The Water System was established in 1890. It currently includes two watershed sources of supply east of the City and two small wellfields south of the City, as well as approximately 1,800 miles of pipeline and 320 million gallons ("MG") of storage capacity in treated water transmission and distribution reservoirs. The Water System's service area includes retail service to Seattle and portions of the Cities of Shoreline, Burien, and Lake Forest Park, as well as a portion of unincorporated King County (the "direct service area"), and wholesale service to areas served by 21 suburban water districts and municipalities plus the Cascade Water Alliance ("Cascade") (together, the "Wholesale Customers") in King County (the "County") and south Snohomish County. (See "Wholesale Customer Contracts".) The population of the Water System's direct service area is approximately 682,000, and the population indirectly served through the Wholesale Customers is approximately 655,000. The map on the following page shows the direct service area and the locations of the Wholesale Customers. A summary of operating statistics for the Water System follows.


Edmonds
Olympic View
Lake Forest Park
Snohomish County
King County
North City
Bothell
Woodinville
Northshore
Duvall
Seattle
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Union Hill
Ames Lake
Carnation
N.E. Sammamish
Sammamish Plateau
Bellevue
Fall City
Mercer Island
Coal Creek
Issaquah
Snoqualmie
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Skyway
North Bend
WD 20
Renton
WD 90
Sallal
WD 125
Tukwila
WD 49
Sea-Tac
Soos Creek
Highline
WD 54
Cedar River
Kent
WD 111
Covington
Black Diamond
Lakehaven
Auburn
Algona
Pacific
King County
Pierce County
Enumclaw
Seattle Retail Service Area
Wholesale Customer
Cascade Water Alliance Member
Untreated Water Contract Customer
Emergency Contract Customer
Other King County Water Utility
County Boundary
Bodies of Water
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fitness or merchantability, accompany this product.
Coordinate System: State Plane, NAD83-91, Washington North Zone
Vertical Datum: North American Vertical Datum of 1988 (NAVD88)
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April 14, 2015

TABLE 1
WATER SYSTEM OPERATING STATISTICS

	2010	2011	2012	2013	2014
Population Served					
Retail	664,458	669,654	672,674	678,000	682,000
Wholesale (1)	628,536	634,193	642,257	648,000	654,700
Total Population Served	1,292,994	1,303,847	1,314,931	1,326,000	1,336,700
Water Sales Revenues ($000) (2)(3)					
Retail	$ 136,443	$ 137,382	$ 152,606	$ 168,126	$ 179,935
Wholesale	45,073	44,050	49,975	56,026	53,647
Total Water Sales Revenues	$ 181,515	$ 181,432	$ 202,581	$ 224,152	$ 233,582
Billed Water Consumption (MG) (3)					
Retail	19,868	19,305	19,657	19,769	19,575
Wholesale	20,437	20,922	21,236	21,405	21,986
Total Billed Water Use	40,305	40,227	40,893	41,174	41,561
Operating Costs ($ per MG) (4)	$ 4,075	$ 3,842	$ 3,996	$ 4,287	$ 4,438
Gallons Used per Day per Capita	85	85	85	85	85
Retail Meters in Use	188,332	188,754	189,204	190,289	191,403
Number of New Retail Meters	7,650	422	450	1,085	1,114
Total Water Diversions from Sources (MGD)	118.4	117.9	120.5	120.9	121.5
Non-Revenue	8.0	7.7	8.5	8.1	7.6
% Non-Revenue	6.7	6.5	7.0	6.7	6.3

(1) This is the estimated total population served by SPU's water supply. As some Wholesale Customers obtain some of their water from sources other than SPU, this number is less than the total population of the shaded areas on the map on the previous page.

(2) Calculated on a revenue basis. Revenues represent payments from customers for service provided at published rates in each year as well as contractual payments from certain Wholesale Customers. Revenues shown are not net of transfers to the Rate Stabilization Account or other credits or deferrals of income.

(3) Revenue increases have primarily been a result of increases in rates and wholesale consumption, as retail consumption has steadily decreased, due largely to conservation efforts. Variations in billed water use are primarily associated with year-to-year variations in temperature and precipitation in the summer irrigation period. There has been no significant change in the geographic area served.

(4) The per-unit operating costs in 2010 include a temporary increase in the City's utility tax rate and increased amortization expense, both due to *Lane v. City of Seattl*e. See "Water Rates."

Source: Seattle Public Utilities

Comprehensive Planning

The SPU Water System Plan (the "Water System Plan") is a 20-year comprehensive plan for the Water System that is updated every six years. The most recent Water System Plan was approved by the Washington State Department of Health (the "DOH") in 2013. The Water System Plan provides guidance for planning and operating the Water System, and includes objectives for the next six years in the areas of water quality, maintenance and rehabilitation, water conservation, and water supply.

Water Supply

The Water System's two surface water supply diversions are located on the Cedar River and on the South Fork of the Tolt River, each approximately 25 miles east of Seattle. The watershed areas upstream of the water supply intakes on these two rivers consist of approximately 104,000 acres of forest land in the Cascade Mountains of western Washington. Rainfall in the watersheds averages in excess of 100 inches annually. The snow pack at higher elevations averages five feet per year. In 2015, the snowpack was significantly below this level. See "Financial Performance and Projections." Raw water storage capacity is 47,000 acre-feet in the Cedar River Watershed and 56,000 acre-feet in the South Fork Tolt Watershed. Two barge-mounted pumping plants on Chester Morse Lake in the Cedar River Watershed provide access to an additional 41,000 acre-feet of stored water. New pumping plants are being constructed in 2015 that, while more reliable, have been designed to access 27,000 acre-feet.

The City has diverted water from the Cedar River for use by the Water System since 1901. The City acquired this right by purchase, riparian right, appropriation, and other applicable laws. This claim of water rights, its relationship to instream flow requirements, and the effect of the City's diversion dam in blocking the passage of anadromous fish have been addressed in the Cedar River Watershed Habitat Conservation Plan (the "HCP"), a comprehensive, 50-year set of legal agreements with State and federal governments signed in 2000. In 2006, in a comprehensive settlement with the Muckleshoot Indian Tribe regarding the Cedar River Watershed, the City agreed to further limits on its annual diversions. The City agreed to dedicate that portion of its water right above 124 million gallons per day ("MGD") to instream flows and to certain limits on its annual diversions from the Cedar River in perpetuity. The agreement resolved long-standing issues between the City and the Muckleshoot Indian Tribe and strengthened the status of the City's water rights on the Cedar River.

The South Fork of the Tolt River came on line in 1964. The City's water rights on the South Fork of the Tolt River were established by permits for water storage and water diversion granted by the State in 1957, with a priority date of July 14, 1936. The reservoir storage certificate was issued in 2003, but the diversion water right remains in permit status. The City's diversions from the South Fork of the Tolt River are not subject to instream flow restrictions established in 1979 for the Snohomish River under the Instream Resources Protection Program because of the earlier priority date. However, in 1989, the Federal Energy Regulatory Commission granted a license to Seattle City Light to build a hydroelectric power plant on the South Fork of the Tolt River, resulting in modifications to the terms of the original water permits, including the establishment of minimum instream flows. In 1997, Seattle City Light documented the full beneficial use of the water needed for the hydropower plant and received a certificate of water right.

In two wellfields located immediately north of the Seattle-Tacoma International Airport (the "Seattle Well Fields"), the City has developed three supply wells with a combined capacity of 10 MGD to augment the City's surface water supply. The feasibility of augmenting recharge of the aquifer with surplus winter-spring flows from the Cedar River has been tested successfully. The wells are operated under temporary permits from the State of Washington Department of Ecology ("Ecology"). The City has applied for permits that can be converted into water rights.

The City also has water rights applications on file with Ecology for potential future sources of supply, including the North Fork of the Tolt River and the Snoqualmie Aquifer.

Future Water Supply and Conservation

At present, SPU has adequate supply resources to meet Water System demands under a wide range of weather conditions. Existing sources of supply owned by the City provide an average annual firm yield of 172 MGD. The current firm yield is based on an update completed in 2011 to represent current operating conditions, namely the use of the current spring refill target of elevation 1,563 feet for Chester Morse Lake and the use of a revised monthly demand distribution based upon the actual demand in 2005 through 2009. Demand in the service area has averaged 120 MGD since 2010.

While population has steadily risen in the service area, water demand has generally been decreasing due to conservation. Consumption has risen slightly since 2011 but is still below pre-recession levels. Conservation has been encouraged through higher marginal rates in the summer peak season, aggressive water conservation programs, new state plumbing codes specifying efficiency standards for water fixtures, and improved Water System operations.

SPU and 18 of the Wholesale Customers operate regional conservation programs collaboratively as the Saving Water Partnership. These regional conservation programs provide opportunities for customers within the direct service area and the service areas of participating Wholesale Customers.

In 2003, the State Legislature passed a Municipal Water Law that resulted in the adoption of water use efficiency rules by the DOH. The rules include planning requirements, distribution leakage standards, water use efficiency goal-setting, and performance reporting. The Water System Plan includes a six-year regional conservation goal to achieve compliance with the Municipal Water Law for 2013 through 2018. The goal is to reduce per capita water use from current levels so that total average annual retail water use of members of the Saving Water Partnership is less than 105 MGD from 2013 through 2018 despite forecasted population growth. The Saving Water Partnership met the Regional Water Conservation Program goal in 2013 and 2014, with annual retail water use of members of the Saving Water Partnership at 93.1 MGD and 93.8 MGD, respectively.

Current forecasts of demand and supply included in the Water System Plan indicate that a new primary source of supply will not be needed before 2060, which is the end of the planning horizon currently used by SPU. This is due in part to the impact of the conservation savings noted above and in part to the declining-block contract with Cascade. See "Wholesale Customer Contracts." SPU considered the potential uncertainties associated with demand forecasts, as well as the potential impacts future climate change may have on its water supplies and demands, in determining that no significant investments in new sources are needed before 2060. See "Climate Change." Nevertheless, in addition to new conservation programs, several potential water resources are identified in the Water System Plan. These include:

(i) development of the Snoqualmie River Valley/North Bend Aquifer,

(ii) use of a permanent pumping plant at Chester Morse Lake for normal supply,

(iii) drawdown of Lake Youngs (which stores water from the Cedar River) for water supply,

(iv) additional drawdown of the reservoir on the South Fork of the Tolt River,

(v) development of a new source of supply at the North Fork of the Tolt River, and

(vi) development of reclaimed water projects in the direct service area.

These new resource alternatives vary in the amount of new supply provided, capital and operating costs, and level of effort needed to develop. SPU has not selected a preferred next source of supply.

Endangered Species Act

In 1999, the National Marine Fisheries Service ("NMFS") listed the Puget Sound Chinook salmon, which migrate through waterways within and adjacent to the City, as a "threatened species" under the Endangered Species Act (the "ESA"). NMFS subsequently finalized a "4(d) rule" extending the ESA's prohibition against "take" to Puget Sound Chinook salmon. This rule enables jurisdictions to submit plans that, if approved, would limit the application of the general prohibition to activities covered in the plan. Eligible activities include certain municipal, residential, commercial, and industrial development activities, certain road maintenance activities, and certain forestry activities. The full implications of this listing and the 4(d) rule for the Water System are difficult to predict due to the many legal and scientific uncertainties associated with the application of the ESA to water supply operations.

In an effort to reduce uncertainty with regard to its largest water supply source, the Cedar River, the City entered into the HCP with the U.S. Fish and Wildlife Service ("USFWS") and NMFS in 2000. The HCP specifies the measures the City will undertake to minimize and mitigate potential impacts on listed species. The HCP commits the City to spend about $106 million (in 2014 dollars) to improve conditions for fish and wildlife within the Cedar River Watershed through the year 2050. See "Watershed Management Policies" and "Capital Improvement Program." While these measures include commitments to instream flow levels, the Water System's estimated firm yield is not expected to be impacted adversely by the HCP. The incidental take permit, which the City was issued when the HCP was approved, protects the City from ESA liability resulting from potential impacts of the Water System's Cedar River operations on Chinook salmon, bull trout, steelhead, northern spotted owls, marbled murrelets, and approximately 76 other species of fish, mammals, birds, and amphibians known to be present and potentially affected by the City's water supply and hydroelectric and land management activities.

The second major Water System supply is drawn from the South Fork of the Tolt River with the aid of a dam. Streamflow levels downstream from the impoundment are affected by dam operations and water diversions, with potential impacts on Chinook salmon and steelhead, which are both listed under the ESA as threatened. The City, tribes, and several federal agencies entered into the Tolt River Settlement Agreement in 1988, which included commitments for streamflows and habitat improvements that are intended to mitigate for impacts caused by the City's water supply and power generation operations.

Bull trout also have been listed as threatened and endangered and other fish listings can be anticipated. Because it is unknown whether bull trout are present in the Tolt River, the impact of the bull trout listing on the Tolt River and other City operations is unknown.

To further manage legal risks, the City has invested in Chinook salmon research for its major waterways and participated in regional watershed planning for the Cedar River, the Snohomish/Tolt Rivers, and the Green/Duwamish Rivers. As a result, the City has assembled substantial data on Chinook salmon and new scientific methods that provide the basis for development of best management practices in several key City activity areas, including for water maintenance activities within road rights-of-way. In addition, salmon research and funding of staff at federal regulatory agencies responsible for ESA Section 7 consultations are allowing better project design, which is expected to result in fewer anticipated permit delays.

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

Transmission Facilities

The transmission facilities of the Water System consist of multiple primary transmission lines from the Cedar River, one transmission line and substantial portions of a second line from the Tolt River ("Tolt 1" and "Tolt 2," respectively), and a network of supply mains throughout the service area. In all, there are approximately 160 miles of primarily concrete or steel pipelines ranging in diameter from 30 to 96 inches.

After two segments of Tolt 1 ruptured in the late 1980s, the entire pipe was replaced or sliplined with new pipe by 2005. In addition, for both reliability and new capacity, approximately 18 miles of Tolt 2 were constructed beginning at the Tolt Regulating Basin and running parallel to and interconnecting with Tolt 1 at several locations. SPU is also expanding its cathodic protection program to extend the service life of both steel and concrete cylinder pipelines.

To assist in maintaining water flow to the distribution portion of the Water System, the transmission system includes two regulating basins, seven covered storage reservoirs, and six elevated tanks and standpipes. In addition, there are 15 transmission pumping stations with a total rated capacity of more than 180,000 gallons per minute ("GPM"). The following table shows the hydraulic capacities of the primary transmission lines and the transmission regulating basins and reservoirs of the Water System.

TABLE 2
HYDRAULIC CAPACITY OF INDIVIDUAL COMPONENTS OF THE TRANSMISSION SYSTEM [1]

Facility	Capacity
Transmission Lines (MGD)	
Cedar River	200
Tolt River	135
Total	335
Raw Water Storage Facilities (MG)	
Lake Youngs (regulating basin)[2]	4,812
Tolt Regulating Basin[2]	312
Total	5,124
Treated Water Storage Facilities (MG)	
Transmission Reservoirs	215
Elevated Tank and Other Storage	7
Total	222

(1) Treatment capacity is 120 MGD on the Tolt River source and 180 MGD on the Cedar River source. Equalizing reservoirs (clearwells) at the outlet of the treatment plants (5 MG on the Tolt River source and 20 MG on the Cedar River source) make it possible to deliver higher flow rates as needed into the transmission system for several hours. Averaged over several days, though, effective transmission capacity cannot exceed treatment capacity, as all water must be treated.

(2) Effective capacity under current operating guidelines is less than the capacity shown in the table.

Source: Seattle Public Utilities

During the month of record maximum consumption, July 1985, the transmission lines delivered an average of 301 MGD. Water delivery by transmission pipelines on peak days at present typically does not exceed 250 MGD.

In 2009, Tolt Pipelines 1 and 2 were found to cross a historic slide located between the regulating basin and the Tolt Water Treatment Facility. The slide had been dormant, and therefore unknown, since the pipelines were installed in the 1960s and late 1990s, but has become more active, apparently due to a combination of logging in upland areas and erosion by the North Fork Tolt River. This slope movement has affected both pipelines. Since the discovery of the slide, Tolt Pipeline 1 has been kept empty most of the time to reduce the risk of new small joint leaks triggered by the ground movement and aggravating slope stability. A 48-inch double ball joint expansion sleeve was installed on the newer steel Tolt Pipeline 2 to allow the pipeline to better conform to the creeping slide. In addition, SPU initiated an on-going survey and inclinometer monitoring program to track the slide and pipeline movement. Information from outside experts indicates that the potential for catastrophic slope failure is limited, with recommendations for further seismic analysis. Long-term alternatives for addressing this issue could include bypassing a section of the pipelines with a tunnel deep enough to avoid the area of slope movement. Another alternative would be to manage the slowly moving slope indefinitely, by minimizing slope movement where possible and regularly inspecting and re-setting deflected pipe joints. Analysis of the alternatives is expected to result in a recommended option in late 2015. For the near term, SPU has prepared an emergency response plan to provide water service should a slide prevent water deliveries through the Tolt pipelines. One key component of the response would be to deliver water from the Cedar system, including use of the pump station at Tolt Eastside Supply Junction, to deliver water to wholesale customers along the Tolt pipelines. SPU is able to serve all of its customers via the Cedar system if the Tolt system is off-line. Given current water conditions, if there were an extended outage on the Tolt system, all customers would have their normal year-round water needs met by the Cedar system.

Storage and Distribution

Storage of water within the distribution portion of the Water System is accomplished by eight reservoirs, five standpipes, and one elevated tank, with capacities as follows:

TABLE 3
CURRENT CAPACITY OF DISTRIBUTION RESERVOIRS (MG)

Reservoirs	97.0
Standpipes	7.0
Elevated Tank	1.0
Total	105.0

Source: Seattle Public Utilities

The adequacy of SPU's distribution and transmission storage volumes has been demonstrated by using a computerized hydraulic model of the Water System to simulate a suite of emergency and peak demand conditions and other analyses.

In 2011, near the end of construction of the Water System's four buried reservoir projects, the engineering consulting firm involved in the projects notified SPU that there were seismic design deficiencies in all four reservoirs. SPU has analyzed the extent of the deficiencies and designed a solution, and is in the process of making repairs to each of the reservoirs, the cost of which is included in the Water Quality and Treatment Program Area of the CIP. See "Capital Improvement Program." SPU and the City Attorney's office are working with the engineering consulting firm and its insurance carrier on cost recovery.

The distribution system consists of approximately 1,690 miles of predominantly cast iron and ductile iron pipe and some concrete cylinder and steel pipe. To assist in maintaining adequate pressure within the distribution system, there are 16 electric and hydraulic pumping stations with a total rated pumping capacity of more than 100,000 GPM.

The storage and distribution facilities and conservation incentives have met the needs of the expanding population in the service area. Peak day consumption levels as high as 329 MG and 348 MG were recorded on June 29, 1987, and July 15, 1970, respectively. However, since 2003, peak daily consumption has been less than 250 MG.

In 2014, SPU's total uses of non-revenue producing water (leakage, system cleaning and flushing, fire fighting, and lake flushing) were estimated to be 7.6 MGD, or 6.3% of total water produced. The leakage loss portion of non-revenue-producing water for 2014, including meter inaccuracies, was approximately 7.4 MGD.

To reduce missed revenue opportunities, SPU has adopted focused meter testing and meter replacement programs to assure the accuracy of its billing meters. SPU operates approximately 195,000 billing meters, of which 1,900 are large (three-inch to 24-inch), and the rest are small (¾-inch to two-inch). SPU conducts periodic tests of statistically significant samples of small meters and generally has found that these meters tend to remain accurate until sudden and complete failure occurs, which is rapidly detected and replaced. Because large meters tend to gradually lose accuracy with use, SPU has a goal to test every large retail meter at least once every five years. Meters showing greater consumption are tested and replaced more frequently.

SPU also has an on-going large meter replacement program to replace failing meters and certain high-use meters where improved accuracy is likely to translate to revenues sufficient to cover the replacement in three years or less. Approximately one-third of the large meter stock has been replaced since 2007. Additional replacements are planned for meters containing leaded brass components that are now obsolete due to certain federal water regulations that came into effect as of January 1, 2014.

SPU currently serves approximately 11,000 retail customers in the City of Shoreline, directly north of Seattle, through its distribution system. This represents approximately half of the retail customers in the City of Shoreline. The remainder are served by the North City Water District, which is a Wholesale Customer. In November 2009, the City of Shoreline requested to begin negotiations to acquire SPU's water distribution system to provide retail service within its city limits and to establish its own municipal water utility. Under the ordinances of the City authorizing the issuance of the Outstanding Parity Bonds, the City may sell or transfer any facilities or property of the Water System if the aggregate depreciated cost value of the facilities or property being transferred in any fiscal year comprises no more than 3% of the total assets of the Water System. This threshold will increase to 5% following the retirement of the 2003 Bonds, as is currently anticipated in the Refunding Plan. See Appendix A—Bond Ordinance—Section 16(c). The aggregate depreciated cost of value of SPU's water distribution system in Shoreline is less than 3% of the total assets of the Water System. In early 2015, after several years of discussion, the City determined that a sale is not in the best interests of Seattle ratepayers and the region at this time. SPU is now pursuing policy discussions with Shoreline to determine how it can address some of the interests Shoreline expressed during the acquisition discussions.

Seismic Impact on System Reliability

A comprehensive seismic evaluation of the Water System was completed by a consultant in 1990. This evaluation considered two levels of probabilistic seismic ground motions. The lower level ground motions were defined to have an approximately 40% probability of exceedance in 50 years or an average return interval of 100 years. The upper level ground motions corresponded to the building code design ground motions at that time, with a 10% probability of exceedance in 50 years or an average return interval of 472 years. Based on the findings of the 1990 study, many critical facilities were seismically upgraded.

The 1965 and 2001 Puget Sound earthquakes demonstrated that the SPU water system can withstand moderate earthquakes with relatively minor damage. However, during the 1990s, it became apparent to seismologists that the seismicity of the Puget Sound area was much higher than previously believed and that the Seattle Fault Zone that runs through Seattle and Bellevue was seismically active. It was found that earthquakes much larger than the 1965 and 2001 events have occurred in the past and will occur in the future in the Seattle area. Building code, seismic ground motions, and seismic design requirements in the Puget Sound region were significantly increased to reflect the increased seismic hazard posed by these larger earthquakes. SPU will be reevaluating its water system facilities and developing an earthquake mitigation plan to further improve facility and system performance during and after a major earthquake. This study is expected to be completed in 2016. Currently, SPU is working to upgrade the seismic capabilities of several reservoirs. See "Storage and Distribution."

Emergency Preparedness and Security

SPU has an active program to identify and analyze risks to the Water System's critical assets and systems, and to invest in strategies to lower risks, develop emergency plans, and train employees for improved response. SPU conducts vulnerability and risk assessments, invests in mitigation and security countermeasures, and partners with local, State, and federal agencies to coordinate planning and response activities.

The Water System's integrated security system includes access control devices, door and hatch contacts, alarms, closed circuit television, and around-the-clock monitoring and surveillance. Additional physical security measures are in place at the Cedar River and South Fork Tolt Watersheds. The reservoir covering program is providing communities with multiple benefits, including improved water quality and security.

SPU has developed and equipped a wildland fire crew to attack and suppress wildland fires that may threaten the Cedar River or South Fork Tolt Watersheds. To supplement classroom training and planned field exercises, the team participates in mobilization training missions on actual wildfire events at the request of the local, State, or federal governments during wildfire emergencies.

Water Quality

SPU has a comprehensive source-to-tap water quality management program. Water quality is ensured through an integrated effort of source protection, state-of-the-art treatment, and ongoing monitoring throughout the Water System for potential microbial and chemical contaminants.

SPU owns more than 99% of the Cedar River Watershed and 70% of the South Fork Tolt Watershed (the other 30% is U.S. Forest Service land) above the intake points. Protection of the two watersheds from agricultural, industrial, and recreational activities helps ensure that high quality water is delivered to the Seattle area. In addition to the two primary surface sources, the Seattle Well Fields periodically provide a small portion of the City's water supply. These wells are deep and afford natural protection from contamination.

In 2001, SPU commissioned a new treatment plant for the Tolt source with a maximum treatment capacity of 120 MGD. The Tolt filtration plant is operated under a long-term contract with American Water/CDM. The plant provides primary treatment for the Tolt source using treatment processes including ozonation, direct filtration, and pH and alkalinity adjustment, and chlorination.

On the Cedar River source, water is screened and fluoridated at the Landsburg Cedar River Diversion facilities ahead of traveling through transmission pipelines to Lake Youngs. Primary treatment for the source is provided by the Cedar Water Treatment Plant at the outlet of Lake Youngs, which was commissioned in 2004 with a maximum treatment capacity of 180 MGD. The Cedar treatment plant is operated under a long-term contract with CH2M HILL OMI. The plant treatment processes include ozonation, ultraviolet light disinfection, pH adjustment, and chlorination.

When the Seattle Well Fields are in operation, treatment includes chlorination, fluoridation, and pH adjustment. The intent of treatment is to protect public health and to comply with treatment and monitoring requirements of the DOH. SPU operates a water quality laboratory accredited by Ecology for bacteriological and chemical analyses to help ensure compliance with drinking water standards.

As an operator of a public water system, SPU must comply with treatment and monitoring requirements of the Safe Drinking Water Act of 1974 as amended and any additional requirements as specified by the DOH. Water quality parameters and regulations of particular significance are discussed below.

Surface Water Treatment. The federal Surface Water Treatment Rule established filtration and disinfection requirements for public water systems utilizing surface sources. Since startup of the Tolt Treatment Facility in 2001, the Tolt source has been treated to meet these requirements.

The Surface Water Treatment Rule also established criteria for unfiltered systems with a Limited Alternative to Filtration, including (i) watershed protection and management, (ii) raw water quality, (iii) treatment efficiency and redundancy, and (iv) some aspects of distribution system water quality. In 2004, SPU began operation of the new Cedar Treatment Facility under the requirements of the Limited Alternative to Filtration.

In 2006, the United States Environmental Protection Agency (the "EPA") issued the Long-Term 2 Enhanced Surface Water Treatment Rule, which requires higher levels of treatment for water sources with higher levels of *Cryptosporidium*. SPU has completed monitoring for *Cryptosporidium* in the Tolt and Cedar sources. The results showed extremely low levels, and no change of water treatment was required. Additional *Cryptosporidium* monitoring will occur in 2015 and 2016 to verify the existing levels.

Lead and Copper. Lead and copper have not been detected in the source water. Lead in water normally comes from plumbing materials, primarily from corrosion of lead solder used to connect copper pipes and corrosion of brass fixtures that contain lead. SPU recognized this as a potential problem over 25 years ago and has been treating the water to reduce its corrosiveness since the early 1980s. The City was the first municipality in the nation to ban the use of lead solder in potable plumbing systems. The steps taken in the last two decades to reduce the corrosiveness of the water have been successful in reducing lead levels at customer taps. Results from residential tap sampling in 2004 showed further reduction in lead and copper levels since the Tolt Treatment Facility came on line, corrosion control was optimized, and two Tolt service area reservoirs were covered. At the request of the DOH, the sampling frame was partitioned in 2004 into four subregions. Monitoring has continued to show that all four subregions are below the lead and copper action levels required by regulations.

Total Coliform Rule. The Total Coliform Rule requires monitoring to demonstrate that a water system is operating and maintaining its distribution system in a way that minimizes the risk of bacterial intrusion or regrowth. SPU collects required monthly samples from its retail service area distribution system and tests for coliforms, which are naturally present in the environment and are used as an indicator of whether other, potentially harmful bacteria may be present. SPU has been continuously in compliance with the Total Coliform Rule. Since the startup of the Cedar Treatment Facility in 2004, SPU has been well within the regulatory requirement of less than 5% of samples with detectable total coliform. The highest detection month since August 2004 was 2.1%, which occurred in July 2008.

Disinfection Byproducts. The use of disinfectants, such as chlorine, to provide protection against microbes in water can result in the formation of disinfection byproducts ("DBPs") when the disinfectants react with organic matter in the water. SPU meets current regulatory standards for DBPs under Stage 1 and Stage 2 DBP Rules.

Open Reservoirs. In 1994, revisions to DOH drinking water regulations required the development of a plan to cover all open distribution reservoirs, and subsequently the Long-Term 2 Enhanced Surface Water Treatment Rule required public water systems to have a state-approved plan for covering or treating finished drinking water reservoirs in place by 2009. SPU has completed its reservoir covering plan. Since 2001, SPU has covered seven reservoirs, and in 2014, SPU removed its remaining two open storage facilities, the Roosevelt and Volunteer Reservoirs, from service on a test basis. This test period may last for two or more years and is intended to determine how the Water System operates without these two reservoirs in service. At the end of these test periods (which may be different for each of the reservoirs), SPU intends to decide whether to decommission each of these reservoirs or to proceed with reservoir covering plans.

Arsenic. EPA's maximum contaminant level for arsenic is ten parts per billion ("ppb"). Testing of the City's two primary drinking water sources from the Cedar and Tolt sources indicate that arsenic is not present above one part per billion, the analytic detection limits. Naturally occurring arsenic concentrations in the Seattle Well Fields have ranged from 1.5 to 5.7 ppb.

Radon. Radon is a radioactive gas that emits ionizing radiation and may be released from tap water. No current rule regulates radon in water. EPA proposed a radon rule in 1999; however, there has been very little activity by EPA in the regulation of radon in drinking water in the past few years, so it is unknown if and when a new regulation might be issued. Radon has not been detected in samples analyzed from the Cedar and Tolt sources. While the seasonally operated Seattle Well Fields contain naturally occurring radon, SPU expects to be able to comply with the proposed radon rule requirements under current operational practices.

Watershed Management Policies

SPU carries out programs of watershed resource management, fire protection, and the protection of water resources within the Cedar River and South Fork Tolt Watersheds. Seattle City Light also operates small hydroelectric plants in the Cedar River and South Fork Tolt Watersheds.

The City's ownership of the Cedar River Watershed has resulted in strengthening forest management, wildlife, and other programs that are based upon comprehensive management policies adopted in 1989 to guide the secondary uses of the watershed. In 2000, the City committed to discontinuing timber harvesting for commercial purposes over the 50-year lifespan of the Cedar River Watershed HCP. While trees may be cut, timber harvests are allowed only when they benefit fish or wildlife populations and support the goals and objectives of the HCP.

The HCP commits the City to improving fish and wildlife habitat, including providing salmonid fish passage above the Landsburg diversion dam, ecological and restoration thinning and planting of more than 17,000 acres of second growth forest, restoration of riparian, wetland, and stream habitats, and the abandonment of more than 200 miles of logging roads in the watershed. See "Water Supply" above.

A watershed management plan was developed for the South Fork Tolt Watershed in 2008 to provide a long-term framework for managing the land and natural resources in the South Fork Tolt Watershed.

Wholesale Customer Contracts

Approximately 23% of water sales revenue is derived from wholesale sales to Wholesale Customers. Wholesale Customers consist of 21 water districts and municipalities served under individual contracts and Cascade, a consortium of seven municipalities and water districts that includes five formerly served under individual contracts.

Since 2001, 18 Wholesale Customers, representing about 56% of total Wholesale Customer consumption and 30% of total Water System consumption, have signed fixed block or full and partial requirements contracts that expire January 1, 2062. The full and partial requirements contracts obligate the City to meet the Wholesale Customers' demand that is not already met by their independent sources of supply. The full and partial contracts also allow the development by Wholesale Customers of alternative sources of water and the reduction of purchases from the City. One customer, Highline Water District, has given notice under the contract that it intends to reduce purchases from the City by an amount up to two MGD (approximately 975,900 hundred cubic feet ("ccf")), effective August 1, 2016.

SPU signed a 50-year declining block sales contract with Cascade in 2003 that capped Cascade's demand from the Water System at 30.3 MGD through 2023, when the block volume would begin to decline in five-year increments until the end of the contract. In 2013, the contract was amended, which allows Cascade to delay its planned development of Lake Tapps in Pierce County as a future potable water supply for its members. The amendment increased Cascade's block size to 33.3 MGD through 2039, after which the block begins to decline in yearly increments until the end of the contract. The amendment also included lump sum payments from Cascade of $5.0 million in 2013, $12.0 million in 2018, and $5.0 million in 2024. Cascade's 2014 demand represents about 44% of total Wholesale Customer consumption and 23% of Water System consumption. Cascade expects to develop sources of supply, including the use of Lake Tapps, to satisfy the future water demands of Cascade members above the block amounts.

In 2008, SPU signed a 60-year partial requirements contract with the City of North Bend to provide untreated water for North Bend's use in supplementing stream flows affected by its well operation. This contract has a cap of 1.1 MGD. Water deliveries began in 2009.

In 2011, two Wholesale Customers (Lake Forest Park Water District and the City of Edmonds) signed emergency intertie agreements with Seattle to replace their previous wholesale supply contracts that were scheduled to expire at the end of 2011. These customers have alternate supplies and did not purchase water from Seattle on a regular basis, and the new contracts more appropriately reflect this status. The new contracts expire in 2062.

The following table lists consumption in hundred cubic feet by individual Wholesale Customers and revenues generated by water sales to individual Wholesale Customers in 2014.

TABLE 4
ANNUAL WATER SALES TO WHOLESALE CUSTOMERS IN 2014[(1)]

Wholesale Customer	Consumption(ccf)	Revenue
Cascade Water Alliance	12,913,266	$ 20,830,850
Northshore Utility District[(2)]	2,541,588	5,385,796
Highline Water District[(3)]	2,159,022	4,172,729
Woodinville Water District[(2)]	1,922,760	3,614,886
Soos Creek Water and Sewer District[(2)]	1,949,246	3,582,825
Water District #20[(2)]	1,264,750	2,408,146
City of Mercer Island[(2)]	1,041,934	2,162,396
North City Water District[(2)(4)]	848,588	1,558,241
Cedar River Water and Sewer District	827,277	1,537,088
City of Bothell[(2)]	751,608	1,412,421
Water District #90[(2)]	594,651	1,158,838
Water District #49	606,746	1,073,512
Coal Creek Utility District[(2)]	555,475	1,069,066
Water District #125	458,505	854,474
Olympic View Water and Sewer District	402,010	775,583
City of Duvall	243,416	450,122
Water District #119[(2)]	150,749	259,653
Water District #45[(2)]	112,930	215,283
City of Renton	47,775	207,777
Other Purveyors	38,477	70,755
Total	29,430,773	$ 52,800,441

(1) Figures are 2014 metered water consumption and associated revenue from SPU records, not net of certain credits, accruals, and allowances included in the audited financial statements. Certain customer contracts also include a payment due when they connect new retail customers to their system.

(2) Indicates Wholesale Customers that buy all their water from SPU.

(3) Highline Water District has given notice under the contract that it intends to reduce purchases from the City by an amount up to 975,900 ccf, effective August 1, 2016.

(4) Formerly Shoreline Water District.

Source: Seattle Public Utilities

Major Retail Water Users

There are no major water-intensive retail customers in the service area. The Water System's ten largest retail water users in 2014 are shown below.

TABLE 5
TEN LARGEST CUSTOMERS

	2014 Revenue ($000)	% of Total Revenue
City of Seattle	$ 3,821	2.13%
University of Washington	3,644	2.03%
Port of Seattle	2,996	1.67%
Seattle Housing Authority	1,642	0.91%
King County	1,208	0.67%
Nucor Steel	862	0.48%
Enwave (formerly Seattle Steam Co.)	718	0.40%
Seattle Public Schools	684	0.38%
CertainTeed Gypsum	523	0.29%
Swedish Medical Group	516	0.29%
Total-Ten Largest Customers	$ 16,614	9.25%

Water Rates

Establishment of Rates. Water rates are proposed by the Mayor, reviewed by the City Council and adopted by ordinance after public hearings. The City Council has exclusive authority to set rates and charges for water services. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

The following table shows historical system-wide water rate increases for the last five years and the adopted water rate adjustment for 2015, 2016, and 2017.

TABLE 6
SYSTEM-WIDE WATER RATE ADJUSTMENTS

Year	Rate Adjustment
2010	9.3%
2011	0.6
2012	9.9
2013	9.7
2014	3.4
2015(1)(2)	(0.4)
2016(2)	2.1
2017(2)	2.8

(1) Decrease in 2015 reflects an adjustment in wholesale rates to reflect past overpayments of allocated costs.

(2) Based on adopted rates.

Source: Seattle Public Utilities

The following table shows the rates in effect as of January 1, 2015. Both retail and wholesale rates are seasonally differentiated; the summer residential rate has an inclining block structure. The structure and basis for rates to Wholesale Customers served through master meters are governed by the Wholesale Customer contracts. The City assists qualified low-income retail customers with their water bills by providing a 50% discount. Income guidelines vary depending on the number of people in the household and monthly and annual income. Income limits are updated every January and are based on 70% of the State median income. Currently, about 12,700 water customers receive a discount.

TABLE 7
MONTHLY RATES EFFECTIVE IN 2015

	Residential[(1)]	Commercial[(1)]	Wholesale
Commodity Charge ($ per ccf)			
Winter (eight months)	$ 4.99	$ 4.99	$ 1.42
Summer (four months)		6.34	2.10
Up to 5 ccf	5.13	n/a	n/a
Next 10 ccf	6.34	n/a	n/a
Over 15 ccf	11.80	n/a	n/a
Basic Service Charge ($ per month)[(2)]			
3/4"	$ 13.75	$ 13.75	n/a
1"	14.20	14.20	n/a
1 1/2"	21.85	21.85	n/a
2"	24.20	24.20	n/a
4"	128.45	128.45	n/a

(1) Retail rates for customers outside the City limits and not within the City of Shoreline or the City of Lake Forest Park are 14% higher than in the table above. Rates for customers within the City of Shoreline and the City of Lake Forest Park are 21% higher than in the table above.

(2) The Basic Service Charge is based on the size of the customer's meter. Rates for larger meters are not shown.

Source: Seattle Public Utilities

Rate Comparisons. SPU's water rates have risen faster than the rate of inflation over the past five years and now are above the average of other cities of its size. The following table shows representative water bills for SPU compared to other cities in the region as of January 1, 2015.

TABLE 8
REGIONAL COMPARISONS
(RATES IN EFFECT AS OF JANUARY 1, 2015)

City	State	Residential (5.5 ccf/month)	Commercial (500 ccf/month)	Industrial (15,000 ccf/month)
Seattle	Washington	$38.93	$ 2,789.20	$81,897.00
Bellevue	Washington	40.30	2,613.07	76,644.23
Tacoma	Washington	35.96	1,006.80	24,202.75
Portland	Oregon	29.54	1,944.36	55,358.63
Everett	Washington	19.54	767.89	18,758.08

Source: SPU Survey

Utility Taxes. The City's retail rates include the cost of paying the State public utility tax (5.029%) and City utility tax (15.54%). The City temporarily increased the City utility tax imposed on SPU from 15.54% to 19.87% in 2009 and 2010 in response to *Lane v. City of Seattle*, 164 Wn.2d 875, 194 P.3d 977 (2008), in which the Washington Supreme Court ruled that the cost of providing fire hydrants was a general governmental activity that must be paid from taxes rather than utility rate revenues. As a consequence, the City's general fund was required to reimburse the Water Fund for certain fire hydrant costs and SPU was required to make refunds to Water System ratepayers for the fire hydrant costs included in water rates, plus 12% interest. To reimburse the Water Fund, the City temporarily increased the utility tax, which resulted in the City imposing a 10.2% temporary surcharge on water rates for all SPU retail customers in 2009 and 2010. All payments related to the *Lane* case have been made. Currently, SPU's retail service areas in other municipal jurisdictions (Shoreline, Lake Forest Park, and Burien) are not subject to any additional local utility taxes. However, in 2014, the court of appeals in *City of Wenatchee v. Chelan Public Utility District No. 1*, 181 Wash. App. 326, 325 P.3d 419 (2014), found that a code city could impose a utility tax on another municipality providing utility services within its boundaries on revenues from the other municipality's proprietary activities. In the event those jurisdictions were to levy local utility taxes on SPU in the future, SPU's retail rates in those jurisdictions would need to be adjusted to include the costs of paying the additional local utility tax.

Billing. The City's utility billing function is co-managed by both SPU and Seattle City Light. SPU provides customer service through the call center and walk-in center. Seattle City Light operates and manages the billing system. SPU and Seattle City Light bill and reimburse each other for these services. A joint project is underway between SPU and Seattle City Light to replace their 14-year-old legacy customer information and billing system. The new system, scheduled to be operational in the fourth quarter of 2015, will provide utility customers new self-service features, while improving operational efficiencies.

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Inside the City, residential customers receive a combined utility bill that itemizes amounts due for water, wastewater, and solid waste services, while commercial customers receive a combined utility bill that itemizes amounts due for water and wastewater. Customers outside the City receive bills for water only. 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 then credited to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, water may be shut off when an account is delinquent, and outstanding balances are considered a lien on the property. Delinquent charges bear interest at the rate of 12% per annum. Total 90-day-plus outstanding balances for SPU billed water, wastewater, and solid waste services were $2.4 million (less than 1% of annual direct service revenue billed by SPU) as of December 2014. These figures include all outstanding amounts going back to 2009.

SPU recently revised its leak adjustment policy, which provides a partial credit back to a customer for up to four months of charges, when leaks in buried infrastructure on a property cause unusually high water use and the customer repairs the infrastructure promptly.

Financial Policies

The Mayor and City Council have established financial policies by resolution for SPU, including the Water System. In accordance with these policies, water rates are set to achieve generally positive net income and cash balances and a minimum debt service coverage ratio on fixed rate long-term Parity Bonds of 1.70 times annual debt service. This minimum coverage ratio was not met in 2010 and 2011 because the Water Fund refunded its variable rate subordinate lien debt with Parity Bonds in late 2008, after rates had already been adopted for 2009-2011. In addition, in each rate study period, an average of at least 20% of capital expenditures is expected to be financed with current revenue, with a minimum of 15% in any one year. In May 2015, the City Council and the Mayor approved water rate increases consistent with the City's financial policies. These increases will be effective January 1, 2016 and 2017.

In 2002, the City by ordinance strengthened the Rate Stabilization Account by announcing an intent to raise rates to establish a minimum balance of $9.0 million. As of December 31, 2014, the balance in the Rate Stabilization Account was $27.8 million. The rates approved recently by the City Council include authorization to withdraw up to $8.3 million from the Rate Stabilization Account during the period 2015-2017. See "Security for the Bonds—Rate Covenant—Rate Stabilization Account." The $9.0 million minimum balance in the account is intended for use during periods of poor water sales, but amounts above the minimum balance may be used at any time to meet operating expenditures, pay capital improvement program expenditures, or meet financial policy requirements. Revenues contributed to the Rate Stabilization Account are not included in the calculation of debt service coverage in the year they are contributed, but are included in the calculation of debt service coverage in the year they are withdrawn. See "Security for the Bonds—Rate Covenant" and Appendix A—Bond Ordinance—Section 18.

Under the City Charter, City taxes on the Water System may be paid only after provision has been made for debt service and obligations of the Water System as well as for necessary betterments and replacements for the current year.

Financial Performance and Projections

The table titled "Operating Results" shows actual revenues and expenses of the Water System for the years 2010 through 2014, as well as projected results for 2015, 2016, and 2017. Footnotes for the table are on the following page. The projections reflect projected rate increases effective January 1, 2016, and January 1, 2017.

Overall demand is assumed to decline by approximately 1.2% per year in 2015 and 2016. Regional conservation programs are expected to continue offsetting the impact of population and employment growth on wholesale water demand, while more than offsetting the effects of growth within the City.

In 2015, very low snowpack levels caused State-wide concerns about drought. However, SPU's water supply outlook remains good. To account for the lack of snow, the Tolt and Chester Morse Reservoirs have been operated to store more rainfall than typical during the late winter/early spring, while still balancing normal goals of municipal water supply, flood management, instream flows, and hydropower generation. The reservoirs are also being operated to capture additional rainfall throughout the spring. SPU monitors and models the reservoirs, and makes operational adjustments on a frequent basis, looking at both short- and long-term perspectives.

On May 15, 2015, the Governor of the State declared a State-wide drought emergency. According to Ecology, the State-wide snowpack is currently at 16% of normal.

SPU's customers already participate in a number of water conservation efforts (see "Water System—Future Water Supply and Conservation"). However, if SPU's customers were to further reduce water use in reaction to the State-wide drought declaration, this could cause a decline in Water System revenues. If any such decline were to be significant, SPU would plan to supplement revenues with a withdrawal from the Rate Stabilization Account. See "Security for the Bonds—Rate Covenant—Rate Stabilization Account." In the unlikely event of extreme declines, the City could consider alterations to its capital improvement plan or rate increases. However, in light of the conservation measures already implemented and the sufficiency of its water supply, the City does not expect declines in consumption to be significant and, on May 15, 2015, the City announced that it has no plans to alter the rate increases previously scheduled for 2016 and 2017. See "Water System—Water Rates."

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 "Operating Results" and "Capital Improvement Program" to provide readers of this Official Statement information related to projected revenues and expenses of the Water 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 Water 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 Water Fund as of and for the fiscal year ended December 31, 2014, included herein as Appendix C, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing herein. SPU has not requested that Moss Adams LLP provide permission for inclusion of its report on the 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
OPERATING RESULTS

	Actual					Projected		
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Operating Revenue								
Water Sales	$181,515,455	$181,413,127	$202,581,225	$224,151,972	$233,582,577	$229,105,085	$231,719,868	$235,595,413
(Deposits to)/Withdrawals from Revenue Stabilization Fund [1]	3,000,000	1,522,974	(3,354,240)	(7,000,000)	(8,171,712)	-	-	8,300,000
Other	10,688,010	11,636,551	14,247,183	18,441,763	17,535,644	17,202,370	17,948,637	18,306,965
Total Operating Revenue	$195,203,465	$194,572,652	$213,474,168	$235,593,735	$242,946,509	$246,307,455	$249,668,505	$262,202,378
Other Income								
Interest Income-Other	$ 3,206,775	$ 2,887,919	$ 2,842,209	$ 1,535,841	$ 3,082,424	$ 2,623,060	$ 2,926,583	$ 2,936,012
Gain/(Loss) on Sale of Assets, and Others-net	1,661,609	1,591,017	2,314,745	595,779	296,657	2,961,329	1,017,482	966,183
Total Other Income	$ 4,868,384	$ 4,478,936	$ 5,156,954	$ 2,131,620	$ 3,379,081	$ 5,584,389	$ 3,944,065	$ 3,902,195
Operating Expenses								
Operating and Maintenance Expenses								
Expenses	$ 79,662,813	$ 77,923,361	$ 80,902,240	$ 88,810,449	$ 92,838,728	$104,936,703	$111,325,971	$114,717,382
Taxes Other Than City Taxes	7,035,586	7,231,727	8,064,491	9,035,669	9,483,508	9,840,416	9,858,472	9,887,388
Other Expenses								
City Taxes [2]	29,454,840	23,279,845	25,937,913	28,776,311	30,656,984	30,547,878	31,052,572	31,789,018
Depreciation and Amortization	48,085,386	46,061,914	48,492,784	49,909,099	51,466,239	52,238,233	53,021,806	53,817,133
Total Operating Expenses	$164,238,625	$154,496,847	$163,397,428	$176,531,528	$184,445,459	$197,563,230	$205,258,821	$210,210,921
Other Income (Expenses)								
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	$ (47,307,331)	$ (46,289,430)	$ (43,494,878)	$ (41,323,434)	$ (39,488,993)	$ (41,351,996)	$ (38,683,524)	$ (38,859,937)
Fees, Contributions, Grants, and Transfers	12,183,558	3,531,294	8,927,636	8,320,853	9,113,707	13,650,299	11,506,841	7,777,151
Total Other Income (Expenses)	$ (35,123,773)	$ (42,758,136)	$ (34,567,242)	$ (33,002,581)	$ (30,375,286)	$ (27,701,697)	$ (27,176,683)	$ (31,082,786)
Net Income	$ 709,451	$ 1,796,605	$ 20,666,452	$ 28,191,246	$ 31,504,845	$ 26,626,917	$ 21,177,066	$ 24,810,866
Other Revenue Available for Debt Service								
City Taxes [3]	$ 29,454,840	$ 23,279,845	$ 25,937,913	$ 28,776,311	$ 30,656,984	$ 30,547,878	$ 31,052,572	$ 31,789,018
Depreciation and Amortization	48,085,386	46,061,914	48,492,784	49,909,099	51,466,239	52,238,233	53,021,806	53,817,133
Interest paid on Revenue Bonds	50,274,477	49,224,670	46,704,940	44,504,380	43,368,881	40,304,152	40,348,256	41,064,384
(Transfer to)/Withdrawal from Bonneville Power Admin. Account	198,207	100,000	18,912	3,756	-	-	-	-
Capitalized Interest	(2,697,823)	(2,635,254)	(2,050,043)	(1,108,155)	(1,504,324)	(1,504,324)	(1,504,324)	(1,504,324)
Accrued and Other Non-Cash Expenses	(10,307,855)	(1,395,402)	(4,636,450)	(3,973,645)	(6,705,545)	(4,199,168)	(4,196,445)	(4,279,764)
Total Revenue Available for Debt Service [4]	$115,716,683	$116,432,378	$135,134,508	$146,302,992	$148,787,080	$144,013,688	$139,898,931	$145,697,313
Debt Service [5]								
Parity Lien Debt Service	$ 72,749,679	$ 78,552,207	$ 76,896,641	$ 77,422,806	$ 76,913,880	$ 77,634,152	$ 81,963,256	$ 81,087,928
Subordinate Lien Debt Service [6]	870,641	1,041,421	1,173,772	1,618,659	1,348,810	1,333,766	1,998,726	1,976,864
Total Debt Service	$ 73,620,320	$ 79,593,628	$ 78,070,413	$ 79,041,465	$ 78,262,690	$ 78,967,918	$ 83,961,982	$ 83,064,792
Debt Service Coverage								
Parity Lien Debt Service Coverage	1.59	1.48	1.76	1.89	1.93	1.86	1.71	1.80
Overall Debt Service Coverage	1.57	1.46	1.73	1.85	1.90	1.82	1.67	1.75

NOTES TO TABLE:

(1) Withdrawals from the Rate Stabilization Account are added to and deposits are deducted from Operating Revenues. Withdrawals from the Rate Stabilization Account are available for payment of debt service and increase debt service coverage. Deposits to the Rate Stabilization Account reduce revenue available for payment of debt service and lower debt service coverage.

(2) The City currently levies a tax of 15.54% upon total gross income of the Water System from its retail business within and outside the City. This rate was temporarily 19.87% from March 31, 2009, through December 31, 2010. See "Water Rates."

(3) Under the City Charter, City taxes on the Water System may be paid only after ample provisions have been made for debt service and obligations of the Water System as well as for necessary betterments and replacements for the current year.

(4) Revenue available for debt service = net income (including contributions in aid of construction) + City taxes + depreciation + interest expense + debt cost amortization + accrued and other non-cash expenses.

(5) Assumes the issuance of the Bonds and the defeasance of the Refunded Bonds on June 10, 2015.

(6) Includes Public Works Assistance Account loans. See "Security for the Bonds—Other Outstanding Obligations."

Source: Seattle Public Utilities

The table above does not reflect the potential effects of the implementation of Governmental Accounting Standards Board ("GASB") Statement 68 (Accounting and Financial Reporting for Pensions), which takes effect December 31, 2015. See "The City of Seattle—Pension Plans."

Operating revenues are generated primarily from wholesale and retail water sales. The water sales revenue increase of 29% from 2010 to 2014 is due to a combination of rate increases and consumption increases. Increases in other operating revenue are primarily due to demand in tap installations and the resulting installation fee revenue. These demand increases are due largely to economic conditions.

Operating results during the period 2010 to 2014 were affected by a variety of factors:

(i) a temporary increase in amortization expense and in the City tax rate for 2009 and 2010 related to the *Lane v. City of Seattle* case (see "Water Rates"),

(ii) deposits to the Rate Stabilization Fund in 2012, 2013, and 2014,

(iii) increases in demand for water and new taps following the recession of 2009,

(iv) the refunding of certain Parity Bonds in 2012, and

(v) the receipt of federal Build America Bonds credit payments beginning in 2010 reported under Interest Income. See "Security for the Bonds—Federal Sequestration."

Policy targets for net income, year-end cash, cash financing of the Capital Improvement Program (the "CIP"), and debt service coverage are projected to be met or exceeded for the period 2015-2020.

Capital Improvement Program

Capital investments are guided by the Water System Plan and multi-year CIP, which is developed within the framework of the Water System Plan and included in the capital improvement program of the City as a whole. The CIP is reviewed, revised, and adopted annually by the Mayor and City Council as part of the City's budget process. The CIP identifies facility needs and financing for rehabilitation, enhancement, and expansion of the Water System. Currently the main areas of focus are to rehabilitate the water distribution system, ensure water resource availability, and make water quality improvements.

The City expects to issue approximately $334 million in long-term debt for the CIP during the period 2015 through 2020. Annual debt service is expected to rise from approximately $80 million in 2014 to approximately $91 million in 2020. In addition, the City expects to take advantage of opportunities to refund prior debt for savings purposes as such opportunities arise.

The CIP is organized into eight program areas: (i) Distribution, (ii) Transmission, (iii) Watershed Stewardship, (iv) Water Quality and Treatment, (v) Water Resources, (vi) Habitat Conservation, (vii) Shared Cost Projects, and (viii) Technology, as shown in the table below. The amount shown for each program area is based on the adopted CIP.

TABLE 10
WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands of Nominal Dollars)

	2015	2016	2017	2018	2019	2020	Total
Program Area							
Distribution	$ 20,713	$ 18,000	$ 21,974	$ 25,041	$ 23,166	$ 23,846	$ 132,740
Transmission	2,498	3,247	2,055	2,826	2,130	2,914	15,670
Watershed Stewardship	301	551	551	250	250	100	2,003
Water Quality and Treatment	11,417	7,577	234	250	1,430	3,470	24,378
Water Resources	13,965	23,780	9,480	3,807	3,463	2,856	57,351
Habitat Conservation	2,604	2,821	2,776	4,766	1,779	2,209	16,955
Shared Cost Projects(1)	25,164	22,934	19,806	16,390	12,897	8,765	105,956
Technology	11,044	8,641	7,178	7,185	5,090	5,423	44,561
Total Adopted CIP	$ 87,706	$ 87,551	$ 64,054	$ 60,515	$ 50,205	$ 49,583	$ 399,614
Adjustment for Additional CIP(2)	9,219	(12,596)	17,809	15,619	18,062	2,372	50,485
Total Projected CIP	$ 96,925	$ 74,955	$ 81,863	$ 76,134	$ 68,267	$ 51,955	$ 450,099
Funding Sources							
Debt Financing							
Outstanding Bonds	$ 11,629	$ -	$ -	$ -	$ -	$ -	$ 11,629
The Bonds	16,502	32,498	-	-	-	-	49,000
State Water Revolving Fund Loans	12,000	-	-	-	-	-	12,000
Future Parity Bonds	-	7,055	52,461	46,013	46,895	25,491	177,915
Total Debt Financing	$ 40,131	$ 39,553	$ 52,461	$ 46,013	$ 46,895	$ 25,491	$ 250,544
Revenue Financing							
Internally Generated Funds	$ 52,545	$ 31,045	$ 24,937	$ 25,543	$ 16,680	$ 21,655	$ 172,405
Grants and Reimbursements	4,250	4,356	4,465	4,577	4,691	4,809	27,148
Total Revenue Financing	$ 56,795	$ 35,401	$ 29,402	$ 30,120	$ 21,371	$ 26,464	$ 199,553
Total Funding Sources(3)	$ 96,925	$ 74,955	$ 81,863	$ 76,134	$ 68,267	$ 51,955	$ 450,099

NOTES TO TABLE:

(1) Includes projects that affect the Water System, but involve more than a water purpose and are typically funded from multiple sources.

(2) Adjustments reflect timing shifts and revisions to adopted CIP.

(3) The amounts shown reflect the full amount of the planned CIP, which has been updated since the budget was adopted. Totals may not add due to rounding.

The development of the CIP balances financial capacity with the demands of rehabilitation, improvement, water quality, and expansion. Through the late 1990s and the 2000s, SPU steadily expanded the CIP, raised rates, and increased its long-term borrowing. In managing the CIP, SPU has emphasized efficient project design and careful staging of improvements within the 20-year time frame of the Water System Plan, and has reached a point where CIP needs are decreasing compared to the highs of the last decade. In the period 2015 through 2020, SPU expects the financial requirements for these projects to be met from Net Revenue of the Water System, low interest loans from the Washington State Water Revolving Fund, and the proceeds of Parity Bonds. Approximately 50% of projected CIP spending is expected to be financed by the issuance of Parity Bonds, including the Bonds.

The Shared Cost Projects program area includes Sound Transit projects, the Alaskan Way Viaduct and Seawall Replacement Program ("AWVSR Program"), and the First Hill Streetcar project and represents approximately 27% of the total CIP. SPU's scope is limited to the impact on its utility systems and is typically governed by agreements with lead or coordinating departments and agencies. As a result, SPU has less control over the ultimate timing and expenditures associated with its portion of these projects. SPU is monitoring ground settlement around the Alaskan Way Viaduct SR 99 Bored Tunnel Project area, which is one of the projects in the AWVSR Program. Where water system infrastructure is affected by settlement, SPU will work closely with the City and State Departments of Transportation to determine an appropriate course of action in accordance with the agreements governing the utility issues for the AWVSR Program. SPU is replacing a four-block section of 20-inch water main that has settled significantly and is at risk of additional settlement. See "The City of Seattle—Considerations Related to the Alaskan Way Viaduct and Seawall Replacement Program." It is likely that more such transportation projects will be proposed in the future, and SPU will work with the Seattle Department of Transportation and other agencies to fully understand the potential impacts of these projects on the Water System.

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 Utility Services branch, the program reports to a Risk and Quality Assurance Board, which consists of the SPU Director, the 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 SPU to be more efficient and effective in meeting customer's expectations;

(ii) assess ongoing practices and procedures and recommend measures to ensure sufficient protections are in place to reduce risks to our 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 that SPU is complying with regulations, policies, and procedures.

The RQA's work plan priorities for 2015 include conducting internal audits to evaluate internal controls, regulatory compliance, and program performance; further streamlining of claims processes; and advising on improved records management practices.

See "The City of Seattle—Risk Management."

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.

SPU's initial climate impacts assessment began in 2002 and focused on water supply. A second study, focused on demand for water as well as supply, indicated that SPU has enough supply to meet demands until about 2060. A third study is currently underway and is expected to be completed by the end of 2015. For that study, SPU is using 40 climate scenarios, obtained through a collaborative research project with the Climate Impacts Consortium at Oregon State University to assess impacts on supply and operations, the timing of the return of fall rains, and system thresholds. See "Future Water Supply and Conservation."

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 County seat.

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. The City owns and operates water, electric, solid waste, and drainage and wastewater utilities, although the County provides wastewater treatment service. The 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 the Municipal Court judges are all elected to four-year terms. Until 2013, City Council members served four-year terms. Pursuant to a charter amendment initiated and 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 re-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 re-election, 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 and 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 State Constitution and laws 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 for 2013 may be obtained from the Department of Finance and Administrative Services and is available at *http://www.seattle.gov/cafrs/default.htm*. The Water System's 2014 financial statements are also audited by an independent auditor and are attached as Appendix C.

The State Auditor's Office has 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 2015 budget was adopted on November 24, 2014.

The City's adopted General Subfund budget is $1,023.9 million in 2014 and $1,048.1 million in 2015. According to the City's November 2014 forecast, total General Fund revenues are expected to increase by about 3.5% in 2015. 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, 2014, the combined investment portfolios of the City, not including pensions, totaled \$1,613 million at par value. The City's investment portfolios consist solely of City funds. The City does not invest funds in any other pools, with the exception of tax collection receipts initially held by the County. As of December 31, 2014, the annualized yield on the City's investment portfolios was 0.94%. As of December 31, 2014, the average maturity of the City's investment portfolios was 895 days. Approximately 24.7%, or \$399.3 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	34%
Commercial Paper	20%
Taxable Municipal Bonds	15%
U.S. Treasuries	14%
Mortgage-Backed Securities	11%
Repurchase Agreements	5%
Certificates of Deposit	2%

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

Interfund Loans. The City is authorized to make interfund loans from the City's common investment portfolio to individual funds, bearing interest payable by the borrowing fund. The Director of Finance may approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Loans of a longer duration require City Council approval.

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 provide 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"), Firefighters' 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 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 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement 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 the City's fiscal year ending December 31, 2014; GASB 68 is effective beginning in the City's fiscal year ending December 31, 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, 2014, there were 5,880 retirees and beneficiaries receiving benefits, and 8,603 active members of SCERS. There are an additional 2,037 terminated employees entitled to future benefits. From January 1, 2013, to January 1, 2014, the net number of active members increased by 1.6%, the net number of retirees receiving benefits increased by 2.4%, and the net number of vested terminated members increased by 3.2%.

Certain demographic data from the most recent Actuarial Valuation (as of January 1, 2014), which was completed on July 10, 2014 (the "2013 Actuarial Valuation"), is shown below:

TABLE 11
PLAN MEMBER DEMOGRAPHIC INFORMATION

	Receiving Benefits		Active Employees	
Age Range	**Number**	**Percent**	**Number**	**Percent**
<25	0	0.0%	95	1.1%
25-39	0	0.0%	1,881	21.9%
40-49	10 (1)	0.2% (1)	2,168	25.2%
50-59	341	5.9%	2,831	32.9%
60-69	2,306	39.8%	1,531	17.8%
70+	3,136	54.1%	97	1.1%

(1) Includes everyone under the age of 50.

Source: 2013 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, the 2013 Annual Report, for the year ended December 31, 2013, was transmitted on June 19, 2014, by CliftonLarsonAllen LLP.

On July 17, 2014, the Washington State Auditor's Office issued a finding of a significant deficiency in internal controls over financial reporting relating to SCERS account reconciliations. As described, the finding stated that general ledger accounts were not analyzed and reconciled with subsidiary information on a monthly basis. The City responded to this finding by stating that SCERS would work with the City's central accounting unit to establish a common understanding of how investments and investment activities should be reflected in the City's general ledger. A copy of that audit report is available on the State Auditor's website *(www.sao.wa.gov)*.

In addition, Milliman Consultants and Actuaries, as consulting actuary, evaluates the funding status of SCERS annually. The most recent actuarial report is the 2013 Actuarial Valuation. A valuation for calendar year 2014 (as of January 1, 2015) is expected to be completed by mid-2015. Historically, the City prepared actuarial valuations biennially, but in 2011 the City began preparing them annually.

As of January 1, 2014, the actuarial value of net assets available for benefits was $2.094 billion and the actuarial accrued liability was $3.260 billion. The 2014 valuation reflects the following assumptions:

Investment return	7.50%
Price inflation	3.25%
Expected annual average membership growth	0.50%
Wage inflation	4.00%
Interest on member contributions made prior to January 1, 2012[(1)]	5.75%

(1) Contributions made on or after January 1, 2012, are assumed to accrue interest at 4.75%.

To the extent that actuarial accrued liability exceeds plan assets, an unfunded actuarial accrued liability ("UAAL") exists. The UAAL increased from $1,105.2 million as of January 1, 2013, to $1,165.8 million as of January 1, 2014. The funded ratio increased from 63.5% as of January 1, 2013, to 64.2% as of January 1, 2014, which increase is primarily due to recognition of asset gains which were offset somewhat by the adoption of more conservative assumptions in the most recent actuarial valuation. Recognized asset gains in 2009, 2010, 2012, and 2013 more than offset the recognition of asset losses from 2011. 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.

The following table provides historical plan funding information:

TABLE 12
HISTORICAL SCERS ACTUARIAL VALUATION INFORMATION [(1)]

Actuarial Valuation Date (January 1)[(2)]	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)[(3)]	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll[(4)]	UAAL as % of Covered Payroll
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[(5)]	2,013.7	2,709.0	(695.4)	74.3%	563.2	123.5 %
2012[(5)]	1,954.3	2,859.3	(905.0)	68.3%	557.0	162.5 %
2013[(5)]	1,920.1	3,025.3	(1,105.2)	63.5%	567.8	194.6 %
2014[(5)]	2,094.3	3,260.1	(1,165.8)	64.2%	597.9	195.0 %

(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; 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: 2013 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 City Council may from time to time set the amortization period by resolution, and in 2013, it passed a resolution to close the 30-year amortization period for calculating UAAL. As a result, for purposes of the 2013 Actuarial Valuation calculation, a 29-year amortization period was used. This policy may be revised by the City Council in future years. The 2013 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 into the system and assumed exit age (*e.g.*, termination or retirement).

Current and historical contribution rates, based on a percentage of employee compensation (exclusive of overtime), are shown in the table below:

TABLE 13
EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES

Calendar Years (beginning Jan. 1)	Employer Rate	Employee Rate	Total Contribution Rate	Total ARC(1)	% of Total ARC Contributed	Total ARC per GASB 27(2)	% of Total ARC Contributed per GASB 27
2010	8.03%	8.03%	16.06%	16.06%	100%	25.03%	64%
2011	9.03%	9.03%	18.06%	25.03%	72%	22.14%	82%
2012	11.01%	10.03%	21.04%	21.04%	100%	21.87%	96%
2013	12.89%	10.03%	22.92%	22.92%	100%	24.05%	95%
2014	14.31%	10.03%	24.34%	24.34%	100%	25.63%	95%

(1) Reflects total actuarial required contribution (employer plus employee contribution rates). Beginning November 21, 2011, this rate is used for City budgeting purposes.

(2) The primary difference between the Total ARC calculation and that calculated under GASB Statement No. 27 is that the Total ARC calculation uses a 0.50% membership growth assumption, while GASB specifies no membership growth assumption. Beginning with calendar year 2011, the GASB rate calculations take into account the lag between the determination of the ARC and the expected contribution date associated with that determination (for example, contribution rates for calendar year 2012 were based on the ARC determined as part of the January 1, 2011, Actuarial Valuation.

Source: Seattle Municipal Code; 2014 Budget; Annual Actuarial Valuation Reports

In 2011, the City failed to increase contribution rates sufficiently to fund the ARC. 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 adopted Resolution 31334, affirming the City's intent to fully fund the annual ARC each year in its budget. See Table 13—Employer and Employee SCERS Contribution Rates and Table 14—Projected Actuarially Required Total Contribution Rates by Employer and Employee."

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 was 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 at the end of either 2013 or 2014, 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, including the creation of another system for new employees.

Projected total actuarially required contribution rates reported in the 2013 Actuarial Valuation are shown in the table below:

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

Contribution Year[(1)]	Assuming 7.50% Returns	Range (90% Confidence Interval)
2015	25.76%	25.76%-25.76%
2016	25.31%	24.52-25.98
2017	25.10%	23.29-26.71
2018	24.55%	21.45-27.36
2019	24.40%	19.80-28.41
2020	24.08%	18.04-29.20

(1) Contribution year lags valuation year by one. For example, contribution year 2015 is based on the 2013 Actuarial Valuation (as of January 1, 2014) results, amortized over 29 years beginning in 2014 if the contribution rate increase takes place in 2015.

Source: 2013 Actuarial Valuation

Employer contributions were approximately $89.6 million in 2014, of which approximately 7.45% was from the Water Fund. The employer share for employees of each of the utility funds is allocated to and paid out of the funds of each respective utility.

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 $265.5 million (13.6%) during 2013, including member and employer contributions of $137.4 million and revenue from investment activity totaling $289.8 million. Expenses increased by $9.4 million in 2013, primarily attributed to a $7.3 million increase in retiree benefit payments and an increase of $1.7 million in administrative expenses.

Table 15 below 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 ten years.

TABLE 15
MARKET VALUE OF ASSETS

Year (As of December 31)	Market Value of Assets (MVA)(1)
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
2013	2,216.9

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 16
SCERS INVESTMENT RETURNS

Year	Net Investment Income (Loss)	
(As of December 31)	Amount(1)	%(2)
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%
2013	289.8	15.5%

(1) In millions.

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

Source: SCERS Annual Reports

The table below shows the historical distribution of SCERS investments over the last five years:

TABLE 17
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2014	2013	2012	2011	2010
Fixed Income[(1)]	23.7%	23.1%	22.8%	15.5%	17.7%
Domestic Stocks	32.1%	30.4%	30.8%	41.9%	38.9%
International Stocks	28.7%	29.0%	25.5%	20.4%	18.8%
Real Estate	10.6%	11.3%	12.7%	10.3%	11.3%
Alternative Investments[(2)]	4.9%	6.2%	8.1%	11.9%	13.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(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 was assigned to the "real estate" category, as appropriate for each investment.

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.

The Investment Policy defines 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 December 31, 2013, membership in these plans consisted of 775 fire employees (27 of whom are active employees) and 790 police employees (21 of whom are active employees). 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, dated January 1, 2014, uses the Entry Age Normal Actuarial Cost Method, values plan assets at fair value, and uses the following actuarial assumptions: inflation rate (CPI), 2.50%; investment rate of return, 5.25%; and projected salary increases, 3.00%. 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 Firefighters' 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, 2014, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was $12.7 million, and the AAL was $84.3 million. As a result, the UAAL was $71.6 million and the funded ratio was 15.1%. The City's employer contribution to the fund in 2013 was $6.5 million, representing 124% 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, 2014, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was $3.2 million, and the AAL was $92.6 million. As a result, the UAAL was $89.4 million and the funded ratio was 3.5%. The City's employer contribution to the fund in 2013 was $7.1 million, representing 111% of the ARC; there were no current member contributions. The fund also receives police auction proceeds of unclaimed property.

Law Enforcement Officers' and Fire Fighters' 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 $12.9 million in 2013 and $12.5 million in 2012. The following table outlines the contribution rates of employees and employers under LEOFF.

TABLE 18
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL
(As of September 30, 2014)

	Plan 1	Plan 2
Employer	0.18% (1)	5.23% (1)
Employee	0.00	8.41%
State	N/A	3.36%

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

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 2013 Comprehensive Annual Financial Report, which may be obtained from the Department of Finance and Administrative Services and is available at *http://www.seattle.gov/cafrs/default.htm*.

According to the Office of the State Actuary's June 1, 2013, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 125% and LEOFF Plan 2 had a funded ratio of 115%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.8% annual rate of investment return for LEOFF Plan 1 and a 7.5% annual rate of investment return for LEOFF Plan 2, 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 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 Firefighters’ 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 plans. The last report was as of January 1, 2014, and showed the UAAL for the implicit rate subsidy was $42.9 million; the City’s estimated contribution in 2014 was $1.0 million. The valuation of the OPEB liability associated with the City’s Firefighters’ Pension Fund and Police Relief and Pension Fund is updated annually. As of January 1, 2014, the UAAL for OPEB in the City’s Firefighters’ Pension Fund was $264.7 million; the estimated annual contribution for 2014 is $11.0 million. As of January 1, 2014, the UAAL for OPEB in the Police Relief and Pension Fund was $291.5 million; the estimated annual contribution for 2014 is $12.7 million.

For additional information regarding the City’s OPEB, see Note 11 to the City’s Comprehensive Annual Financial Report for 2013, which may be obtained from the Department of Finance and Administrative Services and is available at *http://www.seattle.gov/cafrs/default.htm*.

Labor Relations

As of March 2015**,** the City had 34 separate departments and offices with approximately 12,900 regular and temporary employees. Twenty-six different unions and 49 bargaining units represent approximately 74% of the City’s regular employees. The agreements with the Seattle Police Management Association, Local 289 and Local 79 (machinists), and the Local 77 Construction Maintenance Equipment Operators all expired at the end of 2013. Contracts with the Seattle Police Officers’ Guild, the Seattle Fire Fighters Union, the Seattle Fire Chiefs’ Association, and the Coalition of City Unions (representing most other City employees) expired at the end of 2014. The City also has a collective bargaining agreement with IBEW Local 77 (electrical workers) that expires January 23, 2017. The City is currently in negotiations for all of the contracts that have expired. There is no expected date by which an agreement will be reached, and 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.

Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program

The Alaskan Way Viaduct and Seawall Replacement Program consists of multiple projects to remove and replace the State Route 99 Alaskan Way Viaduct, replace an existing seawall, and carry out the redevelopment of the City's central waterfront area. The various projects comprising the AWVSR Program are separate public projects by separate lead public agencies being implemented in a coordinated manner pursuant to a series of written agreements.

Many elements of the AWVSR Program are presently underway. The State's project to replace the Alaskan Way Viaduct with a bored tunnel (the "SR99 Bored Tunnel Project" or the "State's Project") and the City's project to replace the existing aging seawall along the waterfront (the "City's Seawall Project") are by far the largest projects in the AWVSR Program. There is also coordination between the AWVSR Program waterfront redevelopment elements *(e.g.*, the City's "Waterfront Seattle" project) and redevelopment projects undertaken by other public agencies in the central waterfront area, such as the Pike Place Market Preservation and Development Authority's MarketFront Project.

Status of State's Project. The State's Project has been delayed by approximately two years due to the malfunctioning of a deep bore tunneling machine (the "TBM") and is currently scheduled for completion in 2017. The State's Project is being undertaken pursuant to a contract between the State Department of Transportation ("WSDOT") and a joint venture named Seattle Tunnel Partners. The City is not a party to that contract. Responsibility for direct cost overruns relating to the repair of the TBM, or any other reason, will be governed by that contract; the City has no direct contractual liability.

Additionally, the City has a series of agreements with WSDOT relating to the coordination of projects within the AWVSR Program. There are particular agreements governing each party's responsibilities for issues such as the protection, repair, and relocation of the City's utility infrastructure impacted by or constructed as part of the State's Project. In general, the City is responsible for relocating utility infrastructure that conflicts with the State's Project and the State is responsible for avoiding damage and repairing or replacing damaged utility infrastructure as defined in the agreements. Any increase in these indirect costs resulting from the TBM's malfunction or delays are governed by these agreements.

Finally, the State statute that authorized the State's Project (RCW 47.01.402) contains the following language: "The state's contribution shall not exceed two billion four hundred million dollars. If costs exceed two billion four hundred million dollars, no more than four hundred million [dollars] of the additional costs shall be financed with toll revenue. Any costs in excess of two billion eight hundred million dollars shall be borne by property owners in the Seattle area who benefit from replacement of the existing viaduct with the deep bore tunnel." This language does not require the City to cover the excess costs. It is unclear how this provision would be enforced. It does not clearly define the property owners responsible for the excess costs, nor does it define a mechanism by which the property owners would bear the excess costs. The State does not have authority under the State Constitution or other existing State law to directly impose or collect a property tax or other assessment on property owners in the Seattle area. The City cannot predict what, if any, enforcement mechanism the State could employ to implement this provision or whether any such mechanism would be upheld if challenged.

Status of City's Seawall Project. The City's Seawall Project is currently scheduled for completion in 2016. While the City's Seawall Project is located in close proximity to the State's Project and requires schedule and work sequencing and coordination, the State's Project delays have not resulted in disruptions to the schedule and sequencing of the City's Seawall Project to date. Whether additional delays in the State's Project might result in future schedule disruptions or increased Seawall Project costs cannot be predicted at this time, but they are not anticipated.

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 State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The 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, City 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.

LEGAL AND TAX INFORMATION

No Litigation Affecting 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. There is no litigation pending or threatened which would materially affect the City's ability to meet debt service requirements on the Bonds.

Other Litigation

Because of the nature of its activities, SPU is subject to certain pending legal actions which arise in the ordinary course of business, including various lawsuits and claims for money damages. (See Appendix C—2014 Audited Financial Statements of the Water Fund—Note 7, Claims Payable.) Based on its past experience and the information currently known, SPU 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 Water Fund 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. The 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. An 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 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 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 predecessor to 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 November 1, 2015, and May 1, 2016 through and including May 1, 2038, 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.

Original Issue Discount. The Term Bonds, which mature on May 1, 2045, have been sold at prices reflecting original issue discount ("Discount Bonds"). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount 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. From time to time, legislative proposals are introduced in Congress which, if enacted, could require changes in the description of federal tax matters relating to the Bonds set forth above or adversely affect the market value of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on 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 Financial 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 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), 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 Water 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 bonded debt secured by Net Revenue of the Water 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 water 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 permitted or required by State law, commencing with the City's fiscal year ended December 31, 2015. The annual financial information may be provided in a single document or in 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 in respect of 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 and believes that in the last five years, it has not failed to comply in any material respect with such undertakings. Nonetheless, in connection with the City's Local Improvement District No. 6750 Bonds, 2006, certain supplemental information regarding the collection of special assessments was not timely filed. The City has since compiled this supplemental information and filed it with the MSRB.

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, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, 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 Barclays Capital Inc. (the "Underwriter") at a price of $382,595,879.10 and will be reoffered at a price of $384,218,277.50. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i of this Official Statement, 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 City of Seattle

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

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APPENDIX A

BOND ORDINANCE

Ordinance 124340, 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 121939, as amended by Ordinance 122837 and amended and restated by Ordinance 124339, authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 124340.

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Michael Van Dyck/Marc Greenough
FAS Water Bonds 2014 ORD
September 13, 2013
Version 1

CITY OF SEATTLE

ORDINANCE ~~124330~~ 124340

COUNCIL BILL 117942

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to and extensions of the existing municipal water system; authorizing the issuance and sale of water system 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 municipal water system as part of Seattle Public Utilities (the "Municipal Water System"), which Municipal Water 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 Municipal Water System as set forth in this ordinance (the "Plan of Additions"); and

WHEREAS, pursuant to the bond legislation described in Exhibit A, the City has previously issued its water system 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 Municipal Water 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 water system 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 such Capital Appreciation Bond, and (b) as of any date other than a Valuation Date, the sum of

51309538.5

(i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day months, multiplied by (B) the difference between the Accreted Values for such Valuation Dates.

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

"Adjusted Gross Revenue" means, for any period, Gross Revenue plus withdrawals from the Rate Stabilization Account made during that period, and minus (a) ULID Assessments, (b) earnings from investments in the Reserve Subaccount and (c) deposits into the Rate Stabilization Account made during that period.

"Adjusted Net Revenue" means Adjusted Gross Revenue less Operating and Maintenance Expense.

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

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

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

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

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

(iii) Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects produced by the following: (A) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as 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 by reference to a pricing mechanism or index that is not the same as the pricing mechanism or index used to determine the variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or index specified by the Payment Agreement is the same as the pricing mechanism or index specified by the Parity Bonds. Notwithstanding the other provisions of this subparagraph, the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less.

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

(A) **City Obligated to Make Payments Based on Fixed Rate.** If the City is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified Counterparty is obligated to make payments based on a variable rate index, that payments by the City will be based on the assumed fixed payor rate, and that payments by the Qualified Counterparty 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

(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.

(v) **Balloon Bonds.** For purposes of calculating debt service on any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the assumed RBI-based rate, will be amortized in equal annual installments over a term of 30 years.

"Authorized Denomination" means $5,000 or any integral multiple thereof within a maturity of a Series.

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

"Balloon Bonds" means any series of Parity Bonds designated as Balloon Bonds in the applicable Parity Bond Legislation.

"Beneficial Owner" means, with regard to a Bond, the owner of any beneficial interest in that Bond.

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

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

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

"Bond Register" means the books or records maintained by the Bond Registrar for the purpose of identifying ownership of each Bond.

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

"Bond Resolution" means a resolution of the City Council adopted pursuant to this ordinance approving the Bond Sale Terms and taking other actions consistent with this ordinance.

"Bond Sale Terms" means the terms and conditions for the sale of a Series of the Bonds including the amount, date or dates, denominations, interest rate or rates (or mechanism for determining interest rate or rates), payment dates, final maturity, redemption rights, price, and other terms or covenants set forth in Section 5 of this ordinance.

"Bonds" means the Water System revenue bonds issued pursuant to this ordinance.

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

"CIP" means those portions of the City's "2013-2018 Capital Improvement Program" relating to the Municipal Water System, adopted by the City in Ordinance 124058, together with any previously adopted Capital Improvement Program of the City. For purposes of this ordinance, the CIP includes all amendments, updates, supplements or replacements that may be adopted from time to time by ordinance.

"City" means The City of Seattle, Washington, a municipal corporation duly organized and existing under the laws of the State of Washington.

"City Council" means the City Council of the City, as duly and regularly constituted from time to time.

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

"Construction Account" means the Water System Construction Subaccount, 2014, created by this ordinance in the Water System Construction Account, which account was previously created in the Water Fund.

"Contract Resource Obligation" means an obligation of the City, designated as a Contract Resource Obligation and entered into in accordance with Section 20.

"Coverage Requirement" means Adjusted Net Revenue equal to at least 1.25 times Adjusted Annual Debt Service.

"DTC" means The Depository Trust Company, New York, New York.

"Director of Finance" means the Director of the Finance Division of the Department of Finance and Administrative Services of the City, or any other officer who succeeds to substantially all of the responsibilities of that office.

"Event of Default" shall have the meaning assigned to that term in Section 25(a).

"Fiscal Agent" means the fiscal agent of the State, as the same may be designated by the State from time to time.

"Future Parity Bonds" means , with reference to any Series of the Bonds, all revenue bonds and obligations of the Water System (other than that Series and any other Parity Bonds the outstanding), issued or entered into after the Issue Date of such Series, the payment of which constitutes a charge and lien on the Net Revenue equal in rank with the charge and lien upon such revenue required to be paid into the Parity Bond Account under Section 15. Future Parity Bonds may include Parity Payment Agreements and any other obligations issued in compliance with Section 17.

"Future Parity Bond Legislation" means any ordinance or resolution passed or adopted by the City Council providing for the issuance and sale of a series of Future Parity Bonds, and any other ordinance or resolution amending or supplementing the provisions of any such ordinance or resolution.

"Government Obligations" has the meaning given in RCW 39.53.010, as now in effect or as may hereafter be amended.

"Gross Revenue" means (a) all income, revenues, receipts and profits derived by the City through the ownership and operation of the Municipal Water System; (b) the proceeds received by the City directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Municipal Water System; (c) Payment Agreement Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and (d) the investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Municipal Water System. Gross Revenue does not include: (a) insurance proceeds compensating the City for the loss of a capital asset; (b) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenue; (c) investment income set aside for or earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code; (d) any gifts, grants, donations or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenue hereunder; (e) the proceeds of any borrowing for capital improvements (or the refinancing thereof); (f) the proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues); (g) general *ad valorem* taxes, excise taxes and special assessments, including interest and penalties thereon; and (h) earnings of any separate utility system that may be created, acquired, or constructed by the City pursuant to Section 19.

"Independent Utility Consultant" means an independent person or firm having a favorable reputation for skill and experience with municipal water systems of comparable size and character to the Municipal Water System in such areas as are relevant to the purpose for which they were retained.

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

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

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

"MSRB" means the Municipal Securities Rulemaking Board.

"Municipal Water System" means the water system of the City as it now exists, and all additions thereto and betterments and extensions thereof at any time made, together with any utility systems of the City hereafter combined with the Municipal Water System. The Municipal Water System shall not include any separate utility system that may be created, acquired or constructed by the City as provided in Section 19.

"Net Revenue" means, for any period, the Gross Revenue less Operating and Maintenance Expense.

"Operating and Maintenance Expense" means all expenses incurred by the City in causing the Municipal Water System of the City to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessments or other payments for insurance, if any, on the Municipal Water System; payments into pension funds; State-imposed taxes; amounts due under Contract Resource Obligations (but only at the times described in Section 20 of this ordinance); payments made to any other person or entity for the receipt of water supply or transmission or other commodity or service; and payments with respect to any other expenses of the Municipal Water System that are properly treated as Operating and Maintenance Expense under generally accepted accounting principles applicable to municipal corporations. Operating and Maintenance Expense does not include any depreciation or taxes levied or imposed by the City, or payments to the City in lieu of taxes, or capital additions or capital replacements to the Municipal Water System.

"Outstanding Parity Bonds" means the outstanding Municipal Water System revenue bonds described in Exhibit A and any other Parity Bonds outstanding as of the Issue Date of a Series of the Bonds.

"Owner" means, without distinction, the Registered Owner and the Beneficial Owner of a Bond.

"Parity Bond Account" means the Water Revenue Parity Bond Account created by Ordinance 116705 in the Water Fund for the purpose of paying and securing the principal of and interest on Parity Bonds.

"Parity Bond Legislation" means any ordinance or resolution passed or adopted by the City Council providing for the issuance and sale of a series of Parity Bonds, and any other ordinance or resolution amending or supplementing the provisions of any Parity Bond Legislation.

"Parity Bonds" means the Outstanding Parity Bonds, the Bonds, and any outstanding Future Parity Bonds or Parity Payment Agreements.

"Parity Conditions" means the conditions for issuing Future Parity Bonds under the Parity Bond Legislation.

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

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

"Payment Agreement Payments" means the amounts periodically required to be paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

"Payment Agreement Receipts" means the amounts periodically required to be paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

"Permitted Investments" means any investments or investment agreements permitted for the investment of City funds under the laws of the State of Washington, as amended from time to time.

"Plan of Additions" means, together, the CIP and the Water System Plan, as modified from time to time. The Plan of Additions includes the purchase and installation of all materials, supplies, appliances, equipment and facilities, the acquisition of all permits, franchises, property and property rights, other capital assets and all engineering, consulting and other professional services and studies (whether performed by the City or by other public or private entities) necessary or convenient to carry out the Plan of Additions. The Plan of Additions shall include any amendments, updates, supplements or replacements to the CIP or the Water System Plan, all of which automatically shall constitute amendments to the Plan of Additions. The Plan of Additions also may be modified to include other improvements, without amending the CIP or the Water System Plan, if the City determines by ordinance that those amendments or other improvements constitute a system or plan of additions to or betterments or extensions of the Municipal Water System.

"Principal and Interest Subaccount" means the subaccount of that name created in the Parity Bond Account for the payment of the principal of and interest on Parity Bonds.

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

"Qualified Counterparty" means a party (other than the City or a party related to the City) who is the other party to a Payment Agreement, (a)(i) whose senior debt obligations are rated in one of the three highest rating categories of each Rating Agency (without regard to any gradations within a rating category), or (ii) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two highest rating categories of each Rating

Agency; and (b) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

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

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

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

"Rate Stabilization Account" means the account of that name created in the Water Fund pursuant to Ordinance 116705 and redesignated for accounting purposes as the Revenue Stabilization Subfund of the Water Fund pursuant to Ordinance 120875.

"Rating Agency" means any nationally recognized rating agency then maintaining a rating on a series of Parity Bonds at the request of the City.

"Record Date" means, unless otherwise defined in the Bond Resolution, 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 date. With regard to redemption of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar's close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption.

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

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

"Reserve Requirement" means as of any date the lesser of Maximum Annual Debt Service or 125% of Average Annual Debt Service on the Parity Bonds.

"Reserve Security" means any Qualified Insurance or Qualified Letter of Credit obtained by the City to satisfy part or all of the Reserve Requirement, and which is not cancelable on less than three years' notice.

"Reserve Subaccount" means the subaccount of that name created in the Parity Bond Account for the purpose of securing the payment of the principal of and interest on Parity Bonds.

"Rule 15c2-12" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

"SEC" means the United States Securities and Exchange Commission.

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

"Serial Bonds" means Parity Bonds maturing in specified years, for which no Sinking Fund Requirements are mandated.

"Series" means a series of the Bonds issued pursuant to this ordinance.

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

"State" means the State of Washington.

"State Auditor" means the office of the Auditor of the State or such other department or office of the State authorized and directed by State law to make audits.

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

"Tax Credit Subsidy Payment" means a payment by the federal government with respect to a Tax Credit Subsidy Bond.

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

"Term Bond" means any Bond that is issued subject to mandatory redemption prior to its maturity in periodic mandatory redemption payments.

"ULID" means a utility local improvement district of the City created for the acquisition or construction of additions to and betterments and extensions of the Municipal Water System.

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

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

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

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

"Variable Interest Rate Bond" means, for any period of time, any Parity Bond that bears a Variable Interest Rate during that period, except that a Parity Bond shall not be treated as a Variable Interest Rate Bond if the net economic effect of interest rates on a particular Parity Bond of a series and interest rates on other Parity Bonds of the same series, as set forth in the applicable Parity Bond Legislation, or the net economic effect of a Payment Agreement with respect to a particular Parity Bond, in either case is to produce obligations that bear interest at a fixed interest rate; and a Parity Bond with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

"Water Fund" means the fund of that name into which is paid the Gross Revenue of the Municipal Water System.

"Water System Plan" means the long range water system plan known as the 2013 Water System Plan adopted by the City in Ordinance 124071, as that plan may be amended, updated, supplemented or replaced from time to time.

Section 2. Adoption of Plan of Additions. The City specifies, adopts and orders the Plan of Additions to be carried out as generally provided for in the documents comprising the Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is declared to be $373,972,000 of which $49,000,000 is expected to be financed from the proceeds of the Bonds and investment earnings thereon.

Section 3. Authorization of Bonds. The City is authorized to borrow money and issue Municipal Water System revenue bonds, payable from the sources described in Section 13 of this ordinance, in the maximum principal amount stated in Section 5 of this ordinance to (a) pay part of the cost of carrying out the Plan of Additions; (b) provide for the Reserve

Requirement; (c) capitalize interest on, if necessary, and pay the costs of issuance of the Bonds; and (d) for other Municipal Water System purposes approved by ordinance. The Bonds may be issued in one or more Series and may be combined with other Municipal Water System revenue bonds (including refunding bonds) authorized separately. The Bonds shall be designated Municipal Water System revenue bonds and shall be numbered separately and shall have any name, year and series or other label as deemed necessary or appropriate by the Director of Finance.

Section 4. **<u>Manner of Sale of Bonds</u>.** The Director of Finance may provide for the sale of each Series by public sale, negotiated sale, limited offering or private placement with a Purchaser chosen through a selection process acceptable to the Director of Finance. The Director of Finance is authorized to specify a date and time of sale of and a date and time for delivery of each Series; to give notice of that sale; to determine any bid parameters or other bid requirements and criteria for determining the award of the bid; to provide for the use of an electronic bidding mechanism; and to specify other matters in his or her determination necessary, appropriate, or desirable in order to carry out the sale of each Series. Each Series must be sold on Bond Sale Terms in accordance with Section 5.

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

(a) **Maximum Principal Amount.** The Bonds may be issued in one or more Series and shall not exceed the aggregate principal amount of $49,000,000.

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

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

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

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

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

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

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

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

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

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

(ii) As of the Issue Date of each Series, (A) the Finance Director must determine that the Parity Conditions have been met or satisfied, so that such Series may be issued as Parity Bonds, and (B) the City Council must find the Bond Resolution that, in creating the Parity Bond Account and in fixing the amounts to be paid into it in accordance with this ordinance, the City Council has had due regard for the cost of maintenance and operation of the Municipal Water System, and is not setting aside into the Parity Bond Account a greater amount than in the judgment of the City Council, based on the rates to be established from time to 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.

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

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

Section 6. <u>Bond Registrar; Registration and Transfer of Bonds</u>.

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

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

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

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

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized Denomination of an equal aggregate principal amount and of the same Series, interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the period between the Record Date and the corresponding interest payment or redemption date.

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

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

Section 7. **<u>Payment of Bonds</u>.** Principal of and interest on each Bond shall be payable solely out of the Parity Bond Account, in lawful money of the United States. Principal of and interest on each Bond registered in the name of the Securities Depository is payable in the manner set forth in the Letter of Representations. Interest on each Bond not registered in the name of the Securities Depository is 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 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 the Securities Depository is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar. The Bonds are not subject to acceleration under any circumstances.

Section 8. **<u>Redemption and Purchase of Bonds</u>.**

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

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

(c) Selection of Bonds for Redemption; Partial Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance shall select the Series and maturity or maturities to be redeemed. If fewer than all of the outstanding Bonds of a maturity of a Series are to be redeemed, the Securities Depository shall select Bonds registered in the name of the Securities Depository to be redeemed in accordance with the Letter of Representations, and the Bond Registrar shall select all other Bonds to be redeemed randomly in such manner as the Bond Registrar shall determine. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any Authorized Denomination. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same Series, maturity and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

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

Section 9. <u>Notice of Redemption</u>. The City shall cause notice of any intended redemption of Bonds 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 on the Record Date, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any Bond. Interest on

Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call.

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 Bonds by giving a notice of rescission to the affected Registered Owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is rescinded by the Director of Finance shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

Section 10. **Failure to Pay Bonds.** If any Bond is not paid when properly presented at its maturity or redemption date, the City shall be obligated to pay, solely from the Parity Bond Account and the other sources pledged in this ordinance, interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal, premium, if any and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Account and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

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

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

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

Section 12. **Construction Account; Deposit of Proceeds.** An account to be known as the Water System Construction Subaccount, 2014 is created in the Water System Construction Account, which account was previously created in the Water Fund. The principal proceeds of the sale of the Bonds remaining after the deposit of accrued interest on the Bonds, if any, into the Principal and Interest Subaccount and the deposit of any proceeds as determined by the Bond Resolution into the Reserve Subaccount, shall be deposited into the Construction Account, unless otherwise specified in the Bond Resolution or directed by the Director of Finance, to be used for the purpose of paying part of the costs of carrying out the Plan of Additions and to pay capitalized interest on, if necessary, and the costs of issuance of the Bonds. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any Permitted Investment, and the investment earnings may, as determined by the Director of Finance, be retained in the Construction Account and be spent for the purposes of that account or deposited in the Parity Bond Account.

Section 13. **Security for the Bonds; Parity with other Bonds.** The Bonds shall be special limited obligations of the City payable from and secured solely by the Net Revenue and ULID Assessments, and by money in the Parity Bond Account and subaccounts therein. The Net Revenue and all ULID Assessments, and all money and investments held in the Parity Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code), are pledged to the payment of the Parity Bonds and to make payments into the Reserve Subaccount required by this ordinance and the Parity Bond Legislation. This pledge shall constitute a charge and lien upon the Net Revenue prior and superior to any other charges whatsoever.

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

The Bonds shall not constitute general obligations of the City, 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 by this ordinance.

Section 14. **Priority Expenditure of Gross Revenue; Flow of Funds.** The Gross Revenue shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To pay the Operating and Maintenance Expense;

(b) To pay interest on Parity Bonds and net payments on Parity Payment Agreements when due;

(c) To pay the principal of Parity Bonds as it comes due at maturity or to meet Sinking Fund Requirements, and to make payments due under any agreement with a provider of a Reserve Security which agreement requires those payments to be treated on a parity of lien with the Parity Bonds;

(d) To make all payments required to be made into the Reserve Subaccount, to make all payments required to be made under any agreement with a provider of a Reserve Security, which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Reserve Subaccount, and to make the deposits required to be made into a special account in the Water Fund upon the expiration of a Reserve Security, in accordance with Section 15(a)(ii) of this ordinance.

(e) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the City having a lien upon the revenue of the Municipal Water System subordinate to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(f) To retire by redemption or purchase any outstanding revenue bonds or other revenue obligations of the Municipal Water System; to make necessary additional betterments, improvements and repairs to or extensions and replacements of the Municipal Water System; to pay City taxes or other payments in lieu of taxes payable from Gross Revenue; to make deposits into the Rate Stabilization Account; or for any other lawful Municipal Water System purposes.

Section 15. **<u>Parity Bond Account</u>.** The Parity Bond Account is divided into two subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount. The Director of Finance may create sinking fund subaccounts or other subaccounts in the Parity Bond Account for the payment or securing the payment of Parity Bonds, as long as the maintenance of such accounts does not conflict with the rights of the owners of Parity Bonds.

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

(i) Into the Principal and Interest Subaccount (A) upon receipt thereof, the accrued interest, if any, received by the City from the Purchaser, and (B) on or before each interest or principal and interest payment date of any Parity Bonds an amount which, together with other money on deposit therein, will be sufficient to pay the 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

(ii) Into the Reserve Subaccount an amount necessary to provide for the Reserve Requirement for the Parity Bonds within the time and in the manner required by this ordinance and the Parity Bond Legislation. The amount necessary to satisfy the Reserve Requirement upon the issuance of a Series may be funded (i) on the Issue Date, by a deposit from the 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.

For the purpose of determining the amount credited to the Reserve Subaccount, obligations in which money in the Reserve Subaccount has been invested shall be valued at the greater of cost or accreted value.

The City may provide all or any part of the Reserve Requirement through a Reserve Security, subject to the following: (A) the amount available to be drawn upon under a Reserve Security shall be credited against the Reserve Requirement; and (B) on receipt of a notice of cancellation of any Reserve Security, the City shall either (1) substitute a Reserve Security in the amount required to make up the deficiency created in the Reserve Subaccount, or (2) create a special account in the Water Fund and deposit therein, on or before the 25th day of each of the 36 succeeding calendar months (commencing with the 25th day of the calendar month next following the date of the notice) 1/36th of the amount sufficient, together with other money and investments on deposit in the Reserve Subaccount, to equal the Reserve Requirement in effect as of the date the cancellation becomes effective. Amounts on deposit in that special account shall not be available to pay debt service on Parity Bonds or for any other purpose of the City, and shall be transferred to the Reserve Subaccount on the effective date of any cancellation of a Reserve Security to make up all or part of the deficiency caused thereby. Amounts in that special account or in the Reserve Subaccount may be transferred back to the Water Fund and used for any purpose if and when a substitute Reserve Security is obtained.

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

(b) Reserve Subaccount. The City covenants that it will at all times so long as any Parity Bonds are outstanding, maintain the Reserve Subaccount at the Reserve Requirement (taking into account scheduled payments to fund the Reserve Requirement over time), as it is adjusted from time to time, except for withdrawals as authorized by this ordinance. The Director of Finance may make withdrawals of cash from the Reserve Subaccount in the event of a deficiency in the Principal and Interest Subaccount to meet maturing installments of either principal (or Sinking Fund Requirements) or interest. Any deficiency created in the Reserve Subaccount by reason of any such withdrawal shall, within 12 months, be made up from ULID Assessments and Net Revenue available after making necessary provisions for the required payments into the Principal and Interest Subaccount. The money in the Reserve Subaccount may be applied to the payment of the last outstanding Parity Bonds, and when the total amount in the Parity Bond Account (including investment earnings) equals the total amount of principal and interest for all then-outstanding Parity Bonds to the last maturity thereof, no further payment need be made into the Parity Bond Account. Money in the Reserve Subaccount (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Subaccount and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund or account and spent for any other lawful Municipal Water System purpose.

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

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

Section 16. <u>Parity Bond Covenants</u>. The City covenants with the Owner of each Bond at any time outstanding, as follows:

(a) Operation and Maintenance. It will pay all Operating and Maintenance Expense and otherwise meet the obligations of the City under this ordinance. It will at all times maintain, preserve and keep the Municipal Water System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof so that at all times the business carried on in connection therewith will be properly and advantageously conducted, and will at all times operate or cause to be operated the properties of the Municipal Water System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) Establishment and Collection of Rates and Charges. It will establish, maintain, revise as necessary, and collect rates and charges for services and facilities provided by the Municipal Water System which will be fair and equitable, and will adjust those rates and charges from time to time so that:

(i) The Gross Revenue will be sufficient to (A) pay all Operating and Maintenance Expense, (B) pay when due all amounts that the City is obligated to pay into the Parity Bond Account and the subaccounts therein, and (C) pay all taxes, assessments or other governmental charges lawfully imposed on the Municipal Water System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

(ii) The Adjusted Net Revenue in each fiscal year will be at least equal to the Coverage Requirement; and

(iii) Except to aid the poor or infirm and for fire-fighting purposes, it will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Municipal Water System free of charge to any person, firm or corporation, public or private.

The failure of the City to comply with subparagraphs (i) and (ii) above shall not be an Event of Default if the City promptly retains an Independent Utility Consultant to recommend to the City Council adjustments in the rates of the Municipal Water System necessary to meet the requirements of those subparagraphs and if the City Council adopts the recommended modifications within 180 days of the date the failure became known to the City Council.

(c) Sale or Disposition of the Municipal Water System. It will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the Municipal Water System or any real or personal property comprising a part of the Municipal Water System only upon approval by ordinance and only consistent with one or more of the following:

(i) The City in its discretion may carry out such a sale, transfer or disposition (each, as used in this section, a "transfer") if the facilities or property transferred are not material to the operation of the Municipal Water System, have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Municipal Water System, or are no longer necessary, material or useful to the operation of the Municipal Water System; or

(ii) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred under this subsection in any fiscal year comprises no more than 3% of the total assets of the Municipal Water System; or

(iii) The City in its discretion may carry out such a transfer if the City receives from the transferee an amount equal to the fair market value of the portion of the Municipal Water System transferred. As used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus. The proceeds of the transfer shall be used (i) to promptly redeem, or irrevocably set aside for the redemption of, Parity Bonds, and/or (ii) to provide for part of the cost of additions to and betterments and extensions of the Municipal Water System. Before any such transfer under this subsection, the City must obtain a certificate of an Independent Utility Consultant to the effect that in his or her professional opinion, upon such transfer and the use of proceeds of the transfer as proposed by the City, the remaining Municipal Water System will retain its operational integrity and the Adjusted Net Revenue of the Municipal Water System will be at least equal to the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur, taking into account, (A) the reduction in revenue resulting from the transfer; (B) the use of any proceeds of the transfer for the redemption of Parity Bonds, (C) the Independent Utility Consultant's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Municipal Water System financed in part by the proposed portion of the proceeds of the transfer, and (D) any other adjustment permitted in the preparation of a certificate under Section 17(a)(vi)(B) of this ordinance. Before such a transfer, the City also must obtain confirmation from each Rating Agency to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer. The amount required to be paid to the City may be reduced by any "equity credits" or similar amounts based on prior capital contributions or other payments to the City which, under any contract between the City and the transferee, are allowed as a setoff against the transfer price that would otherwise be payable to the City.

Upon the redemption or defeasance of all outstanding 2003 Bonds and 2004 Bonds: *the City may sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the Municipal Water System or any real or personal property comprising a part of the Municipal Water System only consistent with one or more of the following:*

(i) The City in its discretion may carry out such a sale, transfer or disposition (each, a "transfer") if the facilities or property transferred are not material to the operation of the Municipal Water System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Municipal Water System or are no longer necessary, material or useful to the operation of the Municipal Water System; or

(ii) *The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred under this subsection in any fiscal year comprises no more than 5% of the total assets of the Municipal Water System; or*

(iii) *The City in its discretion may carry out such a transfer if the proceeds from such transfer are used to acquire new useful operating facilities or properties of the Municipal Water System, or are used to retire outstanding Parity Bonds or other revenue obligations of the Municipal Water System, if, at the time of such transfer, the City has on file a certificate of both the Director of Finance and the Director of Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of either office) demonstrating that in their opinion, upon such transfer and the use of proceeds of the transfer as proposed by the City, the remaining facilities of the Municipal Water System will retain their operational integrity and, based on the financial statements for the most recent fiscal year available, the proposed transfer would not prevent the Municipal Water System from complying with the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur. The certificate shall take into account, (A) the reduction in revenue and expenses, if any, resulting from the transfer; (B) the use of any proceeds of the transfer for the redemption of Parity Bonds, (C) the estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Municipal Water System financed in part by the proposed portion of the proceeds of the transfer, and (D) any other adjustment permitted in the preparation of a certificate under Section 17(a)(vi) of this ordinance. Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.*

(d) **Liens Upon the Municipal Water System.** Except as otherwise provided in this ordinance, it will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the Gross Revenue or any part thereof, prior or superior to the lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

(e) **Books and Records.** It will keep proper books, records and accounts with respect to the operations, income and expenditures of the Municipal Water System in accordance with generally accepted accounting practices relating to the municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited on an annual basis by the State Auditor (or, if such audit is not made by the State Auditor within 270 days after the close of any fiscal year of the City, by a certified public accountant selected by the City). It will prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the Municipal Water System as of the close of the previous year, and the income and expenses for such year, including the amounts paid into the Parity Bond Account and into any and all special funds or accounts created pursuant to the provisions of this ordinance, the status of all funds and accounts as of the end of such year, and the amounts expended for maintenance, renewals, replacements and capital additions to the Municipal Water System. Such statements shall be sent to the owner of any Parity Bond upon written request received by the City. The City may charge a reasonable cost for providing such financial statements.

(f) Collection of Delinquent Accounts. On at least an annual basis, it will determine all accounts that are delinquent and will take such actions as the City determines are reasonably necessary to enforce payment of those delinquent accounts.

(g) Maintenance of Insurance. It at all times will carry fire and extended coverage, public liability and property damage and such other forms of insurance with responsible insurers and with policies payable to the City on such of the buildings, equipment, works, plants, facilities and properties of the Municipal Water System as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, and against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or it will self-insure or will participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the Municipal Water System and the Owners of the Parity Bonds against loss.

(h) Condemnation Awards and Insurance Proceeds. If the City receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the Municipal Water System, it shall apply the condemnation award or insurance proceeds, in the City's sole discretion, either (i) to the cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity Bonds, or (iii) to the cost of improvements to the Municipal Water System.

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 Municipal Water System or to refund a portion of the Parity Bonds if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds or entering into the Parity Payment Agreement:

(i) There must be no deficiency in the Parity Bond Account and no Event of Default with respect to any Parity Bonds shall have occurred and be continuing.

(ii) The Future Parity Bond Legislation must provide that all ULID Assessments shall be paid directly into the Parity Bond Account.

(iii) The Future Parity Bond Legislation must provide for the payment of the principal thereof and interest thereon out of the Parity Bond Account.

(iv) The Future Parity Bond Legislation must provide for the payment of any Sinking Fund Requirements from money in the Principal and Interest Subaccount.

(v) The Future Parity Bond Legislation must provide for the deposit into the Reserve Subaccount of (A) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds or other money legally available; (B) one or more Reserve Securities or an amount plus Reserve Securities necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds, or (C) amounts necessary to fund the Reserve Requirement from ULID Assessments and Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments.

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

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

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

(2) Net revenue from customers of the Municipal Water System who have become customers during the 12 consecutive month period or thereafter, and their estimate of net revenue from any customers to be connected to the Municipal Water System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;

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

(4) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue of the Municipal Water System.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding Parity Bonds, no such coverage certification shall be required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than $5,000 over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds.

(b) Nothing contained herein shall prevent the City from issuing Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or revenue bonds that are a charge or lien upon the Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from pledging the payment of ULID assessments into a bond redemption fund created for the payment of the principal of and interest on those subordinate lien bonds as long as such ULID assessments are levied for improvements constructed from the proceeds of those subordinate lien bonds.

Section 18. Rate Stabilization Account. The Rate Stabilization Account has been created as a separate account in the Water Fund. The City may at any time, as determined by the Director of Finance, deposit in the Rate Stabilization Account, Gross Revenue and any other money received by the Municipal Water System and available for this purpose, consistent with Section 14. The Director of Finance may, upon authorization by resolution of the City Council, withdraw any or all of the money from the Rate Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal year. 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. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

Section 19. Separate Utility Systems. The City may create, acquire, construct, finance, own and operate one or more additional systems for water supply, transmission or other commodity or service relating to the Municipal Water System. The revenue of that separate utility system shall not be included in the Gross Revenue of the Municipal Water System and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither the Gross Revenue nor the Net Revenue shall be pledged by the City to the payment of any obligations of a separate utility system except (a) as a Contract Resource Obligation, or (b) with respect to the Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue.

Section 20. Contract Resource Obligations. The City may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of water supply, transmission or other commodity or service relating to the Municipal Water System, as follows:

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

(i) No Event of Default has occurred and is continuing; and

(ii) There shall be on file a certificate of an Independent Utility Consultant stating that (A) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply or transmission rendered; (B) the source of any new supply, and any facilities to be constructed to provide the supply or transmission, are sound from a water or other commodity supply or transmission planning 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 Adjusted Net Revenue (further adjusted by the Independent Utility Consultant's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Adjusted Net Revenue is estimated by the Independent Utility Consultant in accordance with the provisions of and adjustments permitted in Section 17(a)(vi)(B) of this ordinance, will be at least equal to the Coverage Requirement.

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

(c) Nothing in this Section shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from existing facilities and from treating those payments as Operating and Maintenance Expense. Nothing in this Section shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a charge and lien on Net Revenue subordinate to that of Parity Bonds.

Section 21. Refunding and Defeasance of the Bonds. The Bonds are hereby designated "Refundable Bonds" for purposes of Ordinance 121939, as it may be amended from time to time. The City may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay when due the principal of, premium, if any, and interest on any Bond, or portion thereof, included in a refunding or defeasance plan, and to redeem and retire, release, refund or defease those Bonds (the "defeased Bonds") and to pay the costs of such refunding or defeasance. If money and/or Government Obligations maturing at a time or times 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 this ordinance and in the Net Revenue and 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, thereafter shall cease and become void. Such Owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. After establishing and fully funding such a trust account, the defeased Bonds shall be deemed as no longer outstanding, and the Director of Finance then 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 shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for the redemption of Bonds.

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

Section 22. **<u>Provisions Relating to Certain Federal Tax Consequences of the Bonds</u>.**

(a) **Tax-Exempt Bonds.** The City covenants that it will take all actions, consistent with the terms of any Series issued as Tax-Exempt Bonds, this ordinance, and the Bond Resolution, reasonably within its power and necessary to prevent interest on that Series from being included in gross income for federal income tax purposes, and the City will neither take any action nor make or permit any use of proceeds of that Series or other funds of the City treated as gross proceeds of that Series at any time during the term of such Series which will cause interest on such Series to be included in gross income for federal income tax purposes. The City also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to any Series issued as Tax-Exempt Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with that Series, including the calculation and payment of any penalties that the City has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on such Series from being included in gross income for federal income tax purposes.

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

Section 23. Official Statement; Continuing Disclosure.

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

(b) Final Official Statement. The City approves the preparation of a final official statement for each sale of one or more Series to be sold to the public in the form of the preliminary official statement with such modifications and amendments as the Director of Finance deems necessary or desirable, and further authorizes the Director of Finance to execute and deliver such final official statement to the Purchaser. The City authorizes and approves the distribution by the Purchaser of that final official statement to purchasers and potential purchasers of the Bonds.

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

Section 24. Supplemental or Amendatory Ordinances.

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

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

(i) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance in a manner not adverse to the owners of any Parity Bonds;

(ii) To impose upon the Bond Registrar (with its consent) for the benefit of the owners of any Parity Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this ordinance as therefore in effect;

(iii) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary or inconsistent with this ordinance as therefore in effect;

(iv) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this ordinance of any other money, securities or funds;

(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;

(vi) To comply with any future federal law or interpretation to preserve the exclusion of the interest on the Tax-Exempt Bonds from gross income for federal income tax purposes and the entitlement of the City to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of any Series sold and issued as Tax Credit Subsidy Bonds;

(vii) To modify, alter, amend or supplement this ordinance in any other respect which is not materially adverse to the owners of the Parity Bonds and which does not involve a change described in subsection (c) of this section; and

(viii) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are requested by a provider of Bond Insurance or provider of a Reserve Security and which are not materially adverse to the owners of the Parity Bonds.

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

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

(i) With the consent of registered owners of not less than 60% in aggregate principal amount of the Parity Bonds then outstanding, the City Council may pass any supplemental or amendatory ordinance deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance. 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.

(ii) If at any time the City Council passes a supplemental or amendatory ordinance for any of the purposes of this subsection (c), the Bond Registrar shall cause notice of the proposed supplemental or amendatory ordinance to be given by first-class United States mail to all registered owners of the then outstanding Parity Bonds, to each provider of Bond Insurance or a Reserve Security, and to each Rating Agency. Such notice shall briefly set forth the nature of the proposed supplemental or amendatory ordinance and shall state that a copy is on file at the office of the City Clerk for inspection by all owners of the outstanding Parity Bonds.

(iii) Within two years after the date of the mailing of such notice, such supplemental or amendatory ordinance, substantially as described in such notice, may go into effect, but only if there shall have first been delivered to the Bond Registrar (A) the required consents, in writing, of registered owners of the Parity Bonds, and (B) an opinion of Bond Counsel stating that such supplemental or amendatory ordinance is authorized or permitted by this ordinance and, upon the effective date thereof, will be valid and binding upon the City in accordance with its terms, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

(iv) If registered owners of not less than the percentage of Parity Bonds required by this subsection (c) shall have consented to and approved the passage of such a supplemental or amendatory ordinance, no owner of a Parity Bond shall have any right to object to the passage of such supplemental ordinance, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the passage thereof, or to enjoin or restrain the City from passing the same or the City, any authorized official thereof, or the Bond Registrar from taking any action pursuant to the provisions thereof.

(d) The Registered Owners from time to time of the outstanding Bonds, by taking and 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.

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

Section 25. <u>Defaults and Remedies</u>.

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

(i) If a default is made in the payment of the principal of or interest on any of the Bonds when the same shall become due and payable; or

(ii) If the City defaults in the observance and performance of any other of the covenants, conditions and agreements on the part of the City set forth in this ordinance or in any Parity Bond Legislation (except as otherwise provided herein or in such Parity Bond Legislation) and such default or defaults have continued for a period of six months after the City has received from the Bond Owners' Trustee (as defined below) or from the registered owners of not less than 25% in principal amount of the Parity Bonds, a written notice specifying and demanding the cure of such default. However, if the default in the observance and performance of any other of the covenants, conditions and agreements is one which cannot be completely remedied within the six months after written notice has been given, it shall not be an Event of Default with respect to the Bonds as long as the City has taken active steps within the six months after written notice has been given to remedy the default and is diligently pursuing such remedy; or

(iii) If the City files a petition in bankruptcy or is placed in receivership under any state or federal bankruptcy or insolvency law.

Notwithstanding anything in this section to the contrary, the failure of the City or any obligated person to comply with the Undertaking shall not constitute an Event of Default under this ordinance, the Bond Resolution or the Bonds, and the sole remedy of any holder of a Bond shall 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 Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Bond Owners' Trustee, notification thereof being given to the City. That appointment shall become effective immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee appointed under the provisions of this subsection (b) shall be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The bank or trust company acting as Bond Owners' Trustee may be removed at any time, and a successor Bond Owners' Trustee may be appointed, by the registered owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized. The Bond Owners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

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

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

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

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

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

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

(i) to the payment of the charges, expenses, advances and compensation of the Bond Owners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and

(ii) to the payment to the persons entitled thereto of all installments of interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(iii) to the payment to the persons entitled thereto of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

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

The Bond Owners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bond Owners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

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

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

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

(i) an Event of Default has happened and is continuing; and

(ii) a Bond Owners' Trustee has been appointed; and

(iii) such owner previously shall have given to the Bond Owners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and

(iv) the registered owners of 25% in principal amount of the Parity Bonds, after the occurrence of such Event of Default, have made written request of the Bond Owners' Trustee and have afforded the Bond Owners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and

(v) there have been offered to the Bond Owners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(vi) the Bond Owners' Trustee has refused or neglected to comply with such request within a reasonable time.

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.

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

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

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

Section 27. **Severability.** The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

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

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

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

Passed by the City Council the 25th day of Nov., 2013, and signed by me in open session in authentication of its passage this 25th day of Nov., 2013.

President of the City Council

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

Michael McGinn, Mayor

Filed by me this 4th day of December, 2013.

Monica Martinez Simmons, City Clerk

(SEAL)

Attachments:

Exhibit A – List of Outstanding Parity Bonds
Exhibit B – Form of Undertaking to Provide Continuing Disclosure

EXHIBIT A

OUTSTANDING WATER PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation
Water System and Refunding Revenue Bonds, 2003	4/29/2003	$271,320,000	Ord 121094 Res 30598
Water System Revenue Bonds, 2004	10/25/2004	$84,750,000	Ord 121587 Res 30710
Water System Revenue Refunding Bonds, 2005	12/28/2005	$138,040,000	Ord 121939 Res 30832
Water System Revenue and Refunding Bonds, 2006	10/23/2006	$189,970,000	Ord 122210 Res 30919
Water System Improvement and Refunding Revenue Bonds, 2008	12/15/2008	$205,080,000	Ord 121939 Ord 122797 Ord 122837 Res 31099
Water System Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment)	1/21/2010	$109,080,000	Ord 123168 Res 31182
Water System Improvement and Refunding Revenue Bonds, 2010B	1/21/2010	$81,760,000	Ord 121939 Ord 122837 Ord 123168 Res 31182
Water System Refunding Revenue Bonds, 2012	5/30/2012	$238,770,000	Ord 121939 Ord 122837 Res 31382

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 Water 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 Water 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.

(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:

(i) Shall consist of annual financial information and operating data regarding the Water System of the type included in the final official statement for the Bonds as follows: (1) annual financial statements of the Water 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 financial 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; (2) a statement of authorized, issued and outstanding bonded debt secured by revenues of the Water System; (3) debt service coverage ratios; (4) general customer statistics, such as number and type of customers and revenues by customer class; and (5) current water rates;

(ii) Shall be provided 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, 20__; and

(iii) 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.

(c) 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 of 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 financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

(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 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.

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any Beneficial Owner of a Bond shall be to take such actions as that Beneficial Owner 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.

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

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

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

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

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

(v) Effecting any necessary amendment of the Undertaking.

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APPENDIX B

FORM OF BOND COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington
$340,840,000 Water System Improvement and Refunding Revenue Bonds, 2015

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"), and in that capacity 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 pursuant to the laws of the State of Washington and Ordinance 124340, Ordinance 121939 (as amended by Ordinance 122837 and as amended and restated by Ordinance 124339), and Resolution 31586 of the City (collectively, the "Bond Legislation") to provide the funds (i) to pay for part of the costs of various projects of the Water System, (ii) to refund certain of the City's outstanding Water System and Refunding Revenue Bonds, 2003, Water System Revenue Refunding Bonds, 2005, Water System Revenue and Refunding bonds, 2006 and Water System Improvement and Refunding Bonds, 2008, and (iii) to pay the issuance 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 Water System and money in the Bond Account (including the Reserve Subaccount therein) and the Rate Stabilization Account and the Construction Account, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;

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

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 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

2014 AUDITED FINANCIAL STATEMENTS OF THE WATER FUND

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

Seattle Public Utilities - Water Fund
(An Enterprise Fund of the City of Seattle)

December 31, 2014 and 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Director of Seattle Public Utilities
Water Fund
Seattle, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities - Water Fund (the "Fund"), which comprise the statements of net position as of December 31, 2014 and 2013, 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 - Water Fund as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other information presented on pages 40-42 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

Moss Adams LLP

Seattle, Washington
April 30, 2015

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 Water Fund (the "Fund") for the fiscal years ended December 31, 2014 and 2013. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of Seattle's water system are recorded in the Water 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 12 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, 2014 and 2013, on all of the Fund's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources 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 deferred inflows of resources), 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, 2014 and 2013. 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, 2014 and 2013. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

Notes to the Financial Statements - The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 17 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, 2014 and 2013, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in surpluses in total net position of $393.0 million and $361.5 million, respectively. During these years, the Fund's overall position improved, with increases in net position of $31.5 million (8.7%) and $28.2 million (8.5%) during 2014 and 2013, respectively. The following summary statement of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities, deferred inflows of resources and net position used to acquire these assets:

SUMMARY STATEMENT OF NET POSITION

	2014	2013	2012
ASSETS			
Current assets	$ 78,293,752	$ 65,148,012	$ 45,542,515
Capital assets, net	1,205,241,887	1,196,848,221	1,205,023,587
Other	104,355,153	116,079,264	126,876,329
Total assets	1,387,890,792	1,378,075,497	1,377,442,431
DEFERRED OUTFLOWS OF RESOURCES	18,914,284	20,164,950	21,415,616
Total assets and deferred outflows of resources	$ 1,406,805,076	$ 1,398,240,447	$ 1,398,858,047
LIABILITIES			
Current liabilities	$ 75,570,277	$ 69,099,335	$ 68,411,477
Revenue bonds	877,255,855	915,557,268	952,425,725
Other	33,062,990	32,630,286	32,244,024
Total liabilities	985,889,122	1,017,286,889	1,053,081,226
DEFERRED INFLOWS OF RESOURCES			
Regulatory liability - revenue stabilization fund	27,875,563	19,418,011	12,432,522
NET POSITION			
Net investment in capital assets	351,175,275	327,186,569	317,266,743
Restricted	11,790,073	12,174,403	11,276,394
Unrestricted	30,075,043	22,174,575	4,801,162
TOTAL NET POSITION	393,040,391	361,535,547	333,344,299
Total liabilities, deferred inflows of resources and net position	$ 1,406,805,076	$ 1,398,240,447	$ 1,398,858,047

FINANCIAL ANALYSIS (CONTINUED)

2014 Compared to 2013

Assets - Current assets increased $13.1 million (20.2%) from 2013. This is primarily due to increase in operating cash of $14.7 million as a result of construction fund transfer. This increase was offset by decreases in accounts receivable, net of allowance for doubtful accounts of $0.4 million, unbilled revenues of $0.3 million and due from other governments of $0.9 million.

Other assets decreased $11.7 million (10.1%) from 2013. The largest portion of the change was due to reductions in restricted cash and equity in pooled investments of $9.1 million as a result of construction fund transfer, regulatory assets of $1.2 million, other charges of $0.9 million and conservation cost of $0.5 million.

Deferred Outflows of Resources - Deferred loss on advanced refunding of bonds decreased by $1.3 million due to scheduled amortization.

Liabilities - Current liabilities increased $6.5 million (9.4%) from 2013. This is mainly attributable to increases in accounts payable of $2.1 million and other current liabilities of $1.7 million as a result of deposits received for services to be delivered in the future. Other increases include $1.5 million in current portion of bonds payable, $1.1 million in due to other funds, $0.3 million in Habitat Conservation Plan ("HCP") liability and $0.4 million in salaries, benefits, and payroll taxes payable. These increases were offset by a $0.6 million decrease in interest payable.

Other liabilities increased $0.4 million (1.3%) over 2013 mainly due to the increase in compensated absences payable.

Deferred Inflows of Resources - Rate stabilization account increased by $8.5 million (43.6%) due to a cash transfer from the operating fund and interest earned in 2014.

Net Position - Net investment in capital assets was the largest portion of the Fund's net position ($351.2 million or 89.3%). This amount 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 2014, net investment in capital assets increased $24.0 million from 2013 primarily from a reduction in debt allocated to capital assets.

The Fund's restricted net position ($11.8 million or 3.0%) represent resources that are subject to restrictions on how they may be used. Restricted net position decreased $0.4 million primarily due to the decreases in restrictions in conservation and other costs.

FINANCIAL ANALYSIS (CONTINUED)

The Fund's unrestricted net position ($30.1 million or 7.7%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased $7.9 million in 2014.

2013 Compared to 2012

Assets - Current assets increased $19.6 million (43%) from 2012. This increase was due to increase in operating cash of $16.4 million, unbilled revenues of $2.5 million, due from other City funds of $0.5 million, due from other governments of $0.8 million and materials and supplies inventory of $0.9 million. The increase was offset by a decrease in accounts receivable net of allowance for doubtful accounts of $1.1 million.

Other assets decreased $10.8 million (8.5%) from 2012. The largest portion of the change was due to reductions in restricted cash and equity in pooled investments of $7.2 million, conservation cost of $4.4 million and regulatory assets of $1.6 million. These decreases were offset by increase in other charges of $2.6 million.

Liabilities - Current liabilities increased $0.7 million (1.0%) from 2012. Most notable increases were due to increases in the current portion of bonds payable of $0.9 million, accounts payable of $1.0 million, and salaries, benefits, and payroll taxes payable of $0.4 million. These increases were offset by a $0.7 million decrease in interest payable, credits and other of $0.6 million and Habitat Conservation Plan of $0.4 million.

Other liabilities increased $0.4 million (1.2%) over 2012 mainly due to the increase in unfunded other post retirement benefits.

Deferred Inflows of Resources - Rate stabilization account increased by $7 million (56.2%) due to cash transfer from operating fund and interest earned in 2013.

Net Position - Net investment in capital assets was the largest portion of the Fund's net position ($327.2 million or 90.5%). This amount 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 invested in capital assets increased $9.9 million from 2012 primarily from a reduction in debt allocated to capital assets.

FINANCIAL ANALYSIS (CONTINUED)

The Fund's restricted net position ($12.2 million or 3.4%) represent resources that are subject to restrictions on how they may be used. Restricted net position increased $0.9 million primarily due to the increases in restrictions in conservation costs.

The Fund's unrestricted net position ($22.2 million or 6.1%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased $17.4 million in 2013.

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

	2014	2013	2012
Operating revenues	$ 242,946,509	$ 235,593,735	$ 213,474,169
Operating expenses	(184,445,459)	(176,531,527)	(163,688,656)
Net operating income	58,501,050	59,062,208	49,785,513
Other expenses, net of other revenues	(35,928,293)	(38,388,558)	(37,502,304)
Fees, contributions, and grants	8,932,087	7,517,598	8,383,245
Change in net position	$ 31,504,844	$ 28,191,248	$ 20,666,454

2014 Compared to 2013

Operating revenues increased approximately $7.4 million (3.1%) over 2013. This change was driven by an increase in direct service revenue of $11.8 million resulting from an increase in rates. The increase was offset by decreases of $2.4 million in wholesale revenue, $0.9 million for other ancillary services and $1.1 million in the revenue stabilization account.

Operating expenses increased $7.9 million (4.5%) from 2013. Notable factors affecting this change include increases in city taxes of $1.9 million related to the overall increase in revenues. Depreciation and amortization also increased by $1.6 million due to an increase in depreciable assets. Additional increases to expenses include $7.3 million in the general and administrative branch, $0.7 million in the utility systems management and $0.5 in other taxes. The increase was offset by decreases in field operations of $2.7 million and customer service cost of $1.4 million.

FINANCIAL ANALYSIS (CONTINUED)

Other expenses, net of other revenues decreased by $2.5 million (6.4%) over 2013. The change was primarily due to an increase in investment income of $1.5 million, and other income of $0.1 million. These increases were offset by decreases in interest payments of $1.9 million, contributions and grants of $0.6 million and loss on sale of capital assets of $0.4 million.

Capital fees, contributions and grants increased by $1.4 million (18.8%) over 2013 primarily due to increases in donated assets of $2.8 million, $0.4 million in connection charges and $0.1 million in hydrants. These increases were offset by decreases in capital grants of $0.8 million, agencies and interlocal services of $0.5 million, capital contributions from private contract watermains of $0.4 million and capital contributions for other meters and services of $0.2 million.

2013 Compared to 2012

Operating revenue increased approximately $22.1 million (10.4%) over 2012. This change was driven by increases in direct service revenue of $15.5 million, wholesale revenue of $6.1 million, and $4.2 million for other ancillary services. The increase was offset by amounts deposited into the revenue stabilization account of $3.6 million.

Operating expenses increased $12.8 million (7.8%) from 2012. Notable factors affecting this change include increases in city taxes of $2.8 million related to the overall increase in revenues. Depreciation and amortization also increased by $1.2 million due to an increase in depreciable assets. Additional increases to expenses include $2.0 million in the general and administrative branch and $5.7 million in the field operations. The increase in general administrative branch is mainly due to $0.9 million increase in interfund pension charges, $0.5 million in interfund information technology charges and $0.5 million increase in labor costs. The increase in field operations is attributed to increase of $3.5 million in salaries and benefits due to more staffing as a result of reorganization.

Other expenses, net of other revenues decreased by $0.9 million (2.4%) over 2012. The change was primarily due to a decrease in investment income of $1.3 million, other income of $1.1 million and loss on sale of capital assets of $0.6 million offset by a decrease in interest payments of $1.3 million and $0.6 million in amortization of bond premiums and discounts.

Capital fees, contributions and grants decreased by $0.9 million (10.3%) over 2012 primarily due to decreases in capital contributions for other meters and services of $1.8 million and donated assets of $1.6 million. These decreases were offset by increases in capital grants of $0.6 million and capital contributions from private contract watermains, connection charges, and agencies/interlocal services totaling $2.0 million.

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2014, 2013, and 2012:

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2014	2013	2012
Land and land rights	$ 44,261,296	$ 43,269,483	$ 42,910,772
Buildings	129,734,770	132,995,939	136,592,014
Structures	237,889,257	239,710,769	246,440,010
Machinery and equipment	725,008,774	731,463,161	733,983,399
Computer systems	17,872,911	22,880,796	20,806,035
Construction in progress	48,906,371	25,343,136	23,358,521
Other property	1,568,508	1,184,937	932,836
Capital assets, net of accumulated depreciation	$ 1,205,241,887	$ 1,196,848,221	$ 1,205,023,587

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

2014 Compared to 2013

The Fund's investment in capital assets for the year ended December 31, 2014 was $1.2 billion, net of accumulated depreciation. This represents an increase of $8.4 million (0.7%) compared to 2013. Highlights of the Fund's major capital assets placed in service during 2014 include the following:

- Water infrastructure improvements and rehabilitation totaling $14.6 million.
- Technology infrastructure improvements totaling $1.9 million.
- Water Conservation projects totaling $1.9 million.
- Bridges, water distribution system, water main, and water transmission pipelines improvements totaling $3.9 million.
- Watershed Road Improvements and Stream Restoration totaling $1.1 million.

CAPITAL ASSETS (CONTINUED)

The Fund had $48.9 million in construction work in progress as of December 31, 2014. Projects under construction are the following:

- Reservoir covering and improvement projects totaling $18.2 million.
- Operational, regional, and other facilities totaling $11.0 million.
- Alaskan Way Viaduct and Sea Wall $7.2 million.
- Business and technology infrastructure upgrades totaling $5.5 million.
- Water system improvements and rehabilitation totaling $2.7 million.

2013 Compared to 2012

The Fund's investment in capital assets for the year ended December 31, 2013 was $1.2 billion, net of accumulated depreciation. This represents a decrease of $8.2 million (0.7%) compared to 2012. Highlights of the Fund's major capital assets placed in service during 2013 include the following:

- Water infrastructure improvements and rehabilitation totaling $10.8 million.
- Technology infrastructure improvements totaling $8.3 million.
- South Lake Union Project totaling $4.1 million.
- Bridges, water distribution system, water main, and water transmission pipelines improvements totaling $3.9 million.
- Reservoir coverings and improvements totaling $1.3 million.

The Fund had $25.3 million in construction work in progress as of December 31, 2013. Projects under construction are the following:

- Reservoir covering projects totaling $9.2 million.
- Operational, regional, and other facilities totaling $4.5 million.
- Meter replacements totaling $2.8 million.

CAPITAL ASSETS (CONTINUED)

- Water system improvements & rehabilitation totaling $2.6 million.

- Business and technology infrastructure upgrades totaling $1.9 million.

DEBT ADMINISTRATION

The Fund's debt primarily consists of bonded debt and loans. Bonded debt is secured solely by water system revenues and provides financing for capital improvements. Loans issued by the Washington State Agencies for certain capital improvements are unsecured. The Fund's credit ratings on its bonds were Aa1 and AA+ by Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively. Additional detail about the Fund's revenue bonds and loans are located in Notes 4 and 9 of this report.

2014 Compared to 2013

At December 31, 2014 the Fund had $853.5 million in bonded debt and $16.1 million in loans, as compared to $887 million and $17.2 million, respectively, at December 31, 2013. Bonded debt decreased $33.5 million, attributed to scheduled payments of debt principal on existing bonds. Loans also decreased $1.1 million due to scheduled principal payments on existing loans.

2013 Compared to 2012

At December 31, 2013 the Fund had $887.0 million in bonded debt and $17.2 million in loans, as compared to $919.6 million and $17.1 million, respectively, at December 31, 2012. Bonded debt decreased $32.6 million, attributed to scheduled payments of debt principal on existing bonds. The Fund received $1.4 million in new loan proceeds during the year for the Maple Leaf Reservoir. This increase was offset by $1.2 million of principal payments on existing loans.

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, WA 98124-4018, telephone (206) 684-3000.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION

	December 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 43,553,317	$ 28,900,545
Restricted cash and equity in pooled investments	-	10,000
Receivables		
Accounts, net of allowance	13,519,267	13,899,254
Interest and dividends	910,043	895,293
Unbilled revenues	13,650,679	13,965,425
Notes, and other contracts	107,206	119,747
Due from other funds	759,960	704,348
Due from other governments	582,866	1,509,609
Materials and supplies inventory	5,138,821	5,072,198
Prepayments and other current assets	71,593	71,593
Total current assets	78,293,752	65,148,012
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	56,623,220	65,688,715
Prepayments long-term	1,233,372	1,304,966
Notes and contracts receivable	413,501	520,706
Conservation costs	31,552,189	32,031,892
Regulatory assets	10,987,699	12,211,372
Other charges	3,545,172	4,321,613
Capital assets		
Land and land rights	44,261,296	43,269,483
Plant in service, excluding land	1,791,608,517	1,773,791,825
Less accumulated depreciation	(681,102,805)	(646,741,160)
Construction in progress	48,906,371	25,343,136
Other property, net	1,568,508	1,184,937
Total noncurrent assets	1,309,597,040	1,312,927,485
Total assets	1,387,890,792	1,378,075,497
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advanced refunding	18,914,284	20,164,950
Total assets and deferred outflows of resources	$ 1,406,805,076	$ 1,398,240,447

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION (CONTINUED)

	December 31, 2014	December 31, 2013
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 8,736,287	$ 6,681,187
Salaries, benefits, and payroll taxes payable	2,542,577	2,100,688
Compensated absences payable	467,358	427,043
Due to other funds	5,146,325	4,092,785
Due to other governments	-	68,908
Interest payable	16,207,331	16,779,416
Taxes payable	706,876	704,664
Revenue bonds due within one year	35,015,000	33,545,000
Claims payable	1,195,990	1,203,071
HCP liability	1,138,306	804,625
Loans payable, due within one year	1,124,987	1,124,987
Other	3,289,240	1,566,961
Total current liabilities	75,570,277	69,099,335
NONCURRENT LIABILITIES		
Compensated absences payable	4,845,492	4,427,515
Claims payable	3,801,726	3,672,530
HCP liability	6,492,537	5,424,982
Loans	14,996,469	16,121,456
Vendor and other deposits payable	-	17,959
Unfunded other post retirement benefits	2,564,849	2,552,430
Other noncurrent liabilities	361,917	413,414
Revenue bonds	853,465,000	887,010,000
Less bonds due within one year	(35,015,000)	(33,545,000)
Bond discount and premium, net	58,805,855	62,092,268
Total noncurrent liabilities	910,318,845	948,187,554
Total liabilities	985,889,122	1,017,286,889
DEFERRED INFLOWS OF RESOURCES		
Regulatory liability - revenue stabilization fund	27,875,563	19,418,011
NET POSITION		
Net investment in capital assets	351,175,275	327,186,569
Restricted for:		
Other charges	4,725,537	5,017,614
Conservation costs	3,404,140	3,589,838
Habitat conservation program	3,660,396	3,566,951
Unrestricted	30,075,043	22,174,575
Total net position	393,040,391	361,535,547
Total liabilities, deferred inflows of resources and net position	$ 1,406,805,076	$ 1,398,240,447

See accompanying notes.

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

	Years Ended December 31,	
	2014	2013
OPERATING REVENUES		
Charges for services and other revenues	$ 242,946,509	$ 235,593,735
OPERATING EXPENSES		
Planning and development	1,446,621	1,085,180
Utility systems management	14,576,410	13,888,947
Field operations	27,314,986	30,007,140
Project delivery	4,331,978	4,562,667
Customer services	6,252,340	7,609,154
General and administrative	38,916,393	31,657,360
City business and occupation taxes	30,656,984	28,776,311
Other taxes	9,483,508	9,035,669
Depreciation and other amortization	51,466,239	49,909,099
Total operating expenses	184,445,459	176,531,527
OPERATING INCOME	58,501,050	59,062,208
NONOPERATING REVENUES (EXPENSES)		
Investment income	3,082,424	1,535,841
Interest expense	(41,524,740)	(43,396,224)
Amortization of bond premiums and discounts	3,286,413	3,323,457
Amortization of bond refunding loss	(1,250,666)	(1,250,666)
Loss on sale of capital assets	(720,309)	(309,582)
Contributions and grants	181,620	803,255
Other, net	1,016,965	905,361
Total nonoperating revenues (expenses)	(35,928,293)	(38,388,558)
Income before capital contributions and grants	22,572,757	20,673,650
Capital contributions and grants	8,932,087	7,517,598
CHANGE IN NET POSITION	31,504,844	28,191,248
NET POSITION		
Beginning of year	361,535,547	333,344,299
End of year	$ 393,040,391	$ 361,535,547

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 256,195,188	$ 240,903,794
Cash paid to suppliers	(25,846,287)	(29,818,371)
Cash paid to employees	(62,565,567)	(56,625,419)
Cash paid for taxes	(39,862,648)	(37,631,417)
Net cash provided by operating activities	127,920,686	116,828,587
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	201,721	833,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds and other long-term debt	-	1,413,208
Principal payments on long-term debt and refunding	(34,431,742)	(33,873,204)
Capital expenditures and other charges paid	(52,164,345)	(38,279,031)
Interest paid on long-term debt	(43,601,148)	(45,171,328)
Build America Bonds Federal Interest Subsidy	1,981,591	2,042,448
Capital fees and grants received	4,388,114	5,392,852
Proceeds from sale of capital assets	196,317	287,202
Net cash used in capital and related financing activities	(123,631,213)	(108,187,853)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	1,086,083	(275,570)
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	5,577,277	9,198,342
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	94,599,260	85,400,918
End of year	$ 100,176,537	$ 94,599,260
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 43,553,317	$ 28,900,545
Noncurrent restricted cash and equity in pooled investments	56,623,220	65,698,715
Total cash at the end of the year	$ 100,176,537	$ 94,599,260

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31, 2014	2013
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 58,501,050	$ 59,062,208
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	51,466,239	49,909,099
Other receipts and payments	2,221,709	2,548,673
Changes in operating assets and liabilities		
Accounts receivable	379,987	1,149,294
Unbilled revenues	314,746	(2,465,696)
Due from other funds	(55,612)	(466,627)
Due from other governments	780,816	(578,544)
Materials and supplies inventory	(66,623)	(903,292)
Accounts payable	2,055,100	976,532
Salaries, benefits, and payroll taxes payable	441,890	359,821
Compensated absences payable	458,291	132,513
Due to other funds	1,053,540	92,407
Due to other governments	(68,908)	68,908
Claims payable	122,115	(247,477)
Taxes payable	2,211	94,222
Regulatory liabilitiy - revenue stabilization fund	8,457,552	6,985,489
Credits and other	1,665,243	(141,409)
Other assets and liabilities	191,340	252,466
Total adjustments	69,419,636	57,766,379
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 127,920,686	$ 116,828,587
NONCASH TRANSACTIONS		
Contributed infrastructure	$ 4,669,799	$ 1,900,854

 See accompanying notes.

Note 1 - Operations and Summary of Significant Accounting Policies

Operations - The City of Seattle, Seattle Public Utilities - Water Fund (the "Fund") is a public utility enterprise fund of the City of Seattle (the "City"). The Fund was established to account for activities of the water system operated by Seattle Public Utilities ("SPU"). The water system, established in 1890, provides water to the greater Seattle area through direct service to customers and through purveyors, such as suburban water districts and municipalities. The activities of the water system include protection of available water supply, transmission of water to customers, development of water conservation programs, evaluation of new water sources, and management of the City's water system assets, which include the Tolt and Cedar River Watersheds, water pipes, pumping stations, and treatment plants.

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 public utility tax to the City's General Fund. During 2014 and 2013, the Fund paid $11,275,015 and $11,142,057, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid $30,656,984 and $28,776,311 in 2014 and 2013, respectively, to the City for public utility taxes.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $4,039,071 and $3,399,359 in 2014 and 2013, respectively, from the City for water services provided.

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 billed and reimbursed each other for these services in 2014 and 2013. 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 $1,794,922 and $1,653,497 in 2014 and 2013, respectively. The Fund paid $163,355 and $227,220 for CCSS services in 2014 and 2013, respectively, which does not include reimbursements to SCL for the Fund's share of capital costs to upgrade the CCSS system.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the Seattle City Council ("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.

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

Basis of Accounting - The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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, 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. Accounts receivable is shown net of allowances for doubtful accounts. The Fund also accrues an estimated amount for services that have been provided but not billed. Notes and contracts receivable arise from written agreements or contracts with public organizations and private individuals.

Due from/to Other Funds and Governments - Activity between funds 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.

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, 2014 and 2013, the Fund's allowance for doubtful accounts was $314,932 and $330,933, 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.

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

Regulatory Assets - 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. In addition, the costs associated with the Morse Lake Pump Plant are also reported as a regulatory asset.

Revenue Stabilization Fund - The Revenue Stabilization Fund ("RSF") was established by City Ordinance 122841 to reduce year-to-year variation in rates. Amounts deposited into the RSF are excluded from the Statement of Revenues, Expenses, and Changes in Net Position and treated as a credit in accordance with GASB 62. There was a deposit to the RSF of $8.2 million in 2014. The RSF is included in the "Revenue Stabilization Account" identified in the Fund's bond covenants. These covenants provide that withdrawals and deposits from the "Revenue Stabilization Account" shall augment or reduce adjusted net revenue available for the payment of debt service. During 2014 and 2013, there were no withdrawals.

Conservation Costs - Conservation program costs that result in long-term benefits and reduce or postpone other capital expenditures or have a legal requirement are included in noncurrent assets and amortized over their expected useful lives, commencing when each program is in place. The conservation program costs are amortized over their expected useful lives of ten years. Certain costs related to the Habitat Conservation Plan ("HCP") are included in the noncurrent assets and amortized through 2050, the year in which the plan expires. An incidental take permit was issued to the City by the federal government approving the HCP for 50 years. Costs of administering the conservation and HCP programs are expensed as incurred.

Other Charges - Other charges include costs such as the Water System Plan, leasehold improvements and payments to the Muckleshoot Indian Tribe. The Fund amortizes these charges over a 2 to 33 year period.

Capital Assets - Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU's policy is to capitalize assets with a cost of $5,000 or more. The Fund receives donated assets such as water mains from developers and other governmental agencies. These donated assets are treated as a special item under Capital Contributions and Grants in the Statements of Revenues, Expenses, and Changes in Net Position.

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

Construction in Progress - Capitalizable costs incurred on projects which are not in service or ready for use are held in construction in progress. When the asset is ready for service, 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 to 50 years
Earthen source of supply developments	100 years
Transmission and distribution pipelines, reservoirs, and tanks	15 to 100 years
Water mains	33 to 57 years
Pumps, wells, and treatment equipment	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 transmission and distribution pipelines, water mains asset group, reservoirs, and tanks. For most assets, it is SPU's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition. This does not apply to heavy equipment, for which depreciation begins in the month following the equipment's in-service date to more accurately allocate equipment costs to various activities.

Deferred Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The fund has deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 has a revenue stabilization account which qualifies for reporting in this category.

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

BPA Account - In 2003, the Bonneville Power Administration ("BPA") purchased an easement in the amount of $6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This $6.0 million, together with $657,149 in timber sales related to the easement, were deposited into the BPA account and classified as restricted assets. At December 31, 2014 and 2013, the cash balance in the BPA account was $449,561 and $442,853, respectively. Monies in the BPA account are considered a portion of the "Revenue Stabilization Account" described in bond covenants, and therefore shall augment or reduce adjusted net revenue available for the payment of debt service. The Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt service as they are withdrawn to fund certain activities in the Cedar River Watershed.

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. The Fund records a liability for estimated sick leave payments.

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.

Operating Revenues - The Fund provides water service to wholesale and retail customers and recognizes revenue when such service is provided. Wholesale customers ("Purveyors") are under contract with the Fund, and rates are set based on cost allocation criteria stipulated in the contracts.

Service rates for all customers are authorized by ordinances passed by the City Council. Service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled water service revenues in the financial statements for services provided from the date of the last billing to year end.

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

Operating Expenses - Certain expenses of the Fund are reported on the Statements of Revenues, Expenses, and Changes 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 water system.

- **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.

Taxes - The Fund is charged a public utility tax by the City at a rate of 15.54% of Fund revenues, net of certain credits and certain revenues. In addition, the Fund paid a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Fund also paid business and occupation tax to the City at the rate of 0.215% and to the State at the rate of 1.5% for certain other non-utility revenues.

Other 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 utility and are of a recurring nature. Major items are investment and interest income, interest expense, gains or losses on the sale of assets, and amortization of debt expenses.

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

Net investment in capital assets, consists of capital assets, less 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.

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

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, 2014 and 2013 are related to the BPA and RSF accounts and certain other charges.

Unrestricted net positions are those that are 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 bond. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will 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, 2014 and 2013.

Accounting Changes - 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.

GASB has issued Statement No. 72, Fair Value Measurement and Application, to provide guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement is effective for periods beginning after June 15, 2015. The Fund is evaluating the impact of this standard on the financial statement.

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, 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, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

Note 2 - Cash and Investments

Custodial Credit Risk - Deposits - As of December 31, 2014 and 2013, the City's pool contained cash on deposit with the City's custodial banks in the amounts of $18,026,085 and $12,431,810, respectively. The deposits in excess of $250,000 in 2014 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.

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 Fund's dedicated investments, the City's pooled investments, and dedicated investments of other funds were as follows:

	2014		2013	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	$ 721,680,286	1408	$ 853,631,386	1141
Commercial Paper	349,418,008	43	154,962,668	47
U.S. Government Obligations	252,188,265	800	227,659,850	902
State and Local Governments	227,247,608	976	156,812,737	818
Repurchase Agreements	73,811,651	2	44,756,478	2
Total	$ 1,624,345,818		$ 1,437,823,119	
Portfolio Weighted Average Maturity		896		914

Note 2 - Cash and Investments (Continued)

The Fund's share of the City Pool was as follows as of December 31:

	2014	2013
Cash and equity in pooled investments	$ 43,553,317	$ 28,900,545
Restricted cash and equity in pooled investments	56,623,220	65,698,715
Total	$ 100,176,537	$ 94,599,260
Balance as a percentage of City Pool cash and investments	6.2%	6.6%

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of the investment's 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, 2014 and 2013, the City's investments in commercial paper were rated P-1 by Moody's Investors Service and AA+, A-1or 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, 2014, these investments were rated Aaa by Moody's Investors Service and AAA or AA+ by Standard & Poor's Rating Service. As of December 31, 2013, these investments were rated Aaa by Moody's Investors Service 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.

Note 2 - Cash and Investments (Continued)

The City's investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

	2014		2013	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	$ 252,188,265	16%	$ 227,659,850	16%
Federal National Mortgage Association	$ 249,771,922	15%	$ 329,389,682	23%
Federal Home Loan Mortgage Corp	$ 160,445,200	10%	$ 285,535,430	20%
Federal Farm Credit Bank	$ 121,677,087	7%	**	**
Freddie Mac Multifamily Securities	$ 108,129,281	7%	$ 107,594,143	7%
Federal Home Loan Bank	$ 81,656,795	5%	$ 86,497,845	6%
Wells Fargo	$ 73,811,651	5%	**	**

** Investment did not represent 5% or more of investments as of December 31, 2013.

Note 3 - Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2014:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 179,809,619	$ 599,543	$ (96,638)	$ 180,312,524
Structures	298,785,630	3,991,105	(80,867)	302,695,868
Machinery and equipment	1,189,449,329	26,693,237	(10,058,948)	1,206,083,618
Computer systems	105,747,247	1,797,265	(5,028,005)	102,516,507
Total capital assets - excluding land	1,773,791,825	33,081,150	(15,264,458)	1,791,608,517
Less accumulated depreciation	(646,741,160)	(46,445,074)	12,083,429	(681,102,805)
	1,127,050,665	(13,363,924)	(3,181,029)	1,110,505,712
Construction in progress	25,343,136	52,218,518	(28,655,283)	48,906,371
Land and land rights	43,269,483	991,813	-	44,261,296
Other property	1,184,937	383,571	-	1,568,508
Capital assets, net	$ 1,196,848,221	$ 40,229,978	$ (31,836,312)	$ 1,205,241,887

Note 3 - Capital Assets (Continued)

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	$ 179,570,648	$ 238,971	$ -	$ 179,809,619
Structures	297,699,552	1,519,107	(433,029)	298,785,630
Machinery and equipment	1,165,607,169	25,439,158	(1,596,998)	1,189,449,329
Computer systems	98,227,205	8,204,179	(684,137)	105,747,247
Total capital assets - excluding land	1,741,104,574	35,401,415	(2,714,164)	1,773,791,825
Less accumulated depreciation	(603,283,116)	(45,084,576)	1,626,532	(646,741,160)
	1,137,821,458	(9,683,161)	(1,087,632)	1,127,050,665
Construction in progress	23,358,521	37,832,880	(35,848,265)	25,343,136
Land and land rights	42,910,772	358,711	-	43,269,483
Other property	932,836	252,101	-	1,184,937
Capital assets, net	$ 1,205,023,587	$ 28,760,531	$ (36,935,897)	$ 1,196,848,221

During 2014 and 2013, the Fund capitalized interest costs relating to construction of $1,504,324 and $1,108,155, respectively.

Note 4 - Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside $16,684,623 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, 2014 and 2013 were $853,465,000 and $887,010,000, respectively.

Note 4 - Revenue Bonds (Continued)

Revenue bonds outstanding as of December 31, 2014 and 2013 consisted of the following Municipal Water bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding, 2014	Bonds Outstanding, 2013
2003 parity, refunding bonds	5/12/03	2003-2033	4.0-6.0%	$ 271,320,000	$ 14,280,000	$ 16,220,000
2004 parity bonds	10/25/04	2005-2034	3.0-5.0%	84,750,000	-	1,960,000
2005 parity, refunding bonds	12/28/05	2006-2029	4.0-5.0%	138,040,000	107,845,000	113,130,000
2006 parity, refunding bonds	10/23/06	2008-2037	4.0-5.0%	189,970,000	163,040,000	168,150,000
2008 parity, refunding bonds	12/15/08	2009-2038	4.0-5.25%	205,080,000	174,555,000	180,015,000
2010A parity, revenue bonds	1/21/10	2019-2040	4.67-5.89%	109,080,000	109,080,000	109,080,000
2010B parity, refunding revenue bonds	1/21/10	2010-2027	3.0-5.0%	81,760,000	58,100,000	63,390,000
2012 parity, refunding bonds	5/30/12	2012-2034	2.0-5.0%	238,770,000	226,565,000	235,065,000
				$ 1,318,770,000	$ 853,465,000	$ 887,010,000

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

Years Ending December 31,	Principal	Interest	Total
2015	$ 35,015,000	$ 41,835,556	$ 76,850,556
2016	36,700,000	40,125,906	76,825,906
2017	38,450,000	38,333,506	76,783,506
2018	40,315,000	36,454,956	76,769,956
2019	42,335,000	34,485,031	76,820,031
2020 - 2024	228,435,000	139,105,431	367,540,431
2025 - 2029	211,160,000	83,296,195	294,456,195
2030 - 2034	137,235,000	40,169,843	177,404,843
2035 - 2039	76,730,000	11,946,803	88,676,803
2040	7,090,000	417,601	7,507,601
	$ 853,465,000	$ 466,170,828	$ 1,319,635,828

Note 4 - Revenue Bonds (Continued)

The following table shows the revenue bond activity during the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 887,010,000	$ -	$ (33,545,000)	$ 853,465,000	$ 35,015,000
Add (deduct) deferred amounts:					
Issuance premiums	62,092,268	-	(3,286,413)	58,805,855	-
Total bonds payable	$ 949,102,268	$ -	$ (36,831,413)	$ 912,270,855	$ 35,015,000

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	$ 919,640,000	$ -	$ (32,630,000)	$ 887,010,000	$ 33,545,000
Add (deduct) deferred amounts:					
Issuance premiums	65,415,725	-	(3,323,457)	62,092,268	-
Total bonds payable	$ 985,055,725	$ -	$ (35,953,457)	$ 949,102,268	$ 33,545,000

Defeasance of Debt - The Fund defeased 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, 2014, the balance of $68,125,000 defeased bonds were redeemed as shown below:

	Amount Outstanding at December 31, 2013	Additions	Redemptions	Amount Outstanding at December 31, 2014
Bonds issued				
2004 Parity	$ 68,125,000	$ -	$ (68,125,000)	$ -

Note 4 - Revenue Bonds (Continued)

As of December 31, 2013, of the $219,465,000 defeased bonds, $151,340,000 were redeemed as shown below:

	Amount Outstanding at December 31, 2012	Additions	Redemptions	Amount Outstanding at December 31, 2013
Bonds issued				
2003 Parity Refunding	$ 151,340,000	$ -	$ (151,340,000)	$ -
2004 Parity	68,125,000	-	-	68,125,000
	$ 219,465,000	$ -	$ (151,340,000)	$ 68,125,000

Financial Covenants - The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 125% of average annual debt service. For 2014, net revenue available for debt service, as defined by the bond covenants, was 193% of annual debt service. The Fund was in compliance with all debt covenants as of December 31, 2014.

Note 5 - Leases

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of $367,701 in 2014 and $365,844 in 2013. Rents are paid as they become due and payable. Minimum payments under the leases for the years ended December 31, are shown below:

	Minimum Payments
2015	$ 363,159
2016	314,969
2017	104,765
2018	104,765
2019	104,765
2020 - 2024	74,409
2025 - 2029	58,912
	$ 1,125,744

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 multiple-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 ten 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 for the years ended December 31, 2014, 2013, and 2012 was 14.31%, 12.89%, and 11.01%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2014, 2013, and 2012 were $6,664,614, $5,797,112, and $4,855,910, 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.

Employer contributions for the City are as follows (dollars in millions):

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2012	$ 62.4	$ 62.4	100%
2013	$ 76.9	$ 76.9	100%
2014	$ 89.8	$ 89.8	100%

Actuarial data and assumptions	
Valuation date	January 1, 2014
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	750.00%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%

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, 2012	$ -	$ 74.7	$ 74.7	0.0%	$ 891.6	8.4%
January 1, 2013	$ -	$ 78.9	$ 78.9	0.0%	$ 942.0	8.4%
January 1, 2014	$ -	$ 41.8	$ 41.8	0.0%	$ 1,003.5	4.2%

[1] Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

[2] Actuarial accrued liabilities less actuarial value of assets.

[3] Covered payroll includes compensation paid to all active employees on which contributions are calculated.

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.

Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)

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 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 $1.0 million in 2014 and $3.0 million in 2013.

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, 2014 and 2013. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2014. The Fund has accrued $2,564,849 to the plan as of December 31, 2014, as a reasonable estimate of expected contributions.

	2014	2013
Annual required contribution	$ 4,392,000	$ 8,452,000
Interest on net OPEB obligation	1,542,000	1,534,000
Adjustment to annual required contribution	(2,403,000)	(2,253,000)
Annual OPEB cost (expense)	3,531,000	7,733,000
Contribution (employer-paid benefits)	(1,006,000)	(2,972,000)
Increase in net OPEB obligation	2,525,000	4,761,000
Net OPEB obligation, beginning of year	44,303,000	39,542,000
Net OPEB obligation, end of year	$ 46,828,000	$ 44,303,000
Fund's allocated share of city liability	$ 2,564,849	$ 2,552,430

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.

Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)

Significant methods and assumptions are as follows:

Actuarial data and assumptions	
Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.48%
Health care cost trend rates - medical	Traditional and Preventive Plans: 8%, decreasing by 0.5% for each year for two years; 16% in year 2017 and decreasing to 7.2% in 2018 Group Health Standard and Deductible Plans: 7.5%, decreasing by 0.5% for the next three years
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back six years and General Service Retirees based on the RP-2000 Combined Healthy Males with ages set back two years and Females, with ages set back one year.
Marital status	45% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.
Other considerations	Active employees with current spousal and/or dependent coverage and are under Group Health Standard or Group Health Deductible are assumed to elect same plan and coverage after retirement. Of those under City of Seattle Traditional or City of Seattle Preventative 50% are assumed to switch to the Group Health Standard Plan, the other 50% will continue coverage under the same plan.

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, 2012	$ -	$ 74.7	$ 74.7	0.0%	$ 891.6	8.4%
January 1, 2013	$ -	$ 78.9	$ 78.9	0.0%	$ 942.0	8.4%
January 1, 2014	$ -	$ 41.8	$ 41.8	0.0%	$ 1,003.5	4.2%

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

Note 7 - Claims Payable

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

For 2014 and 2013, 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, 0.931% and 0.674%, respectively. Claims expected to be paid within one year are $1,195,990 and $1,203,071 at December 31, 2014 and 2013, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	2014	2013
Beginning liability, undiscounted	$ 5,009,711	$ 5,280,854
Payments	(901,683)	(1,420,762)
Incurred claims and changes in estimate	1,064,378	1,149,619
Ending liability, undiscounted	$ 5,172,406	$ 5,009,711
Ending liability, discounted (recorded balance at December 31)	$ 4,997,716	$ 4,875,601

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

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 schedule below presents the compensated absences activity during the years ended December 31:

	2014	2013
Beginning liability	$ 4,854,559	$ 4,722,046
Additions	4,963,270	4,961,135
Reductions	(4,504,979)	(4,828,622)
Ending liability	$ 5,312,850	$ 4,854,559

Note 9 - Loans

The Fund has various construction projects that are financed by low interest loans issued by the State. The loan agreements require that the Fund finance a portion of these projects from other sources. These loans have been used to enhance and protect the water system.

Loans outstanding as of December 31, 2014 and 2013 are as follows:

Description	Maturity Years	Interest Rate	Loan Amount	Loans Outstanding, 2014	Loans Outstanding, 2013
Myrtle Reservoir	2008-2025	1.5%	$ 4,040,000	$ 2,468,889	$ 2,693,333
Beacon Reservoir	2008-2026	1.5%	4,040,000	2,551,579	2,764,211
West Seattle Reservoir	2009-2027	1.5%	3,030,000	2,073,158	2,232,632
Maple Leaf	2011-2029	1.5%	3,030,000	2,420,248	2,581,597
Maple Leaf ARRA	2013-2031	1.0%	7,341,758	6,607,582	6,974,670
			$ 21,481,758	$ 16,121,456	$ 17,246,443

Note 9 - Loans (Continued)

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

Years Ending December 31,	Principal	Interest	Total
2015	$ 1,124,987	$ 208,784	$ 1,333,771
2016	1,124,987	193,745	1,318,732
2017	1,124,987	178,705	1,303,692
2018	1,124,987	163,666	1,288,653
2019	1,124,987	148,626	1,273,613
2020 - 2024	5,624,937	517,542	6,142,479
2025 - 2029	3,770,317	173,718	3,944,035
2030 - 2032	1,101,267	22,025	1,123,292
	$ 16,121,456	$ 1,606,811	$ 17,728,267

The table below summarizes the activity for the loans for the years ended December 31:

	2014	2013
Net loans, beginning of year	$ 17,246,443	$ 17,068,886
Loan proceeds	-	1,420,761
Principal payments	(1,124,987)	(1,243,204)
Net loans, end of year	$ 16,121,456	$ 17,246,443
Loans due within one year	$ 1,124,987	$ 1,124,987
Loans, noncurrent	$ 14,996,469	$ 16,121,456

In 2014 the Fund received approval for a loan of $12.1 million from the State of Washington for the Morse Lake Pump Plant Project. Accordingly the Fund invoices the State for expenditures incurred related to the project and receives reimbursment. In early 2015, the Fund received $3.6 million as its first drawdown on the loan.

Note 10 - 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, 2014 the Seattle Housing Authority receivable was $431,555.

Note 10 - Notes and Contracts Receivable (Continued)

In addition, the Fund has a receivable with King County Water District #49 for amounts due from a prior water contract. The District and the Fund signed new water services agreements in 2011. As of December 31, 2014, King County Water District #49 receivable was $89,152.

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

	2014	2013
Seattle Housing Authority receivable	$ 431,555	$ 448,773
King County Water Disctrict #49	89,152	191,669
Water main assessment	-	12
Total notes and contracts receivable	520,707	640,453
Due within one year	(107,206)	(119,747)
Total non-current notes and contracts receivable	$ 413,501	$ 520,706

Note 11 - Commitments

The Fund is required by the Washington State Department of Health ("DOH") to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying four reservoirs is expected to be approximately $155.8 million through the year 2018; costs beyond 2018 are not estimable as of the date of this report. As of December 31, 2014 and 2013, total cumulative costs incurred were $146.8 million and $140.9 million, respectively.

The City has wholesale contracts with Cascade Water Alliance ("CWA") and twenty individual water districts and municipalities. Seventeen wholesale customers have full and partial requirements contracts which obligate the City to meet the wholesale customers' demand that is not already met by their independent sources of supply. Two wholesale customers (including CWA) have block contracts which obligate the City to provide water up to a combined maximum of 41.85 MGD per year. Two other wholesale customers have emergency intertie agreements and do not purchase water from Seattle on a regular basis. CWA contract expires in 2063 while other wholesale contracts run through 2061.

The City also has a contract with the City of North Bend to provide untreated water supply up to an average annual amount of 1.1 MGD through 2066 for use in supplementing stream flows.

Note 12 - Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan ("HCP") is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be $107.9 million (in 2014 dollars) over a period of 50 years (from the year 2000 through the year 2050).

Expenditures are being funded from a combination of the Fund's operating revenues and issuance of revenue bonds. The total amount expended for the HCP through 2014 is $78.6 million. The remaining $29.3 million to complete the HCP is comprised of a $7.6 million liability and an estimate of $21.6 million for construction and operating commitments. The construction activities will add to the Fund's capital assets and the operating activities are mainly research, monitoring, and maintenance of the HCP Program that will be expenses as incurred.

OTHER INFORMATION (UNAUIDTED)

Water Fund
Supplemental Information 2014

Water System Operating Statistics

	2010	2011	2012	2013	2014
Population Served					
Retail	664,458	669,654	672,674	678,000	682,000
Wholesale[1]	628,536	634,193	642,257	648,000	654,000
Total Population Served	1,292,994	1,303,847	1,314,931	1,326,000	1,336,000
Water Sales Revenues ($000)[2][3]					
Retail	$136,443	$137,382	$152,606	$168,126	$179,775
Wholesale	$45,073	$44,050	$49,975	$56,026	$53,647
Total Water Sales Revenues	$181,516	$181,432	$202,581	$224,152	$233,422
Billed Water Consumption (MG)[3]					
Retail	19,868	19,305	19,657	19,769	19,575
Wholesale	20,437	20,922	21,236	21,405	21,986
Total Billed Water Use	40,305	40,227	40,893	41,174	41,561
Operating Costs ($ per MG)[4]	$4,075	$3,841	$3,996	$4,287	$4,438
Gallons Used per Day per Capita	85	85	85	85	85
Retail Meters in Use	188,332	188,754	189,204	190,289	191,403
Number of New Retail Meters	230	422	450	1,085	1,114
Total Water Diversions (MGD)	118.4	117.9	120.5	120.9	121.5
Non-Revenue	8	7.7	8.5	8.1	7.6
% Non-Revenue	6.7	6.5	7.0	6.7	6.3

(1) This is the estimated total population served by SPU's water supply

(2) Revenues represent payments from customers for service provided at published rates in each year. Revenues shown are not net of transfers to the Rate Stabilization Account or other credits or deferrals of income.

(3) Revenue increases have been a result of increases in rates, as retail consumption has steadily decreased due largely to conservation efforts. Variations in billed water use are primarily associated with year-to-year variations in temperature and precipitation in the summer irrigation period. There has been no change in the geographic area served nor any appreciable change in the number or composition of retail customers.

(4) Per unit operating costs in 2009 and 2010 include a temporary increase in the City's utility tax rate and increased amortization expense, both due to Lane v. City of Seattle.

Major Retail Water Customers - 2014 Annual Revenues and Volumes

The City of Seattle, The University of Washington, The Port of Seattle, Seattle Housing Authority, King County, Nucor Steel, Enwave Seattle (formerly Seattle Steam Company), Seattle Public Schools, CertainTeed Gypsum, Inc., and Swedish Medical Group. In aggregate, charges to these customers represented roughly 9% of total billed direct service revenue for the year.

<u>Water Rates - Effective January 1, 2014</u>

Effective January 1, 2014

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
	Direct Service												Wholesale
RATE SCHEDULES	Inside City				Outside City				City of Shoreline / City of Lake Forest Park				Full and Partial
	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	
Commodity Charge ($/100 Cubic Feet)													
Offpeak Usage (Sept 16-May 15)	$4.99	$4.99	$4.99		$5.69	$5.69	$5.69		$6.05	$6.05	$6.05		$1.53
Peak Usage (May 16-Sept 15)													
Up to 5 ccf**	$5.13	$5.13	$6.34		$5.85	$5.85	$7.23		$6.22	$6.22	$7.69		$2.27
Next 13 ccf**	$6.34	$6.34	$6.34		$7.23	$7.23	$7.23		$7.69	$7.69	$7.69		$2.27
Over 18 ccf**	$11.80	$11.80	$6.34		$13.45	$13.45	$7.23		$14.31	$14.31	$7.69		$2.27
Usage over base allowance				$20.00				$22.80				$24.30	
Utility Credit ($/month)	$19.46		$12.38		$19.46		$12.38		$19.46		$12.38		
Demand Charge ($/1000 gallons of deficient storage)													$22.00
Base Service Charge ($/month/meter)													New Srvc Fee (One Time)
3/4 inch and less	$13.75		$13.75		$15.70		$15.70		$16.70		$16.70		$783
1 inch	$14.20		$14.20		$16.20		$16.20		$17.20		$17.20		$1,566
1-1/2 inch	$21.85	$21.85	$21.85		$24.90	$24.90	$24.90		$26.50	$26.50	$26.50		$3,915
2 inch	$24.20	$24.20	$24.20	$15.40	$27.60	$27.60	$27.60	$18.00	$29.35	$29.35	$29.35	$19.00	$6,264
3 inch	$89.65	$89.65	$89.65	$20.00	$102.20	$102.20	$102.20	$23.00	$108.70	$108.70	$108.70	$24.00	$17,226
4 inch	$128.45	$128.45	$128.45	$37.00	$146.45	$146.45	$146.45	$42.00	$155.80	$155.80	$155.80	$45.00	$24,273
6 inch		$158.05	$158.05	$63.00		$180.20	$180.20	$72.00		$191.70	$191.70	$76.00	$51,678
8 inch		$199.00	$199.00	$100.00		$227.00	$227.00	$114.00		$241.00	$241.00	$121.00	$87,696
10 inch		$297.00	$297.00	$144.00		$339.00	$339.00	$164.00		$360.00	$360.00	$175.00	$132,327
12 inch		$402.00	$402.00	$210.00		$458.00	$458.00	$239.00		$488.00	$488.00	$255.00	$186,354
16 inch		$477.00	$477.00			$544.00	$544.00			$579.00	$579.00		$186,354
20 inch		$614.00	$614.00			$700.00	$700.00			$745.00	$745.00		$186,354
24 inch		$771.00	$771.00			$879.00	$879.00			$935.00	$935.00		$186,354

These rates will stay the same for 2015.

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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, nearly 30% reside in the 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.

POPULATION

Year	Washington	King County	Seattle
1980 (1)	4,130,163	1,269,749	493,846
1990 (1)	4,866,692	1,507,319	516,259
2000(1)	5,894,121	1,737,034	563,374
2007 (2)	6,488,800	1,861,300	586,200
2008 (2)	6,587,600	1,884,200	592,800
2009 (2)	6,668,200	1,909,300	602,000
2010 (1)	6,724,540	1,931,249	608,660
2011 (2)	6,767,900	1,942,600	612,100
2012 (2)	6,817,770	1,957,000	616,500
2013 (2)	6,882,400	1,981,900	626,600
2014 (2)	6,968,170	2,017,250	640,500

(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 U.S.

PER CAPITA INCOME

	2009	2010	2011	2012	2013
Seattle MD	$ 50,676	$ 51,167	$ 54,029	$ 57,825	$ 58,483
King County	53,739	54,395	57,400	61,911	62,770
State of Washington	42,137	42,547	44,565	47,055	47,717
United States	39,379	40,144	42,332	44,200	44,765

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

	New Single Family Units		New Multifamily Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total Value($)**
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
2014(1)	898	227,307,102	6,547	881,734,102	1,109,041,204
2014(2)	229	56,821,358	1,050	146,021,653	202,843,011
2015(2)	200	52,430,862	4,081	652,739,678	705,170,540

(1) Preliminary.

(2) Estimates through March.

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	46,601,198,766	18,258,200,683
2013(1)	46,093,349,116	18,258,202,770
2014(1)	49,638,174,066	19,995,171,842

(1) Through fourth quarter (not finalized).

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 2014.

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	Employees[1]
The Boeing Company	81,900
Joint Base Lewis-McChord	56,000
Microsoft Corp.	43,000
Navy Region Northwest	43,000
University of Washington	30,200
Amazon.com Inc.	24,700[2]
Providence Health and Services	19,500
Wal-Mart Stores, Inc.	19,350
Fred Meyer Stores	15,450
King County Government	13,400
Franciscan Health System	12,440
U.S. Postal Service	11,670
Starbucks Corp.	11,240
MultiCare Health System	10,760
Swedish Health Services	10,700
City of Seattle	10,100[3]
Costco Wholesale Corp.	9,300
Nordstrom, Inc.	9,000
PeaceHealth	8,800
Group Health Cooperative	7,300

(1) Does not include part-time or seasonal employment figures.

(2) Estimated employee count based on company square footage.

(3) Source: City of Seattle. Figure includes temporary workers.

Source: Puget Sound Business Journal Book of Lists, 2015

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT[(1)]

	Annual Average				
	2010	**2011**	**2012**	**2013**	**2014**
Civilian Labor Force	1,113,290	1,115,790	1,129,670	1,139,610	1,158,230
Total Employment	1,011,940	1,025,070	1,055,000	1,079,950	1,104,930
Total Unemployment	101,350	90,720	74,670	59,660	53,300
Percent of Labor Force	9.1%	8.1%	6.6%	5.2%	4.6%
NAICS INDUSTRY					
Total Nonfarm	1,148,633	1,168,100	1,196,042	1,237,217	1,278,033
Total Private	981,675	1,003,175	1,030,608	1,069,975	1,108,425
Goods Producing	148,158	148,942	154,283	162,508	168,283
Mining and Logging	467	525	425	458	425
Construction	49,675	48,258	50,625	55,883	60,792
Manufacturing	98,017	100,192	103,225	106,167	107,025
Service Providing	1,000,475	1,019,158	1,041,758	1,074,708	1,109,750
Trade, Transportation, and Utilities	206,025	210,850	216,167	225,167	235,758
Information	79,408	80,183	81,017	82,617	85,583
Financial Activities	68,750	68,175	68,850	70,892	72,000
Professional and Business Services	176,675	184,567	192,525	201,042	207,933
Educational and Health Services	152,817	157,008	159,275	162,633	167,983
Leisure and Hospitality	108,700	111,075	114,850	120,575	124,883
Other Services	41,142	42,375	43,642	44,542	46,000
Government	166,958	164,925	165,433	167,242	169,608
Workers in Labor/Management Disputes	0	0	0	0	0

	Mar 2015
Civilian Labor Force	1,183,530
Total Employment	1,135,380
Total Unemployment	48,150
Percent of Labor Force	4.1%

(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 the Depository Trust Company ("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 3.6 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' 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*.

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. 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 may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The Bond Registrar is not be obligated to exchange or transfer any Bond during the 15 days preceding any principal or interest payment or redemption date.

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, 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.