

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 7, 2018

New Issue
Book-Entry Only

Moody's Rating: Aa2
S&P Rating: AA

(See "Other Bond Information—Ratings on the Bonds.")

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington ("Bond Counsel"), under existing statutes, regulations, rulings, and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount, if any) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. See "Legal and Tax Information—Tax Matters" herein with respect to tax consequences relating to the Bonds.

THE CITY OF SEATTLE, WASHINGTON
MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS
\$198,760,000⁽¹⁾

\$50,135,000 ⁽¹⁾	\$50,135,000 ⁽¹⁾
2018B-1 (SIFMA INDEX)	2018B-2 (SIFMA INDEX)
\$49,245,000 ⁽¹⁾	\$49,245,000 ⁽¹⁾
2018C-1 (SIFMA INDEX)	2018C-2 (SIFMA INDEX)

DATED: DATE OF INITIAL DELIVERY

DUE: AS SHOWN ON PAGE i

The City of Seattle, Washington (the "City"), will issue its Municipal Light and Power Refunding Revenue Bonds, 2018B-1 (SIFMA Index), 2018B-2 (SIFMA Index), 2018C-1 (SIFMA Index), and 2018C-2 (SIFMA Index) (collectively, the "Bonds"), as fully registered bonds without coupons 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 denominations of \$5,000 or any integral multiple thereof within a maturity of the Bonds. Purchasers will not receive certificates representing their interest in the Bonds.

The Bonds of each Series will initially bear interest at the applicable Adjusted SIFMA Rate as discussed herein, for the applicable Initial Index Floating Rate Period, subject to prior optional redemption on or after the applicable Par Call Date, as described herein. At the end of the applicable Initial Index Floating Rate Period, the Bonds are subject to mandatory purchase, as described herein. The Bonds are also subject to mandatory purchase and Conversion to a new Index Floating Rate or to the Daily Interest Rate, Weekly Interest Rate, or Long-Term Interest Rate on or after the applicable Par Call Date, as described herein. See page i of this Official Statement for the Adjusted SIFMA Rate, Index Floating Rate Spread, Initial Reoffering Price, Scheduled Mandatory Tender Date, and Par Call Date for each Series of the Bonds. **This Official Statement describes each Series of the Bonds only during its Initial Index Floating Rate Period. No Credit Facility secures payment of the Purchase Price of any Bonds that are not remarketed at the end of their respective Initial Index Floating Rate Period; however, any Bonds that are not purchased when tendered at the end of the applicable Initial Index Floating Rate Period are subject to a Stepped Interest Rate.** See "Description of the Bonds—Mandatory Tender for Purchase at End of the Initial Index Floating Rate Period" and "—Redemption of Bonds—Optional Redemption."

Both principal of and interest on the Bonds are payable in lawful money of the United States of America. Interest on each Series of the Bonds is payable on the first Business Day of each month, commencing October 1, 2018, until the end of its Initial Index Floating Rate Period, prior redemption, or Conversion to a new Index Floating Rate or to another interest rate mode. The principal and Purchase Price of and interest on the Bonds are payable by U.S. Bank National Association, Seattle, Washington, as Bond Registrar/Paying Agent, to DTC, which is obligated to remit such principal, Purchase Price, and interest to its broker-dealer participants for subsequent disbursement to Beneficial Owners of the Bonds. See "Description of the Bonds—Registration and Book-Entry Form" and "—Payment of Bonds" and Appendix F—Book-Entry System.

The Bonds are being issued to refund certain variable rate bonds of the City's municipal light and power plant and system (the "Light System") and to pay the costs of issuing the Bonds and administering the Refunding Plan. See "Use of Proceeds."

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

The Bonds are issued as Parity Bonds and are special limited obligations of the City payable from and secured solely by Gross Revenues of the Light System available after payment of Operating and Maintenance Expense ("Net Revenue") and by money in the Parity Bond Fund and the Reserve Fund. The pledge of Net Revenue to pay and secure the Parity Bonds constitutes a lien and charge upon Net Revenue prior and superior to all other charges whatsoever. The Bonds will be issued on parity with the Outstanding Parity Bonds and all Future Parity Bonds. Operating and maintenance expense includes the unconditional obligation of the City to make payments under certain power purchase contracts, as more fully described in "Power Resources and Cost of Power—Purchased Power Arrangements." 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 Light 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 Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix C. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Seattle, Washington. 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/Paying Agent on behalf of DTC for closing by Fast Automated Securities Transfer, on or about September 4, 2018.

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

RBC CAPITAL MARKETS

Dated: _____, 2018

This is a Preliminary Official Statement, subject to correction and change. The City has authorized the distribution of the Preliminary Official Statement to prospective purchasers and others. Upon the sale of the Bonds, the City will complete and deliver an Official Statement substantially in this form.

(1) Preliminary, subject to change.

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 F—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.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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 Ordinance 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 Seattle City Light Department’s Audited Financial Statements that are included in Appendix D speaks only as of the date of the those statements and is subject to revision or restatement in accordance with applicable accounting principles and procedures. The City specifically disclaims any obligation to update this information except to the extent described under “Continuing Disclosure Agreement.”

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 “Continuing Disclosure Agreement.”

The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Global Market Intelligence. 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 Underwriter takes 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.

The website of the City or any City department or agency is not part of this Official Statement, and investors should not rely on information presented on the City’s website, or any other website referenced herein, in determining whether to purchase the Bonds. Information appearing on any such website is not incorporated by reference in this Official Statement.

This Preliminary Official Statement, as of its date, is in a form “deemed final” by the City for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) but is subject to revision, amendment, and completion in a final Official Statement which will be available within seven business days of the sale date.

THE CITY OF SEATTLE, WASHINGTON

\$198,760,000⁽¹⁾

MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2018B-1 (SIFMA INDEX)

\$50,135,000⁽¹⁾ Term Bonds due May 1, 2045, CUSIP No. _____

Adjusted SIFMA Index Floating Rate Bonds

Initial Reoffering Price: ___%

Adjusted SIFMA Rate: 100% of SIFMA Index plus Index Floating Rate Spread of ___ basis points (____%)

Maximum Interest Rate: 12%

End of Initial Index Floating Rate Period (Scheduled Mandatory Tender Date): _____

Series B Par Call Date: _____

First Interest Payment Date: October 1, 2018

MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2018B-2 (SIFMA INDEX)

\$50,135,000⁽¹⁾ Term Bonds due May 1, 2045, CUSIP No. _____

Adjusted SIFMA Index Floating Rate Bonds

Initial Reoffering Price: ___%

Adjusted SIFMA Rate: 100% of SIFMA Index plus Index Floating Rate Spread of ___ basis points (____%)

Maximum Interest Rate: 12%

End of Initial Index Floating Rate Period (Scheduled Mandatory Tender Date): _____

Series B Par Call Date: _____

First Interest Payment Date: October 1, 2018

MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2018C-1 (SIFMA INDEX)

\$49,245,000⁽¹⁾ Term Bonds due November 1, 2046, CUSIP No. _____

Adjusted SIFMA Index Floating Rate Bonds

Initial Reoffering Price: ___%

Adjusted SIFMA Rate: 100% of SIFMA Index plus Index Floating Rate Spread of ___ basis points (____%)

Maximum Interest Rate: 12%

End of Initial Index Floating Rate Period (Scheduled Mandatory Tender Date): _____

Series C Par Call Date: _____

First Interest Payment Date: October 1, 2018

MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2018C-2 (SIFMA INDEX)

\$49,245,000⁽¹⁾ Term Bonds due November 1, 2046, CUSIP No. _____

Adjusted SIFMA Index Floating Rate Bonds

Initial Reoffering Price: ___%

Adjusted SIFMA Rate: 100% of SIFMA Index plus Index Floating Rate Spread of ___ basis points (____%)

Maximum Interest Rate: 12%

End of Initial Index Floating Rate Period (Scheduled Mandatory Tender Date): _____

Series C Par Call Date: _____

First Interest Payment Date: October 1, 2018

(1) Preliminary, subject to change.

THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

Jenny A. Durkan	Mayor
Council Member	Term Expiration
Sally Bagshaw	2019
Lorena González	2021
Bruce Harrell	2019
Lisa Herbold	2019
Rob Johnson	2019
Debora Juarez	2019
Teresa Mosqueda	2021
Mike O'Brien	2019
Kshama Sawant	2019

CITY ADMINISTRATION

Glen M. Lee	Director of Finance
Peter Holmes	City Attorney

SEATTLE CITY LIGHT DEPARTMENT

James Baggs	Interim General Manager and Chief Executive Officer
Paula Laschober	Chief Financial Officer
Darnell Cola	Interim Customer Service, Communications, and Regulatory Affairs Officer
Michael Haynes	Power Supply Officer
Lynn Best	Chief Environmental Officer
Bernie Ziemianek	Transmission and Distribution Officer
Emeka Anyanwu	Engineering and Technology Innovation Officer
DaVonna Johnson	Chief Administrative Services Officer

BOND COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
Seattle, Washington

MUNICIPAL ADVISOR

Piper Jaffray & Co.
Seattle, Washington

BOND REGISTRAR/PAYING AGENT

Washington State Fiscal Agent
(currently U.S. Bank National Association)

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PRELIMINARY OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS \$198,760,000⁽¹⁾

\$50,135,000 ⁽¹⁾	\$50,135,000 ⁽¹⁾
2018B-1 (SIFMA INDEX)	2018B-2 (SIFMA INDEX)
\$49,245,000 ⁽¹⁾	\$49,245,000 ⁽¹⁾
2018C-1 (SIFMA INDEX)	2018C-2 (SIFMA INDEX)

INTRODUCTION

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”), the Seattle City Light Department (the “Department”), and its municipal light and power plant and system (the “Light System”), in connection with the offering of its Municipal Light and Power Refunding Revenue Bonds, 2018B-1 (SIFMA Index) (the “2018B-1 Bonds”), Municipal Light and Power Refunding Revenue Bonds, 2018B-2 (SIFMA Index) (the “2018B-2 Bonds”), Municipal Light and Power Refunding Revenue Bonds, 2018C-1 (SIFMA Index) (the “2018C-1 Bonds”), and Municipal Light and Power Refunding Revenue Bonds, 2018C-2 (SIFMA Index) (the “2018C-2 Bonds”) (each, a “Series”). The 2018B-1 Bonds and the 2018B-2 Bonds are referred to together in this Official Statement as the “Series B Bonds,” the 2018C-1 Bonds and the 2018C-2 Bonds are referred to together in this Official Statement as the “Series C Bonds,” and the Series B Bonds and the Series C Bonds are referred to together in this Official Statement as the “Bonds.” This Official Statement contains certain information related to this offering and sale concerning the City, the Bonds, the Light System, and the Department. *This Official Statement describes the Bonds only during the Initial Index Floating Rate Period.*

Appendix A to this Official Statement is a copy of Ordinance 125460, passed on November 20, 2017 (the “Bond Ordinance”), authorizing the sale of the Bonds. Appendix B is the form of the addendum to the Paying Agency Agreement between the City and U.S. Bank National Association the (the “Bond Registrar/Paying Agent”) titled Addendum Regarding Determination of Interest and Related Provisions (the “Addendum”). Appendix C includes the form of legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington (“Bond Counsel”), with respect to the Bonds. Appendix D contains the audited 2017 financial statements of the Department. Appendix E provides demographic and economic information for the City. Appendix F is a description provided on its website by The Depository Trust Company, New York, New York (“DTC”), of DTC procedures for book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in the Bond Documents (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 will be issued by the City pursuant to the State Constitution, chapters 35.92 and 39.46 of the Revised Code of Washington (“RCW”), the Seattle City Charter, and the Bond Ordinance. The Bond Ordinance authorizes the

(1) Preliminary, subject to change.

issuance of refunding Parity Bonds in amounts necessary to carry out the refunding of Refundable Parity Bonds, in an amount not to exceed 125% of the par amount to be refunded thereby. The Bond Ordinance further delegates to the Director of the Finance Division of the City's Department of Finance and Administrative Services (the "Director of Finance") the authority to execute, on behalf of the City, a Bond Purchase Agreement with the Underwriter, a Paying Agency Agreement (which incorporates the Addendum) with the Bond Registrar/Paying Agent, and other related documents (collectively with the Bond Ordinance, the "Bond Documents"), all in accordance with the parameters set forth in the Bond Ordinance.

General Terms; Initial Period

The Bonds will be dated the date of their initial issuance and delivery (the "Initial Issue Date") and will mature on the dates shown on page i of this Official Statement. Each Series of the Bonds will bear interest at the applicable Adjusted SIFMA Rate, not to exceed the Maximum Interest Rate shown on page i, for the Initial Index Floating Rate Period ending on _____, for the Series B Bonds, and _____, for the Series C Bonds (each, the "Scheduled Mandatory Tender Date"), subject to prior optional redemption or Conversion to a new Index Floating Rate or to another interest rate mode, as described herein. The Adjusted SIFMA Rate is the SIFMA Index plus the Index Floating Rate Spread as set forth on page i. Interest will be determined each Wednesday (or, if any such Wednesday is not a Business Day, the next succeeding Business Day), and the Bonds will bear interest at that rate from the immediately following Thursday through the next Wednesday. *This Official Statement describes the Bonds only during the Initial Index Floating Rate Period.*

The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof ("Authorized Denominations"). Each Series of the Bonds will bear interest from the Initial Issue Date (or most recent date to which interest has been paid thereon), payable on the first Business Day of each calendar month (each, an "Interest Payment Date"), commencing on October 1, 2018, until the end of the Initial Index Floating Rate Period of that Series, its prior redemption, or Conversion to another Interest Rate Period. Interest on the Bonds will be computed on the basis of a 365-day or 366-day year for the actual days elapsed during the Initial Index Floating Rate Period. Principal and interest is paid to the Registered Owners as of the Record Date, which for the Bonds in the Initial Index Floating Rate Period is the 15th day immediately preceding an Interest Payment Date.

At the end of each Series' Initial Index Floating Rate Period, such Series of the Bonds is subject to mandatory purchase, as further described herein, and such Series of the Bonds may be redeemed or converted to a new Index Floating Rate or another interest rate mode. See page i of this Official Statement for the maturity date, Initial Reoffering Price, Adjusted SIFMA Rate, Index Floating Rate Spread, Maximum Interest Rate, Scheduled Mandatory Tender Date, and Par Call Date for each Series of the Bonds. See "—Other Interest Rate Modes and Conditions for Conversion" for a summary of the interest rate modes authorized by the Bond Documents, as set forth in the Addendum (see Appendix B), and the conditions for Conversion.

No Credit Facility secures payment of the Purchase Price of Bonds of any Bonds that are not remarketed at the end of their respective Initial Index Floating Rate Period; however, any Bonds that are not purchased when tendered at the end of the applicable Initial Index Floating Rate Period are subject to a Stepped Interest Rate. See "Mandatory Tender for Purchase at End of the Initial Index Floating Rate Period."

Registration and Book-Entry Form

Book-Entry Form. The Bonds initially will be issued in Book-Entry Form and registered in the name of the Securities Depository. The Bonds so registered will 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/Paying Agent, 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), will 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 the 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 Registered Owners under the Bond Ordinance (except such notice as is required to be given by the Bond Registrar/Paying Agent 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. For information about DTC and its book-entry system, see Appendix F—Book Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix F obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

Termination of Book-Entry System. Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the Director of Finance to discontinue utilizing the then-current Securities Depository, the Director of Finance may appoint a substitute Securities Depository. If the Securities Depository resigns from its functions as depository and no substitute Securities Depository can be obtained, or if the Director of Finance determines not to utilize a Securities Depository, then the Bonds will no longer be held in Book-Entry Form and ownership of the Bonds may be transferred only as provided in the Bond Documents.

Lost or Stolen Bonds. In case any Bond is lost, stolen, or destroyed, the Bond Registrar/Paying Agent may authenticate and deliver a new bond or bonds of like amount, date, tenor, and effect to the Registered Owner(s) thereof upon the Registered Owner(s)' paying the expenses and charges of the City in connection therewith and upon filing with the Bond Registrar/Paying Agent evidence satisfactory to the Bond Registrar/Paying Agent that such bond or bonds were actually lost, stolen, or destroyed and of Registered Ownership thereof, and upon furnishing the City with indemnity satisfactory to both.

Payment of Bonds

Each Bond will be payable in lawful money of the United States of America on the dates and in the amounts as provided in the Bond Documents. Principal of and interest on each Bond designated as a Parity Bond will be payable solely out of the Seattle Municipal Light Revenue Parity Bond Fund (the "Parity Bond Fund"). The Bonds are not general obligations of the City. The Bonds are issued as Parity Bonds and are special limited obligations of the City. See "Security for the Bonds." No Bonds will be subject to acceleration under any circumstances.

Principal of and interest on each Bond held in Book-Entry Form will be payable in the manner set forth in the Letter of Representations.

Interest on each Bond not held in Book-Entry Form is payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar/Paying Agent mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. The Addendum defines "Record Date" with respect to any Interest Payment Date in an Index Floating Rate Period (other than a Direct Purchase Period) as the 15th day immediately preceding that Interest Payment 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 held in Book-Entry Form is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar/Paying Agent, in accordance with the Addendum.

The Adjusted SIFMA Rate

Each Series of the Bonds initially will bear interest at the Adjusted SIFMA Rate, not to exceed the Maximum Interest Rate shown on page i, commencing on and including the Initial Issue Date, but excluding the last day of the Initial Index Floating Rate Period.

The Adjusted SIFMA Rate for each Series is 100% of the SIFMA Index plus the Index Floating Rate Spread specified for that Series, as set forth on page i of this Official Statement. The Adjusted SIFMA Rate will be rounded up to the second decimal place. All dollar amounts are to be rounded to the nearest cent, with one-half cent being rounded up.

The "SIFMA Index" means the seven-day high-grade market index of tax-exempt variable rate demand obligations produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association ("SIFMA") or any person acting in cooperation with or under the sponsorship of SIFMA. If such index is no longer published or otherwise not available, the SIFMA Rate for any day will mean the level of the "S&P Weekly High Grade Index" (formerly the J.J. Kenny Index) maintained by Standard & Poor's Securities Evaluations Inc. for a seven-day maturity as published on the Interest Reset Date (defined below) or most recently published prior to the Interest Reset Date. If at any time neither such index is available, the Bond Registrar/Paying Agent will use instead an index that the Bond Registrar/Paying Agent, after consultation with the City and the Remarketing Agent, if any,

determines most closely approximates the SIFMA Index. The Adjusted SIFMA Rate will be set on each Interest Determination Date (defined below). The determination of the Adjusted SIFMA Rate by the Bond Registrar/Paying Agent will be conclusive and binding upon the registered owners and the Beneficial Owners.

“Maximum Interest Rate” means 12% *per annum*, calculated in the same manner as interest is calculated for the interest rate then in effect on the applicable Series of the Bonds.

“Interest Determination Date” means, for the Initial Index Floating Rate Period and any Index Floating Rate Period during which the Index is the SIFMA Index, the first day of such Index Floating Rate Period and, thereafter, each Wednesday during such Index Floating Rate Period or, if any such Wednesday is not a Business Day, the succeeding Business Day.

“Interest Reset Date” means, for each Index Floating Rate Period during which the Index is the SIFMA Index, each Thursday during such Index Floating Rate Period (or, if that is not a Business Day, the following Business Day).

Redemption of Bonds

Optional Redemption. The Series B Bonds are subject to redemption at the option of the City on any Interest Accrual Date on and after _____ (the “Series B Par Call Date”), in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption. The Series C Bonds are subject to redemption at the option of the City on any Interest Accrual Date on and after _____ (the “Series C Par Call Date”), in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

Mandatory Redemption—2018B-1 Bonds. The 2018B-1 Bonds are designated as Term Bonds and, if not previously redeemed or purchased at the City’s option prior to maturity, will be redeemed at a price equal to the principal amount thereof to be redeemed plus accrued interest, on May 1 in the years and amounts as follow:

2018B-1 TERM BONDS			
Years		Years	
(May 1)	Amount ⁽¹⁾	(May 1)	Amount ⁽¹⁾
2026	\$ 1,665,000	2036	\$ 2,495,000
2027	1,735,000	2037	2,595,000
2028	1,805,000	2038	2,700,000
2029	1,870,000	2039	2,810,000
2030	1,960,000	2040	2,920,000
2031	2,040,000	2041	3,045,000
2032	2,120,000	2042	3,170,000
2033	2,210,000	2043	3,300,000
2034	2,300,000	2044	3,435,000
2035	2,385,000	2045 ⁽²⁾	3,575,000

(1) Preliminary, subject to change.

(2) Maturity.

Mandatory Redemption—2018B-2 Bonds. The 2018B-2 Bonds are designated as Term Bonds and, if not previously redeemed or purchased at the City’s option prior to maturity, will be redeemed at a price equal to the principal amount thereof to be redeemed plus accrued interest, on May 1 in the years and amounts as follow:

2018B-2 TERM BONDS

Years		Years	
(May 1)	Amount⁽¹⁾	(May 1)	Amount⁽¹⁾
2026	\$ 1,665,000	2036	\$ 2,495,000
2027	1,735,000	2037	2,595,000
2028	1,805,000	2038	2,700,000
2029	1,870,000	2039	2,810,000
2030	1,960,000	2040	2,920,000
2031	2,040,000	2041	3,045,000
2032	2,120,000	2042	3,170,000
2033	2,210,000	2043	3,300,000
2034	2,300,000	2044	3,435,000
2035	2,385,000	2045 ⁽²⁾	3,575,000

(1) Preliminary, subject to change.

(2) Maturity.

Mandatory Redemption—2018C-1 Bonds. The 2018C-1 Bonds are designated as Term Bonds and, if not previously redeemed or purchased at the City’s option prior to maturity, will be redeemed at a price equal to the principal amount thereof to be redeemed plus accrued interest, on November 1 in the years and amounts as follow:

2018C-1 TERM BONDS

Years		Years	
(November 1)	Amount⁽¹⁾	(November 1)	Amount⁽¹⁾
2018	\$ 630,000	2033	\$ 1,660,000
2019	1,435,000	2034	1,725,000
2020	1,240,000	2035	1,790,000
2021	1,055,000	2036	1,870,000
2022	1,075,000	2037	1,940,000
2023	1,120,000	2038	2,020,000
2024	1,160,000	2039	2,100,000
2025	1,215,000	2040	2,180,000
2026	1,260,000	2041	2,275,000
2027	1,310,000	2042	2,365,000
2028	1,360,000	2043	2,460,000
2029	1,410,000	2044	2,555,000
2030	1,480,000	2045	2,660,000
2031	1,535,000	2046 ⁽²⁾	2,765,000
2032	1,595,000		

(1) Preliminary, subject to change.

(2) Maturity.

Mandatory Redemption—2018C-2 Bonds. The 2018C-2 Bonds are designated as Term Bonds and, if not previously redeemed or purchased at the City’s option prior to maturity, will be redeemed at a price equal to the principal amount thereof to be redeemed plus accrued interest, on November 1 in the years and amounts as follow:

2018C-2 TERM BONDS

Years		Years	
(November 1)	Amount ⁽¹⁾	(November 1)	Amount ⁽¹⁾
2018	\$ 630,000	2033	\$ 1,660,000
2019	1,435,000	2034	1,725,000
2020	1,240,000	2035	1,790,000
2021	1,055,000	2036	1,870,000
2022	1,075,000	2037	1,940,000
2023	1,120,000	2038	2,020,000
2024	1,160,000	2039	2,100,000
2025	1,215,000	2040	2,180,000
2026	1,260,000	2041	2,275,000
2027	1,310,000	2042	2,365,000
2028	1,360,000	2043	2,460,000
2029	1,410,000	2044	2,555,000
2030	1,480,000	2045	2,660,000
2031	1,535,000	2046 ⁽²⁾	2,765,000
2032	1,595,000		

(1) Preliminary, subject to change.

(2) Maturity.

Credit Against Mandatory Redemption Schedule. If the City redeems or purchases a portion of any Series prior to maturity under the optional redemption provisions described above, the Bonds so redeemed or purchased (irrespective of their redemption or purchase prices) will be credited at the par amount thereof against the remaining mandatory redemption requirements for such Series in the manner determined by the Director of Finance. If the Director of Finance does not make such a determination, credit will be allocated to the remaining Sinking Fund Payments on a *pro rata* basis.

Selection of Bonds for Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the Series to be redeemed. If less than all of the principal amount of the selected Series is to be redeemed, then:

- (i) if such Series is held in Book-Entry Form, the portion of the Sinking Fund Payment to be redeemed will be selected for redemption by the Securities Depository in accordance with the Letter of Representations and credit for such redemptions will be applied against the mandatory redemption schedule as described above (see “—Credit Against Mandatory Redemption Schedule” above), and
- (ii) if the Series is not then held in Book-Entry Form, the portion of the Sinking Fund Payment to be redeemed will be selected by the Bond Registrar/Paying Agent using such method of random selection as the Bond Registrar/Paying Agent determines.

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/Paying Agent there will be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same Series, seniority, maturity, and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

Notice and Effect of Redemption

Notice of Redemption. The City must 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 that requirement will 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 will cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. See “—Registration and Book-Entry Form” and Appendix F.

Rescission of 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 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 rescinded by the Director of Finance will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

No Optional Tender for Purchase

During the Initial Index Floating Rate Period, the Bonds are not subject to optional tender for purchase by the Registered Owners or Beneficial Owners.

Mandatory Tender for Purchase

Conversion or Redemption On or After the Par Call Date. During an Index Floating Rate mode, the City has the right at any time on or after the Par Call Date of a Series to effect a Conversion of such Series of the Bonds from bearing interest at the Adjusted SIFMA Rate to bearing interest in any other Interest Rate Period authorized in the Addendum, including another Index Floating Rate. The City has also reserved the right, at its option, to redeem each Series of the Bonds on any Interest Accrual Date on or after its Par Call Date. If the City Elects to effect a Conversion of a Series of the Bonds, or opts to redeem all or a portion of a Series, the affected Bonds would be subject to mandatory tender for purchase on the proposed Conversion Date or redemption date.

End of the Initial Index Floating Rate Period—Scheduled Mandatory Tender Date. Each Series of the Bonds is subject to mandatory tender for purchase on the Scheduled Mandatory Tender Date for that Series, which is the Business Day following the last day of the Initial Index Floating Rate Period. On the Scheduled Mandatory Tender Date for a Series of the Bonds, the City may effect a conversion of such Series to another Interest Rate Period described in the Addendum (which could be another Index Floating Rate Period) or may redeem or refund such Series.

Purchase Dates and Conversion Dates

Each Series of the Bonds is subject to mandatory tender for purchase at the Purchase Price on each Purchase Date. The Addendum provides that, among other events, each of the following (without duplication) constitutes a Purchase Date on which the affected Bonds are required to be purchased: (i) the Scheduled Mandatory Tender Date for each Series; (ii) the first day of an Interest Rate Period (i.e., a Conversion Date); and (iii) any proposed Conversion Date or proposed redemption date for which notice of mandatory tender has been given to the Registered Owner(s) (regardless of whether the Election to effect a conversion, or proposed redemption, has been rescinded).

On a Purchase Date occurring during or at the end of the Initial Index Floating Rate Period, the affected Bonds are subject to mandatory tender for purchase by the Bond Registrar at a price equal to 100% of the stated principal amount to be purchased plus accrued interest, if any.

Notice of Conversion; Notice of Mandatory Tender for Purchase

Notice of Conversion. The Bond Registrar/Paying Agent is required to provide notice of the City’s Election to effect a Conversion of a Series of the Bonds to a new interest rate mode not less than 20 days prior to the proposed Conversion Date. Notice is to be provided to the Registered Owner(s) of the affected Series of the Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) and must contain the information listed in Section 6 of the Addendum (which varies depending on the succeeding interest rate mode selected by the City), generally including:

- (i) the Purchase Price;
- (ii) the proposed Conversion Date;

- (iii) a statement that, after the notice of mandatory tender (described below) has been given, the Series will be subject to mandatory tender for purchase on the Conversion Date (which will be a Purchase Date) and a description of the place of delivery of the affected Bonds;
- (iv) a statement that the owners may not elect to retain ownership of such Series of the Bonds; and
- (v) a description of the succeeding interest rate mode and a statement that, unless the City rescinds the Election to effect the Conversion, the Bonds will bear interest in that new mode beginning on the Conversion Date.

At the City's direction and in its sole discretion, the notice of Conversion (described above) and notice of mandatory tender (described below) may be combined and given at the time required for the notice of Conversion.

Notice of Mandatory Tender. The Bond Registrar/Paying Agent is required to give notice of mandatory tender of a Series of the Bonds (or portion thereof) to the Registered Owner(s) of the Bonds to be purchased (at their addresses as they appear on the Bond Register as of the date of such notice) by written notice not less than 20 days prior to any Purchase Date. The notice of mandatory tender must describe:

- (i) the Purchase Date;
- (ii) if in conjunction with a Conversion, the type of Interest Rate Period to which such Series will be converted on the Purchase Date;
- (iii) that each affected Bond will be purchased to the extent (in Authorized Denominations) of money sufficient to effect such purchase, available to the Bond Registrar/Paying Agent in the Bond Purchase Account through (a) the remarketing of the Bonds by the Remarketing Agent, or (b) other funds provided by the City, and any Bond that is not purchased will be subject to a Delayed Remarketing Period and will bear interest at the Stepped Interest Rate (both, as described below); and
- (iv) that, if the affected Series is not in Book-Entry Form, such Bonds must be delivered to the Bond Registrar/Paying Agent at or prior to 10:00 a.m., New York time, on the Purchase Date at a specified place of delivery, and that if the Registered Owner of such a Bond fails to deliver its Bond to the Bond Registrar/Paying Agent at the place and on the Purchase Date and by the time specified (or fails to deliver its Bond properly endorsed), such Bond will constitute an "Undelivered Bond" (described below).

Undelivered Bonds

If funds in the amount of the Purchase Price of an Undelivered Bond are available for payment to the Registered Owner thereof on the Purchase Date and at the time specified, then from and after the Purchase Date and time of that required delivery, (i) the Undelivered Bond will be deemed to be purchased and will no longer be deemed to be outstanding under the Bond Documents; (ii) interest will no longer accrue on the Undelivered Bond; and (iii) funds in the amount of the Purchase Price of the Undelivered Bond will be held uninvested and without liability for interest by the Bond Registrar/Paying Agent for the benefit of the Registered Owner thereof, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds.

Delayed Remarketing Period; Stepped Interest Rate

No Credit Facility secures payment of the Purchase Price of any Bonds that are not remarketed at the end of their respective Initial Index Floating Rate Period; however, any Bonds that are not purchased when tendered at the end of the applicable Initial Index Floating Rate Period are subject to a Stepped Interest Rate.

"Purchase Price" means the purchase price to be paid to the Registered Owners of such Series of Bonds purchased pursuant to the Addendum, which will be equal to the principal amount of the Bonds so tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if the Purchase Date is not an Interest Payment Date), plus any other accrued and unpaid interest.

If the Purchase Price of all of a Series required to be purchased on a Purchase Date cannot be paid on the applicable Purchase Date, only a portion of such Series of Bonds in an amount equal to the funds available to pay the full Purchase Price thereof (in Authorized Denominations) will be purchased on such Purchase Date. The remainder of such Bonds for which there are not sufficient available funds to pay the full Purchase Price will not be purchased and a Delayed

Remarketing Period will commence on such date with respect only to such portion (in an Authorized Denomination) that is not purchased. The Bonds to be purchased will be selected in accordance with the provisions for selection of Bonds for partial redemption, as described above under “Redemption of Bonds—Selection of Bonds for Redemption.”

During a Delayed Remarketing Period, the following will apply to the Bonds subject to such Delayed Remarketing Period:

- (i) all of the Bonds that are subject to the Delayed Remarketing Period will bear interest at the Stepped Interest Rate, as defined below;
- (ii) the Remarketing Agent will continue to be obligated to remarket the applicable Bonds;
- (iii) the applicable Bonds will continue to be subject to optional redemption by the City as described under “Optional Redemption”;
- (iv) the City, by notice to the Bond Registrar/Paying Agent and the Remarketing Agent, may Elect to effect a Conversion of the applicable Bonds as described in “Other Interest Rate Modes and Conditions for Conversion”;
- (v) interest on the applicable Bonds will continue to be due and payable on each Interest Payment Date and also will be payable on the last day of the Delayed Remarketing Period; and
- (vi) if the applicable Bonds are successfully remarketed as described, the registered owners of the applicable Bonds will be obligated to tender their Bonds to the Bond Registrar/Paying Agent.

Pursuant to the Addendum, during a Delayed Remarketing Period, the applicable Bonds will bear interest at the “Stepped Interest Rate” of ____%, which cannot exceed the Maximum Rate.

Other Available Interest Rate Modes and Conditions for Conversion

The City may Elect to effect a Conversion of a Series of the Bonds on any date on or after a Series’ respective Par Call Date, as described above. On a Conversion Date, the City may convert the respective Series to a new Index Floating Rate (electing either the SIFMA Index, the One-Month LIBOR, the Three-Month LIBOR, or another index chosen by the City) or to any of the following interest rate modes: Daily Interest Rate, Weekly Interest Rate, or Long-Term Interest Rate. Each of these available interest rate modes is described in the Addendum, attached as Appendix B.

Opinion of Counsel. On or before a Conversion Date, the City must deliver to the Bond Registrar/Paying Agent, the Credit Provider, if any, the Index Floating Rate Holder, if any, and the Remarketing Agent, if any, a Favorable Opinion of Bond Counsel to the effect that the Conversion is permitted under the Bond Documents and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation (subject to customary exceptions).

Other Conditions for Conversion. No Conversion will take effect unless each of the following conditions, to the extent applicable, has been satisfied:

- (i) if the notice of the Designated Representative’s Election to convert indicates that a Credit Facility will be in effect during the subsequent Interest Rate Period, such Credit Facility must be in effect on the Conversion Date;
- (ii) if a Direct Purchase Agreement, or an agreement entered into in connection with a Credit Facility, is in effect prior to the Conversion and requires consent of the Index Rate Holder or Credit Provider (as applicable), such consent must have been obtained or waived as of the Conversion Date; and
- (iii) except as provided with respect to Unremarketed Bonds in a Delayed Remarketing Period, the Bond Registrar/Paying Agent must have sufficient funds on hand from remarketing or refunding proceeds, proceeds of a draw on the Credit Facility, or other funds made available by the City, to pay the Purchase Price of such Series of the Bonds on the Conversion Date.

Special Considerations Relating to a Future Remarketing of the Bonds

The following factors should be considered with respect to the ability of the City to remarket a Series of the Bonds on the Scheduled Mandatory Tender Date (or on a Conversion Date occurring on or after the Par Call Date).

A Remarketing Agent will be Selected and Paid by the City. Upon issuance of the Bonds, there will be no Remarketing Agent in place. Upon an Election to effect a Conversion of a Series to a Daily Interest Rate Period, Weekly Interest Rate Period, Long-Term Interest Rate Period, or Index Floating Rate Period (other than a Direct Purchase Period), the City will be required to retain a Remarketing Agent, the selection of which will be within the City's sole discretion, consistent with Section 10 of the Addendum. The Remarketing Agent's responsibilities will include remarketing the Bonds that are subject to mandatory tender, as further described in this Official Statement. The Remarketing Agent will be appointed by the City prior to the Purchase Date and paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of the Registered Owners or Beneficial Owners of the Bonds.

The Remarketing Agent May Purchase the Bonds for Its Own Account. The Remarketing Agent will be permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, may acquire such tendered Bonds in order to achieve a successful remarketing of the Bonds. The Remarketing Agent, however, will not be obligated to purchase the Bonds and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling the Bonds other than in connection with a tender and remarketing. Such purchases and sales may be at or below par. The Remarketing Agent, however, will not be required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure with respect to the Bonds. The purchase of the Bonds by the Remarketing Agent may create the appearance that there is greater third-party demand for the Bonds in the market than is actually the case.

The Bonds May be Offered at Different Prices on Any Date. The Remarketing Agent may or may not be able to remarket the Bonds on a Scheduled Mandatory Tender Date at par, and the Remarketing Agent may sell the Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing in which it does not have third-party buyers for all of the Bonds at the Purchase Price. In the event a Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including any Scheduled Mandatory Tender Date, at a discount to the stated principal amount to some investors.

The Ability to Sell the Bonds May Be Limited. During the Initial Index Floating Rate Period, the Registered Owners of the Bonds do not have the right to optionally tender their Bonds for purchase through a tender process. Investors who purchase the Bonds, whether through the initial issuance or otherwise, should not assume that they will be able to sell their Bonds other than through the mandatory tender process set forth in the Bond Documents. During the Initial Index Floating Rate Period, in the event that a remarketing is unsuccessful, the Registered Owners may be required to retain their Bonds throughout any Delayed Remarketing Period, subject to the Stepped Interest Rate.

The Remarketing Agent May Be Removed, Resign, or Cease Remarketing. The Remarketing Agent will be appointed by the City prior to the Purchase Date. The Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, subject to the terms of the Remarketing Agreement, without a successor being named under certain circumstances. The Remarketing Agreement will be negotiated between the City and the Remarketing Agent, each acting in its sole discretion subject to the minimum qualifications of a Remarketing Agent set forth in Section 10 of the Addendum.

Purchase

The City reserves the right and option to purchase any or all 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 any Bond is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay, solely from the Parity Bond Fund and the other sources pledged in the Bond 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 Fund and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond. See Appendix A—Bond Ordinance—Sections 10 (Failure to Pay Bonds) and 24 (Defaults and Remedies).

Refunding or Defeasance of Bonds

The City may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source (i) to pay when due the principal of (including premium, if any) and interest on any Bond, or any portion thereof, included in a refunding or defeasance plan (the “Defeased Bonds”), (ii) to redeem and retire, release, refund, or defease the Defeased Bonds, and (iii) to pay the costs of such refunding or defeasance. If money and/or Government Obligations (defined below) 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, is 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 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 will cease and become void. Such Owners thereafter will 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 will be deemed to be no longer outstanding and the Director of Finance may then apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purpose. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner provided for the redemption of Bonds. See “—Notice and Effect of Redemption.”

The term “Government Obligations” is defined in the Bond Ordinance to mean any government obligation as that term is defined in RCW 39.53.010, as that statute may be amended in the future.

USE OF PROCEEDS

Purpose

The Bonds are being issued to refund on a current basis the City’s variable rate Municipal Light and Power Bonds described below under “Refunding Plan” and to pay the costs of issuing the Bonds and administering the Refunding Plan.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

	2018B-1 Bonds	2018B-2 Bonds	2018C-1 Bonds	2018C-2 Bonds	Total
SOURCES OF FUNDS					
Par Amount of Bonds					\$ -
Reoffering Premium					-
Total Sources of Funds	\$ -	\$ -	\$ -	\$ -	\$ -
USES OF FUNDS					
Deposit to Escrow Account					\$ -
Payment of Costs of Issuance ⁽¹⁾					-
Total Uses of Funds	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Includes legal fees, financial advisory and rating agency fees, costs of printing and posting this Official Statement, underwriter’s discount, and other costs of issuing the Bonds and administering the Refunding Plan.

Refunding Plan

With a portion of the proceeds of the 2018B-1 Bonds and 2018B-2 Bonds, the City will refund on a current basis the City's Municipal Light and Power Revenue Bonds, 2015B-1 (SIFMA Index) ("2015B-1 Bonds"), and Municipal Light and Power Revenue Bonds, 2015B-2 (SIFMA Index) ("2015B-2 Bonds"), identified below, respectively. With a portion of the proceeds of the 2018C-1 Bonds and 2018C-2 Bonds, the City will refund on a current basis the City's Municipal Light and Power Revenue Bonds, Series 2017A (Multi-Modal) ("2017A Bonds"), and Municipal Light and Power Revenue Bonds, Series 2017B (Multi-Modal) ("2017B Bonds"), identified below, respectively.

The refunded 2015B-1 Bonds and 2015B-2 Bonds are together referred to as the "2015 Refunded Bonds," and the 2017A Bonds and 2017B Bonds are together referred to as the "2017 Refunded Bonds." The 2015 Refunded Bonds and the 2017 Refunded Bonds are collectively referred to as the "Refunded Bonds." The refunding is being undertaken to achieve debt service savings and to satisfy the City's upcoming November 1, 2018, purchase obligation for the 2015B-1 Bonds and 2015B-2 Bonds.

REFUNDED BONDS

Series	Maturity		Call Price	Call Date
	Date	Par Amount		
2015B-1 Bonds	5/1/2045	\$ 50,000,000	100%	9/4/2018
2015B-2 Bonds	5/1/2045	50,000,000	100%	9/4/2018
2017A Bonds	11/1/2046	49,110,000	100%	9/4/2018
2017B Bonds	11/1/2046	49,110,000	100%	9/4/2018

SECURITY FOR THE BONDS

Outstanding Parity Bonds

The Bonds are being issued on a parity basis with the Outstanding Parity Bonds, which currently include 20 series of bonds issued since 2008, listed in the table below. See "Department Financial Information—Debt Service Requirements."

OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal as of 8/7/2018
2008 Bonds	\$ 257,375,000	\$ 10,020,000
2010A Bonds	181,625,000	181,625,000
2010B Bonds	596,870,000	246,425,000
2010C Bonds	13,275,000	13,275,000
2011A Bonds	296,315,000	69,330,000
2011B Bonds	10,000,000	10,000,000
2012A Bonds	293,280,000	225,770,000
2012C Bonds	43,000,000	43,000,000
2013 Bonds	190,755,000	175,385,000
2014 Bonds	265,210,000	232,150,000
2015A Bonds	171,850,000	154,960,000
2015B-1 Bonds ⁽¹⁾	50,000,000	50,000,000
2015B-2 Bonds ⁽¹⁾	50,000,000	50,000,000
2016A Bonds	31,870,000	31,870,000
2016B Bonds	116,875,000	115,340,000
2016C Bonds	160,815,000	158,715,000
2017A Bonds ⁽¹⁾	50,000,000	49,110,000
2017B Bonds ⁽¹⁾	50,000,000	49,110,000
2017C Bonds	385,530,000	385,530,000
2018A Bonds	263,755,000	263,755,000
Total	\$3,478,400,000	\$ 2,515,370,000

(1) The Refunded Bonds, to be redeemed on September 4, 2018.

Pledge of Revenue

The Bonds are issued as Parity Bonds and are a special limited obligation of the City, payable from and secured solely by Net Revenue (as defined below) and by money in the Parity Bond Fund and the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The pledge of Net Revenue to pay and secure the Parity Bonds constitutes a lien and charge upon such Net Revenue prior and superior to all other charges whatsoever. The payments that the City has pledged to pay into the Parity Bond Fund consist of amounts sufficient to pay the Parity Bonds (including principal, sinking fund redemption, redemption premium (if any), and interest) as such payments become due. The City has additionally pledged to make payments into the Reserve Fund sufficient to satisfy the Reserve Fund Requirement. See “—Reserve Fund and Reserve Fund Requirement” below. The Bonds are issued on a parity basis with the Outstanding Parity Bonds and all Future Parity Bonds (which term includes Parity Payment Agreements), without regard to date of issuance or authorization and without preference or priority of right or lien with respect to participation of special funds in amounts from Net Revenue for payment thereof.

The Bond Ordinance defines “Net Revenue” for any period as Gross Revenues less Operating and Maintenance Expense. “Gross Revenues” include (i) all income, revenues, receipts, and profits derived by the City through the ownership and operation of the Light System, (ii) 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 Light System, (iii) Payment Agreement Receipts to the extent that such receipts are not offset by Payment Agreement Payments, and (iv) 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 Light System. Gross Revenues do not include: (i) insurance proceeds compensating the City for the loss of a capital asset, (ii) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenues, (iii) investment income earned on money in any fund or account created or maintained solely for the purpose of complying with the

arbitrage rebate provisions of the Internal Revenue Code of 1986, as amended (the “Code”), (iv) 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 Revenues under the Bond Ordinance, (v) the proceeds of any borrowing for capital improvements (or the refinancing thereof), and (vi) the proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues).

“Operating and Maintenance Expense” includes all reasonable charges incurred by the City in causing the Light System to be operated and maintained in good repair, working order, and condition, including but not limited to all operating expenses under applicable generally accepted accounting principles included in the annual audited financial statements of the Light System, except those specifically excluded. The Bond Ordinance excludes from the definition of Operating and Maintenance Expense (i) extraordinary, nonrecurring expenses of the Light System or any judgments or amounts to be paid in settlement of claims against the Light System, (ii) non-cash expenses relating to a mark-to-market treatment of energy-related contracts, (iii) any costs or expenses (including interest expense) for new construction, replacements, or renewals of Light System property, (iv) Deferred Hydroelectric Project Relicensing Costs, the High Ross Capital Payments, or other similar payments under any agreement for the development or licensing of a capital improvement or asset, under which agreement the City agrees to make periodic payments in respect of its share of the capital expense, (v) any allowance for depreciation, amortization, or similar recognitions of non-cash expense items made for accounting purposes only (including non-cash pension expense), (vi) any taxes levied by or paid to the City (or payments in lieu of taxes) upon the properties or earnings of the Light System, or (vii) any obligation authorized pursuant to ordinance or resolution specifically excluding the payment of such obligation from Operating and Maintenance Expense.

The complete definitions of the capitalized terms summarized above can be found in Appendix A—Bond Ordinance—Section 1.

The Bonds are not secured by a security interest in any physical plant or facility.

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 Ordinance. 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 Light System, are pledged to the payment of the Bonds.

Rate Covenant

In the Bond Ordinance, the City has covenanted, among other things, to establish from time to time and maintain such rates for electric energy as will maintain the Light System in sound financial condition and provide sufficient revenues to pay all Operating and Maintenance Expense, to pay into the Parity Bond Fund the amounts that are required by the Bond Ordinance to be applied to the payment of the principal of and interest on the Parity Bonds until the Parity Bonds have been paid in full, and to pay all bonds, warrants, and indebtedness for which any revenues of the Light System have been pledged.

The Bond Ordinance does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds over and above the debt service requirements. See Appendix A—Bond Ordinance—Section 17(a)(ii). A coverage test is included as part of the test for issuing Future Parity Bonds. See “—Future Parity Bonds,” “Department Financial Information—Financial Policies” and Appendix A—Bond Ordinance—Section 18(a)(ii).

Reserve Fund and Reserve Fund Requirement

The City has created and is required to maintain the Reserve Fund for the purpose of securing the payment of the principal of and interest on the Parity Bonds (including all net payments due under any Parity Payment Agreements, if any). The Reserve Fund is a pooled reserve. See Appendix A—Bond Ordinance—Section 15.

So long as any Parity Bonds (including any Parity Payment Agreements) are outstanding, the City has covenanted to set aside and pay out of Net Revenue, into the Reserve Fund, an amount necessary to provide for the Reserve Fund Requirement within the time and manner required by the Bond Ordinance.

The Bond Ordinance provides that, if the amount in the Reserve Fund is less than the Reserve Fund Requirement (taking into account the method of funding over five years in connection with the issuance of Future Parity Bonds), the City must transfer to the Reserve Fund money in an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement within 12 months after the date of such deficiency. The City will transfer such money first from Net Revenue and only thereafter from money in any construction fund or account established with respect to any issue of Parity Bonds, first taking money from the unrestricted portion thereof, then taking money from the restricted portion thereof). If the amount in the Reserve Fund is greater than the Reserve Fund Requirement, then and only then may the City withdraw such excess from the Reserve Fund and deposit such excess in the Light Fund.

The Reserve Fund is held by the City in a “special fund” as that term is used in State law; it is not held by an independent trustee. In the context of bankruptcy proceedings, notwithstanding State law, there can be no assurance that the funds on deposit therein would be held intact for the benefit of holders of the Parity Bonds. See “Legal and Tax Information—Limitations on Remedies and Municipal Bankruptcies.”

Reserve Fund Requirement. Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements for each issue of Parity Bonds outstanding. The Bond Ordinance permits the City to establish the Reserve Fund Requirement (which may be zero) for each issue of the Bonds or of Future Parity Bonds in connection with approving the sale of each such issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued pursuant to a common set of Bond Sale Terms are treated as a single “issue.”

With respect to the Bonds, the Addendum establishes the Reserve Fund Requirement for the Bonds (which are considered a single “issue” for purposes of the Reserve Fund Requirement) as follows:

- (i) For so long as the City’s surety bond purchased from Financial Security Assurance, Inc. (“FSA”) (the “2005 Reserve Surety”) remains in effect, the Reserve Fund Requirement for the Bonds will be the additional amount necessary, if any, to provide an overall level of funding in the Reserve Fund equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund,” calculated as of the Initial Issue Date based on the debt service requirements for all Parity Bonds then outstanding.
- (ii) From and after the expiration or termination of the 2005 Reserve Surety, the Reserve Fund Requirement for the Bonds will be zero and the debt service requirements for the Bonds will be thereafter excluded from calculation of the Reserve Fund Requirement for other then-Outstanding Parity Bonds.

Upon the issuance of the Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding will be approximately \$152.5 million. Upon the expiration or termination of the 2005 Reserve Surety, the incremental Reserve Fund Requirements for the Bonds, if outstanding at that time, will be reduced to \$0, resulting in a reduction in the aggregate Reserve Fund Requirement. Nonetheless, all Parity Bonds then outstanding (including any series of Parity Bonds for which the incremental Reserve Fund Requirement has been set at \$0) will remain secured by the Reserve Fund, despite any resulting reduction in the overall amount of the Reserve Fund Requirement.

Method of Satisfying Reserve Fund Requirement. The Bond Ordinance delegates to the Director of Finance the authority to determine the method of funding the Reserve Fund Requirement for each issue of Future Parity Bonds, including the Bonds, from among the following methods: (i) depositing an amount equal to the Reserve Fund Requirement for that issue of Future Parity Bonds into the Reserve Fund at one time on the issue date for those Future Parity Bonds, (ii) making periodic deposits of Net Revenue (or other legally available funds) so that by five years from the date of such Future Parity Bonds, there will have been paid into the Reserve Fund an amount which, together with the money already on deposit therein, will be at least equal to the Reserve Fund Requirement for all Parity Bonds outstanding at the end of that five-year period, or (iii) by obtaining one or more Alternate Reserve Securities for specific amounts required to be paid into the Reserve Fund sufficient to satisfy the incremental additional Reserve Fund Requirement.

The Reserve Fund Requirement upon the issuance of the Bonds will be satisfied by the amounts already on deposit in the Reserve Fund. The City also holds approximately \$36,050,000 in the Reserve Fund that is intended to be used to satisfy the Reserve Fund Requirement upon the expiration or termination of the 2005 Reserve Surety, as discussed above under “Reserve Fund Requirement.” See “—Information Regarding the 2005 Reserve Surety.”

Under the Bond Ordinance, the City is permitted to provide for the Reserve Fund Requirement with an Alternate Reserve Security consistent with the Bond Ordinance requirements. Under the Bond Ordinance, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider’s ratings are in one of the top two rating categories at the time the policy is issued. See Appendix A—Bond Ordinance—Section 1. The Bond Ordinance does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded.

The 2005 Reserve Surety has a policy limit (the “Policy Limit”) that is currently \$74,694,319. See “—Information Regarding the 2005 Reserve Surety.” This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement. Upon the issuance of the Bonds, the remainder of the Reserve Fund Requirement will be satisfied by approximately \$77.8 million in cash held in the Reserve Fund.

Information Regarding the 2005 Reserve Surety. The 2005 Reserve Surety was issued by FSA in 2005; FSA was acquired by Assured Guaranty Corporation in 2009. In 2009, Assured Guaranty Corporation changed the name of its FSA subsidiary to Assured Guaranty Municipal Corporation (“AGM”).

The 2005 Reserve Surety secures all Parity Bonds and Future Parity Bonds (including Parity Payment Agreements) and expires on August 1, 2029. Should the Reserve Fund Requirement be reduced in the future, the Policy Limit would be reduced irrevocably by a like amount. See “—Method of Satisfying Reserve Fund Requirement.” The Policy Limit would also be reduced temporarily to the extent of any draw on the 2005 Reserve Surety. In that event, the Policy Limit would be reinstated (up to the limit in effect prior to the draw) upon reimbursement in accordance with the terms of the City’s reimbursement agreement with AGM. The City’s reimbursement obligation is subordinate to the City’s obligation to pay the principal of and interest on the Parity Bonds.

As of the date hereof, AGM is rated A2 and AA by Moody’s Investors Service and Standard & Poor’s Global Ratings, respectively. AGM is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements, and other information with the U.S. Securities and Exchange Commission (“SEC”). Certain SEC filings of AGM are available on the company’s website, www.assuredguaranty.com. Such reports, proxy statements, and other information may also be inspected and copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

Future Parity Bonds

The City has reserved the right to issue Future Parity Bonds (which term includes Parity Payment Agreements) for any lawful purpose of the City’s Light System if the following Parity Conditions are met and complied with as of the issue date of such Future Parity Bonds, or as of the effective date of the Parity Payment Agreement, as appropriate:

- (i) No deficiency may then exist in the Parity Bond Fund or in any of the accounts therein; and
- (ii) Provision must be made to satisfy the Reserve Fund Requirement for all Parity Bonds then outstanding plus any additional amount required in connection with issuance and sale of the proposed Future Parity Bonds (if any) in accordance with the Bond Ordinance; and
- (iii) There must be on file with the City a Parity Certificate as described below.

If the proposed Future Parity Bonds (or any portion thereof) are to be issued for the purpose of refunding Outstanding Parity Bonds and the Annual Debt Service on the refunding portion of the proposed Future Parity Bonds is not more than \$5,000 greater than the Annual Debt Service on the Parity Bonds to be refunded thereby, then no Parity Certificate is required as to that portion issued for refunding purposes. If the requirements of the preceding sentence are not satisfied, Refunding Parity Bonds may alternatively be issued upon delivery of a Parity Certificate.

The Parity Certificate may be provided by either the Director of Finance or by a Professional Utility Consultant, as follows:

- (i) A Parity Certificate may be prepared by the Director of Finance, demonstrating that the amount of Adjusted Net Revenue in any 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed series of Future Parity Bonds was not less than 125% of Maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the proposed series of Future Parity Bonds. For the purposes of a Parity Certificate delivered under this provision, the Director of Finance may further adjust Adjusted Net Revenue as described in the Bond Ordinance.
- (ii) A Parity Certificate may be prepared by a Professional Utility Consultant, demonstrating that the amount of the Adjusted Net Revenue in any 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed Series of Future Parity Bonds is not less than 125% of the amount of Maximum Annual Debt Service on all Parity Bonds and the proposed Future Parity Bonds in any future calendar year on all Parity Bonds then outstanding and the proposed series of Parity Bonds. For the purposes of a certificate delivered under this provision, Adjusted Net Revenue may be further adjusted by the Professional Utility Consultant as described in the Bond Ordinance.

See Appendix A—Bond Ordinance—Section 18(a). The Bond Ordinance defines “Adjusted Net Revenue” as Net Revenue, less any deposits into the Rate Stabilization Account (“RSA”) and plus any withdrawals from the RSA. See the discussion of the RSA under “Security for the Bonds—Rate Stabilization Account,” “Department Financial Information—Financial Policies,” and Appendix A—Bond Ordinance—Section 19. In calculating Net Revenue, the Parity Certificate (whether prepared by the Director of Finance or by a Professional Utility Consultant) may include the tax credit subsidy payments the City expects to receive from the federal government in respect to the interest on any tax credit subsidy bonds.

See also “Other Considerations—Federal Sequestration and Other Federal Funding Considerations” for a discussion of the impact of sequestration on federal interest payments for certain Department bonds.

Nothing set forth in the Bond Ordinance prevents the City from issuing Refunding Parity Bonds to refund maturing Parity Bonds of the City for the payment of which money is not otherwise available.

Other Covenants

In the Bond Ordinance, the City has entered into other covenants, including those with respect to the sale or disposition of the Light System and the maintenance and operation of the Light System. See Appendix A—Bond Ordinance—Section 17.

Amendments

The Bond Ordinance reserves to the City the right to amend or supplement the Bond Ordinance, in certain cases without the consent of Owners of the Bonds, and in other cases upon the written consent of Owners of certain percentages of the Outstanding Parity Bonds. In particular, Section 23(g) of the Bond Ordinance provides that, by purchasing the Bonds, the Owners thereof are deemed to have consented to future amendments to certain covenants and other provisions of the Bonds described herein. Certain of these amendments may be adopted at some point during the life of the Bonds.

Parity Payment Agreements

The City may enter into Parity Payment Agreements that constitute a charge and lien on Net Revenue equal to that of the Parity Bonds. A Parity Payment Agreement is a written contract entered into in connection with an issue of Future Parity Bonds, between the City and a Qualified Counterparty, for the purpose of managing and reducing the City’s exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset, or liability management purposes 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. The City currently has no Parity Payment Agreements in effect.

“Parity Payment Agreement” is defined in the Bond Ordinance as a Payment Agreement which is entered into in compliance with the Parity Conditions and under which the City’s payment obligations are expressly stated to constitute a lien and charge on Net Revenue equal in rank with the lien and charge upon such Net Revenue required to be paid into the Parity Bond Fund and the Reserve Fund to pay and secure the payment of principal of and interest on Parity Bonds in accordance with the Bond Ordinance. For purposes of determining percentages of ownership of Parity Bonds under the Bond Ordinance, Parity Payment Agreements are deemed to have no principal amount, and any consent or similar rights will be determined only as set forth in the applicable Parity Payment Agreement. The Parity Conditions described above for the issuance of Future Parity Bonds also apply to the City’s incurring parity obligations under any Parity Payment Agreements. See Appendix A—Bond Ordinance—Sections 1 and 18.

Rate Stabilization Account

The RSA has been created as a separate account in the Light Fund. The City may at any time deposit in the RSA Net Revenue and any other money received by the Light System and available to be used for this purpose. Thereafter, the City may withdraw any or all of the money from the RSA for inclusion in Adjusted Net Revenue for any applicable year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year for which the deposit or withdrawal will be included as Adjusted Net Revenue. See the discussion of the RSA and the City’s current policies under “Department Financial Information—Financial Policies” and Appendix A—Bond Ordinance—Section 19.

Defaults and Remedies; No Acceleration

Each of the following constitutes an Event of Default with respect to the Bonds:

- (i) If a default is made in the payment of the principal of (including Sinking Fund Requirements and any redemption premium thereon) or interest on any Parity Bond when the same becomes due and payable; or
- (ii) If the City defaults in the observance and performance of any other of the Parity Bond covenants, conditions, or agreements on the part of the City set forth in the Bond Ordinance or the applicable Bond Documents (except as otherwise provided in the Bond Ordinance or in such Bond Documents) and such default or defaults has continued for a period of six months (the “cure period”) after the City has received from the registered owners of not less than 25% in principal amount of the Parity Bonds then outstanding (or from a Bond Owners' Trustee duly appointed as set forth in the Bond Ordinance) a written notice specifying and demanding the cure of such default. However, if such default is one which cannot be completely remedied within the cure period, it will not be an Event of Default with respect to the Parity Bonds, so long as the City has taken active steps within the cure period to remedy the default and is diligently pursuing such remedy.

In the event of a default, Bond owners would be permitted to pursue remedies available under State law, including the right to bring action against the City to compel the setting aside and payment of the amounts pledged to be paid into the Parity Bond Fund in respect of the then-Outstanding Parity Bonds.

Nothing contained in the Bond Ordinance will, in any event or under any circumstance, be deemed to authorize the acceleration of the maturity of principal on the Bonds, and the remedy of acceleration is expressly denied to the registered owners of the Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default. The City is liable for principal and interest payments only 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. In addition, owners of variable rate Parity Bonds may have additional events of default, rights, and remedies under direct purchase or continuing covenant agreements that are not granted to Owners of the Bonds. See “Department Financial Information—Outstanding Variable Rate Parity Bonds.”

Subordinate Lien Obligations

Junior Lien Bonds. In the Bond Ordinance, the City has established a Junior Lien position and has reserved the right to issue Junior Lien Bonds (which term includes Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations) or other obligations with a charge or lien upon the Net Revenue subordinate to the payments required to be made from Net Revenue into the Parity Bond Fund and the accounts therein. The City may in the future issue

Future Junior Lien Bonds in accordance with a Junior Lien Additional Bonds Test, which would be junior to the Parity Bonds, but prior and superior to all other liens and charges. See Appendix A—Bond Ordinance—Section 18(b). Junior Lien Bonds may not be subject to acceleration. See Appendix A—Bond Ordinance—Section 24(b) and (d).

The Bond Ordinance authorizes the Director of Finance to designate some or all of the authorized bonds as Junior Lien Bonds. All of the Bonds have been designated as Parity Bonds. There are no currently outstanding Junior Lien Bonds.

Interfund Loans. The City is also authorized to make interfund loans to the Department for Department purposes from the City’s common investment portfolio. See “Department Financial Information—City Investment Pool.” Repayment by the Department of such interfund loans would be subordinate to any Outstanding Parity Bonds and Junior Lien Bonds.

Other Subordinate Lien Obligations. Nothing set forth in the Bond Ordinance prevents the City from issuing revenue bonds or other obligations that are a charge upon the Net Revenue junior and inferior to the payments required to be made therefrom into the Parity Bond Fund for the payment of the Parity Bonds, provided that such subordinate bonds may not be subject to acceleration under any circumstances.

Contingent Obligations

The City, through the Department, has in the past and may in the future enter into various agreements, such as power purchase agreements or commodity derivative instruments, under which the City may be obligated to make payments or post collateral contingent upon certain future events within or beyond the City’s control. Such contingent payment obligations may be treated as operation and maintenance charges payable from Gross Revenues prior to the payment of principal of and interest on the Parity Bonds. See “Power Resources and Cost of Power—Purchased Power Arrangements” and “—Wholesale Energy Risk Management.”

SEATTLE CITY LIGHT DEPARTMENT

Introduction

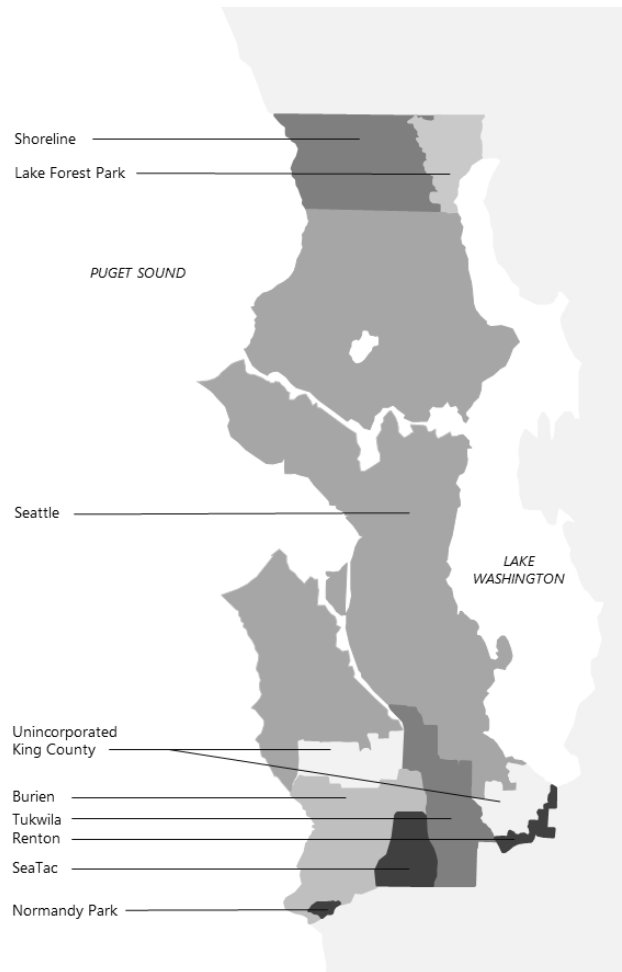
The Department is a municipally-owned electric utility. In 1905, the City began providing its customers with electricity generated by the Cedar Falls Hydroelectric Plant (the “Cedar Falls Project”), which was the first such municipally-owned facility in the nation. By 1910, operational responsibility for the City’s electric system had been assigned to the Department. In 1951, the Department purchased from Puget Sound Power and Light Company certain generation, transmission, and distribution facilities serving the City’s residents. The Department has operated without competition as the sole retail electricity provider in its service area since the 1951 purchase.

Service Area

The Department’s 131-square-mile service area, depicted in the map in Figure 1, consists of all territory within the City plus areas extending three to four miles north and south of the City limits. The growth of the Department’s electric load since 1951 has resulted exclusively from development within the service area. The population of the Department’s service area is approximately 874,000.

Sales to customers located outside the City’s boundaries but within the service area represent approximately 16% of retail power sales. See “Department Financial Information—Retail Rates—Rates for Customers Outside the City of Seattle.”

FIGURE 1: SEATTLE CITY LIGHT DEPARTMENT'S SERVICE AREA MAP



Source: Seattle City Light Department, Financial Planning Unit

Management

The Department is a department of the City and is subject to ordinances and resolutions adopted by the City Council and approved by the Mayor. The Mayor and City Council approve the Department's budget, set rates, and approve debt issuance, along with other functions set forth in the City Charter. The Department is under the direction of a General Manager and Chief Executive Officer, who is appointed by the Mayor and confirmed by the City Council, subject to reconfirmation every four years.

City of Seattle Ordinance 123256 created the City Light Review Panel (the "Review Panel") as an advisory board and specified the professions and qualifications that the members of the Review Panel should have. One is to be an economist, preferably with a background in energy economics or commodity risk management. Another is to be a financial analyst, preferably with a background in financing large capital projects. Five are to represent the Department's customer groups: residential, commercial, industrial, suburban franchise, and low income. These representatives should have knowledge and experience in areas such as the electricity industry, financial planning and budgeting, and navigating City government.

The Mayor and City Council appoint members of the Review Panel, and the term of appointment is generally three years. The Review Panel is charged with reviewing, assessing, and providing feedback on the Department's Strategic Plan (see "—2019-2024 Strategic Plan"), financial policies, cost allocation, rate design, operational efficiency and other issues requested by the Mayor or City Council, or that the Review Panel believes the Mayor and City Council should consider.

In December 2017, an interim General Manager and Chief Executive Officer was appointed, following the resignation of the prior General Manager. As a result, the Department has been reorganized into seven operating units: Financial Services; Customer Service, Communications and Regulatory Affairs; Power Supply; Environmental; Transmission and Distribution; Engineering and Technology Innovation; and Administrative Services.

Brief descriptions of the backgrounds of certain key officials of the Department are provided below:

James Baggs, Interim General Manager and Chief Executive Officer, joined the Department in 2011 as Chief Compliance Officer. Since that time, he has also served as the Customer Service, Communications, and Regulatory Affairs Officer and the Interim Power Supply and Environmental Affairs Officer. Prior to joining the Department, he was the Director of Regulatory Compliance at Idaho Power Company, where he also held a variety of positions including Manager of Rates and Contracts, General Manager of Customer Service and Metering, General Manager of Regional Operations, and General Manager of Grid Operations and Planning. Mr. Baggs holds a bachelor's degree in Economics from the University of Colorado and a master's degree in Agricultural and Natural Resource Economics from the University of Arizona.

Paula Laschober, Ph.D., Chief Financial Officer, joined the Department in 1986, and served as the Department's Finance Director from 2008 until her appointment in February 2016 as Chief Financial Officer. Prior to joining the Department, she spent eight years as a consultant to utilities with R.W. Beck and Associates, now part of Leidos Engineering. Dr. Laschober holds a master's degree in Business Administration and a Ph.D. in Latin American Literature from the University of Washington.

Darnell Cola, Interim Customer Service, Communications, and Regulatory Affairs Officer, joined the Department as a Student Engineer in 1982. He has spent most of his career leading the Department's planning and delivery on major inter/intra agency projects, such as Sound Transit's Light Rail, the Alaskan Way Viaduct, the seawall, and the new Denny Substation. Most recently he has been leading the Department's Asset Management Division, which includes Standards and Mapping Records. Mr. Cola holds a bachelor's degree in Industrial Engineering Management from the University of Washington.

Michael Haynes, P.E., Power Supply Officer, was appointed to this position in 2016. He joined the Department in 2000 and previously held the titles of Energy Generation Operations and Engineering Officer and Director of Power Production. He has an extensive background in hydroelectric power generation and engineering. Prior to joining the Department, he served in program management and engineering roles at HDR, Inc., and Puget Sound Energy. Mr. Haynes holds a bachelor's degree in Mechanical Engineering from Seattle University.

Lynn Best, Ph.D., Chief Environmental Officer, was appointed to this position in 2016. She joined the Department in 1982 as a Senior Environmental Analyst. Since that time, she has been promoted to a manager position in Environmental Affairs and then to the position of Director of Environmental Affairs and Real Estate. Dr. Best received her Bachelor of Science degree from the Massachusetts Institute of Technology and her doctorate from the University of Washington.

Bernie Ziemianek, Ph.D., Transmission and Distribution Officer, joined the Department in 2006 as Energy Delivery Operations Director. Prior to joining the Department, he was the Public Utility Director for The City of Ukiah, California, and the Director of Research and Development for the Electric Power Research Institute ("EPRI") in the areas of Transmission and Distribution, Renewables, and Advanced Grid Infrastructure Technologies. Before joining EPRI, he worked for Pennsylvania Power and Light Company, where he held a variety of positions. Dr. Ziemianek holds a bachelor's and doctorate degree in Electrical Engineering from Drexel University, a master's degree in Electrical Engineering from Lehigh University, and an Executive MBA from Duke University.

Emeka Anyanwu, Engineering and Technology Innovation Officer, joined the Department in March 2018. Prior to joining the Department, he was Director of Engineering Support at Kansas City Power & Light Company, where he also held a variety of other positions including Distribution Engineer, Field Design Supervisor, Field Construction Supervisor, Manager of Resource Planning, and Director of Asset Management, Planning and Design. Mr. Anyanwu has a B.S. in Electrical Engineering from Iowa State University and a Master of Business Administration from Rockhurst University.

DaVonna Johnson, Chief Administrative Services Officer, joined the Department in 2004 and was appointed to her current position in 2009. Prior to her appointment to this position, she served as the Talent Acquisition and Development Manager in Human Resources. Before joining the Department, she worked for the City for five years and has worked in both the public and private sectors. Ms. Johnson has bachelor's and master's degrees in Business Administration from Washington State University.

Department Employment and Labor Relations

As of July 2018, the Department had approximately 1,840 authorized full-time equivalent positions. Department employees participate in the City's pension plan and other post-employment retirement benefits. See "The City of Seattle—Pension Plans" and "—Other Post-Employment Benefits," and Appendix D—2017 Audited Financial Statements of the Department—Notes 12 and 13.

State law requires municipal agencies to bargain in good faith with the recognized bargaining agents. Approximately 93% of the Department's regular full-time employees are represented by labor unions. Most of the Department's 15 labor unions are part of the Coalition of City Unions. See "The City of Seattle—Labor Relations."

The City currently has a collective bargaining agreement with IBEW Local 77 that expires on January 22, 2021. The City's collective bargaining agreement with the Coalition of City Unions, which extends to most bargaining units, expires December 31, 2018. The collective bargaining agreement with AFSCME, the exclusive bargaining agent for the Department's managers, strategic advisors, and some supervisors, also expires on December 31, 2018. Collective bargaining negotiations for these agreements will resume prior to the contract expiration in 2018 for agreements effective starting in 2019.

Approximately half of the Department's workforce is eligible to retire in the next five years. The Department currently has workforce development programs in place to reduce its attrition risk and retain its current employees. The highest retirement risk is in the engineering staff, followed by skilled trades. The Department has a robust internship program that currently enrolls more than 80 high school and college students. The Department operates its own apprenticeship program to ensure that it has high voltage workers available to meet the Department's needs. Currently 80% of the existing skilled trade workers were trained through the Department's apprenticeship program.

2019-2024 Strategic Plan

The City Council adopted Resolution 31819 approving the 2019-2024 Strategic Plan on July 9, 2018. The 2019-2024 Strategic Plan identifies four strategic priorities: (i) upgrade customer service practices to meet evolving customer needs and expectations; (ii) keep customers' bills affordable and stable by implementing strategies to control costs, capture new revenues, and restructure rates; (iii) deliver robust and innovative programs to promote the efficient use of clean energy and protect the shared ecosystem; and (iv) continue progress on core business through investments in infrastructure and workforce. The fundamentals of the 2019-2024 Strategic Plan are similar to prior plans, and the majority of the capital expenditures are already in the Department's adopted Capital Improvement Program ("CIP") for 2018-2023. See "Department Financial Information—Retail Rates" and "Capital Requirements."

The 2019-2024 Strategic Plan endorses a plan to propose rate increases averaging 4.5% annually from 2019 to 2024, excluding any Bonneville Power Administration ("BPA") rate pass-throughs or RSA surcharges. The proposed retail rate increases for 2019 and 2020 are higher than the average, at 5.8% and 5.4% per year, respectively, and will be proposed through the City Council rate-setting process described below under "Department Financial Information—Retail Rates."

In addition to other financial pressures anticipated in previous plans, the 2019-2024 Strategic Plan incorporates a new (lower) retail sales forecast. In 2017, the Department adopted a new retail sales forecasting methodology that incorporates impacts of new codes and standards as well as expected trends in energy efficiency in areas such as lighting and appliances. It also includes expectations of modest growth in the adoption of customer solar panels and electric vehicles. Even though the City has experienced strong population growth in the past few years, the Department's retail sales have been relatively flat, primarily due to continued adoption of energy efficiency measures. The Department anticipates an eventual slowdown in growth but expects energy efficiency adoption to remain robust, yielding declining retail sales overall. The Department assumes that retail sales will decline 0.8% per year on average

over 2019-2024, but also recognizes the high level of uncertainty when forecasting retail sales. Declining retail sales account for approximately 1.0% of the projected 4.5% annual average rate increase for 2019-2024.

Enterprise Risk Management and Emergency Response

The Department has an Enterprise Risk Management program designed to assess and report on the organization's strategic readiness, by tracking risk factors relating to strategic and corporate goals. All divisions of the Department provide input into the Enterprise Risk Management framework, including Emergency Management and Regulatory Affairs.

Emergency Response. The Department has an active Emergency Management Program that meets Federal Emergency Management Agency ("FEMA") standards and conducts semi-annual exercises and testing of its emergency response program. The Department's Continuity of Operations Plan defines the Department's program to prepare for an emergency. It establishes a response organization structure (consistent with the National Incident Management System and Incident Command System structure) designed to enhance coordination with other agencies and improve outage restoration responses. An Incident Management Team, comprised of approximately 200 trained management and staff members, can be activated during any increased readiness mode and serves the function of managing the Department's emergency response activities.

Seismic Risks. Due to the City's known seismic risk, the Department maintains a seismic hazard assessment program for substations and facilities consistent with requirements identified in the International Building Code. As upgrades and/or improvements are made to these substations and facilities, appropriate seismic mitigation features are incorporated into the new or upgraded features. The seismic hazard assessment also includes a method for establishing priorities within the Department's service territory. Similar attention is applied to the generation facilities as part of ongoing Federal Energy Regulatory Commission ("FERC") licensing and reporting obligations.

Cybersecurity. Cyber attacks continue to become more sophisticated and are increasingly capable of impacting control systems and components. The Department, working in conjunction with the Seattle Information and Technology Department ("Seattle IT"), has instituted processes, training, and controls to maintain the reliability of its systems and protect against cyber threats as well as mitigate intrusions and plan for business continuity via data recovery. Work plans are developed to address issues and recommendations to support the cyber security program. A new version of Critical Infrastructure Protection Standards went into effect in July 2016, with additional requirements phased in during 2017 and 2018. This is the next evolution of the North American Electric Reliability Corporation ("NERC") oversight of Critical Utility Infrastructure. For the Department, this latest version brought into scope additional facilities due to their level of interconnection with the Bulk Electric Transmission System. With additional facilities now subject to this set of standards comes additional documentation and controls administered by various subject matter experts across the Department. See "Transmission and Distribution—Federal Regulations."

Physical Plant Security. Physical attacks on critical energy infrastructure also present an increased concern to the electric utility industry. The Department's physical security program includes extensive measures for physical protection, including on-site security officers, fences, camera systems, access control, security monitoring by the Security Monitoring Center, and extensive mobile patrol presence. The Department has developed a number of security processes in collaboration with local, regional, and federal law support and actively shares best practices with national, regional and local electrical utility security departments.

The Department has formalized its information technology, business continuity, and disaster recovery program. The Department has built and currently conducts operations from an out-of-region co-located data center, and instituted various iterative processes in support of Departmental resiliency and rapid recoverability.

Property Insurance. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by a property insurance policy. See "The City of Seattle—Risk Management."

POWER RESOURCES AND COST OF POWER

Overview of Resources

The Department has three major power sources: the Boundary Hydroelectric Project (the “Boundary Project”), the Skagit Hydroelectric Project, which includes the Ross, Diablo and Gorge hydroelectric plants (the “Skagit Project”), and a long-term contract with BPA. Together, these three sources provide approximately 113% of the energy needed to meet the Department’s retail demand under average water conditions. Under critical water conditions, the Department’s owned and contracted resources are sufficient to meet 100% of retail sales on an annual basis. Critical water conditions are defined as the lowest water conditions observed for 12 consecutive months during the period 1929 to 2008. The critical period for the Boundary Project and federal dams remarketed by BPA is 1936-1937; the critical period for the Skagit Project is 1943-1944. The Boundary Project and the Skagit Project together include four large hydroelectric facilities and, combined with three small hydroelectric facilities (the Newhalem Creek Hydroelectric Project (the “Newhalem Project”), the Cedar Falls Project, and the Tolt River South Fork Hydroelectric Project (the “South Fork Tolt Project”)), generated approximately 6.4 million megawatt hours (“MWh”) of electrical energy in 2017, which was about 43% of the Department’s total resources. Like most non-federal hydroelectric projects in the U.S., all of the Department’s hydroelectric plants except the Cedar Falls Project are licensed by FERC. See Table 1—Owned and Purchased Power Resources for 2018 and “—Department-Owned Resources—Small Hydro-Cedar Falls Project.” Output from the Department’s hydroelectric plants can vary significantly from year to year due to the variability in water conditions.

The Department and 15 other public and investor-owned utilities in the Pacific Northwest have agreed to coordinate the operation of their power generation systems through the Pacific Northwest Coordination Agreement (the “Coordination Agreement”), in order to maximize the firm capability and reliability of the coordinated system. The Coordination Agreement went into effect in 1965 and terminates in 2024.

The Department is planning to join the California Independent System Operator’s (“CAISO”) Western Energy Imbalance Market (“EIM”), a real-time wholesale energy trading market that enables participants to buy and sell energy when needed, and has announced an April 2020 go-live date. City Light and the other EIM participants will provide load and resource information to CAISO, which will then dispatch all resources to serve all load at the lowest price given the supply resources and available transmission.

Table 1 lists the Department’s owned and purchased power resources as of December 31, 2017, and gives estimates of output under critical and average water conditions based on historical data. The owned and purchased resources comprising the Department’s supply portfolio in 2018 are expected to be slightly higher than the resources in 2016 and 2017. Table 2 provides actual output for power resources, including exchanges and market sales and purchases, for the past five years. Table 3 provides actual payments by the Department for purchased resources. The Department does not assign individual capital or debt service allocations to Department-owned resources and, therefore, does not calculate a comprehensive cost of power for each resource. See “—Wholesale Market Sales and Purchases” for a discussion of the 2017 water year and market prices.

TABLE 1
OWNED AND PURCHASED POWER RESOURCES FOR 2018
(AS OF DECEMBER 31, 2017)

Nameplate Capability (MW)	Energy Available Under Critical Water Conditions (MWh)⁽¹⁾	Energy Available Under Average Water Conditions (MWh)⁽²⁾	Year FERC License Expires	Year Contract Expires	
Department-Owned Resources					
Boundary Project ⁽³⁾	1,118	2,610,772	3,654,155	2055	N/A
Skagit Project					
Gorge	173	698,908	931,233	2025	N/A
Diablo	169	583,618	674,755	2025	N/A
Ross	460	556,352	750,652	2025	N/A
Small Hydro Projects ⁽⁴⁾	48	121,000	139,844	Varies	N/A
Department's Share of Purchased Resources					
BPA Block ⁽⁵⁾		4,511,861	4,511,861	N/A	2028
Priest Rapids	6	16,540	21,024	2052	2052
CBH ⁽⁶⁾	64	233,598	240,034	2030/2032	2022/2027
High Ross ⁽⁷⁾	72	310,225	310,109	N/A	2066
Lucky Peak ⁽⁸⁾	113	236,817	293,359	2030	2038
Stateline ⁽⁹⁾	175	N/A	371,162	N/A	2021
Small Renewables ⁽¹⁰⁾	20	N/A	120,848	N/A	Various

- (1) Critical water conditions represent the lowest sequence of streamflows experienced in the Pacific Northwest over a historical period of record (1929-2008). The firm energy capability of hydroelectric resources is the amount of electrical energy produced under critical water conditions, current operating constraints, generation technology, and availability. Actual water conditions would be expected to be better than critical water conditions about 95% of the time.
- (2) Figures in this column represent the average historical amount of electrical energy that would be produced over all of the water conditions in the period 1929-2008.
- (3) Amounts are net of the 48 megawatts ("MW") obligated to Public Utility District No. 1 of Pend Oreille County ("Pend Oreille PUD") under contract between the Department and Pend Oreille PUD. See "--Department-Owned Resources--Boundary Project."
- (4) Includes the Newhalem Project (FERC license expires in 2027), the Cedar Falls Project (not subject to FERC licensing requirements), and the South Fork Tolt Project (FERC license expires in 2029).
- (5) The Department does not own a fixed percentage of nameplate capacity. See "--Purchased Power Arrangements--Bonneville Power Administration." Since October 1, 2017, the Department's long-term contract power purchase from BPA has been only the Block product, which provides a fixed amount of power that varies each month. The purchase is the largest in the winter when the Department's retail requirements are highest.
- (6) Columbia Basin Hydropower ("CBH") (formerly Grand Coulee Project Hydroelectric Authority ("GCPHA")), the Department's 50% share of installed capacity of five hydroelectric plants, has varying FERC license expiration dates. The plants are part of an irrigation project and do not provide capacity in the Department's winter peak period.
- (7) The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant for each week, which varies between 50 and 150 MW depending on water conditions.
- (8) The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.
- (9) The project is not a hydroelectric project; therefore, average output is based on historic performance under the contract.
- (10) Small renewables are Columbia Ridge and King County West Point. The arrangement with Sacramento Municipal Utility District ("SMUD") for Burlington Renewable Biomass expired July 31, 2017, and was not renewed. See "--Purchased Power Arrangements." Average output is based on historic performance under each contract.

Source: *Seattle City Light Department, Power Production Division and Regional Affairs and Contracts Division*

TABLE 2
HISTORICAL ENERGY RESOURCES
(MWh)

	2013	2014	2015	2016	2017
Department-Owned Generation					
Boundary Project	3,465,890	4,249,957	3,469,855	3,888,316	3,825,302
Skagit Hydroelectric Project					
Gorge	955,265	1,057,865	953,628	1,036,540	998,676
Diablo	828,200	857,757	775,025	870,216	692,828
Ross	726,560	796,513	684,687	791,415	741,493
Cedar Falls/Newhalem	77,397	65,687	47,571	68,429	83,461
South Fork Tolt	55,596	63,589	49,118	52,348	54,803
Subtotal	6,108,908	7,091,368	5,979,884	6,707,264	6,396,563
Energy Purchases					
Bonneville	5,079,991	5,155,271	4,971,459	5,138,417	5,482,904
Priest Rapids	33,205	21,961	23,698	25,249	24,532
CBH	254,568	272,842	258,678	253,628	228,789
High Ross	312,350	307,873	310,102	308,478	313,973
Lucky Peak ⁽¹⁾	215,587	308,334	278,001	340,474	463,403
Stateline Wind Project	363,099	357,325	299,551	373,389	330,161
Columbia Ridge ⁽²⁾	51,577	68,920	94,271	99,487	96,096
Seasonal and Other Exchanges ⁽³⁾	69,940	411,555	664,887	676,186	581,909
Wholesale Market Purchases ⁽⁴⁾	2,072,066	900,527	1,379,168	936,289	904,362
Subtotal	8,452,383	7,804,608	8,279,815	8,151,597	8,426,129
Total Department Resources	14,561,291	14,895,976	14,259,699	14,858,861	14,822,692
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ⁽⁵⁾	421,375	393,844	331,897	344,383	328,666
Seasonal and Other Exchanges ⁽³⁾	236,864	507,117	692,073	773,443	825,753
Wholesale Market Sales ⁽⁶⁾	3,854,352	4,083,391	3,548,507	4,044,452	3,695,173
Total Net Energy Resources⁽⁷⁾	10,048,700	9,911,624	9,687,222	9,696,583	9,973,100

(1) Purchases from Lucky Peak were lower in 2013 due to an outage.

(2) The Columbia Ridge project was expanded in August 2014, effectively doubling the output.

(3) Includes exchange contracts such as those involving the Northern California Power Agency ("NCPA"), SMUD, Grant County, and Lucky Peak exchange. The arrangement with SMUD for Burlington Renewable Biomass expired on July 31, 2017, and was not renewed. Deliveries to NCPA ended on April 30, 2018.

(4) Purchases to compensate for low water conditions and to balance loads and resources.

(5) Energy provided to Pend Oreille PUD under an agreement to support the Boundary Project's FERC license. Figures on this line also include incremental transmission losses due to expanded activity in the wholesale market.

(6) Wholesale market sales are highly dependent on regional hydro flows. Regional hydro flows measured at The Dalles Dam on the Columbia River between January and July were 96% in 2013, 104% in 2014, 89% in 2015, 99% in 2016, and 101% in 2017.

(7) Effective for 2014, total energy net resources represent system load vs. net load, to align with industry practice. Accordingly, prior years presented have been revised.

Source: *Seattle City Light Department, Accounting Division*

TABLE 3
COST OF PURCHASED POWER SUPPLY RESOURCES
(\$000)

	2013	2014	2015	2016	2017
BPA ⁽¹⁾	\$ 146,832	\$ 152,282	\$ 153,176	\$ 157,412	\$ 164,802
Priest Rapids	2,977	3,174	3,163	2,314	1,913
CBH	5,441	6,047	6,642	6,166	6,830
High Ross	13,430	13,439	13,445	13,437	13,445
Lucky Peak	5,186	6,289	6,278	6,860	9,345
State Line Wind Project	23,830	23,686	20,787	24,777	22,077
Columbia Ridge - Biogas	3,063	5,469	6,929	7,377	6,723
SMUD - Biomass ⁽²⁾	1,464	1,628	1,810	1,344	916
Seasonal and Other Exchange ⁽³⁾	4,640	4,330	9,421	7,725	6,370
Total	\$ 206,863	\$ 216,344	\$ 221,651	\$ 227,412	\$ 232,421
Contracted Resources (MWh)	6,380,317	6,904,081	6,900,647	7,215,308	7,521,767
Average Unit Cost (Dollars/MWh) ⁽⁴⁾⁽⁵⁾	\$ 32.05	\$ 32.66	\$ 34.03	\$ 33.60	\$ 32.57

(1) Net of billing credits received from BPA for the South Fork Tolt Project.

(2) The arrangement with SMUD for Burlington Renewable Biomass expired on July 31, 2017, and was not renewed.

(3) Includes exchanges with NCPA, SMUD, Grant PUD, and Lucky Peak exchange. Deliveries to NCPA ended on April 30, 2018.

(4) Average cost of purchased power supply resources excluding exchanges and wholesale market purchases.

(5) 2015 revised; published 2015 was calculated using 2014 Seasonal and Other Exchange MWh.

Source: *Seattle City Light Department, Accounting Division*

Department-Owned Resources

The Department owns and operates the Boundary Project in northeastern Washington, the Skagit Project in western Washington, and three smaller hydroelectric plants in western Washington: the Newhalem Project, the Cedar Falls Project, and the South Fork Tolt Project.

Dam Safety. The Department intends to operate, manage, and maintain its dams in a safe manner as described in FERC’s Owners Dam Safety Program. The Department regularly inspects all its projects to ensure safety, and has current Emergency Action Plans, Surveillance and Monitoring Plans, and ongoing operations and maintenance (“O&M”) and CIP projects for all its dams. FERC requirements apply at the Boundary, Skagit, and South Fork Tolt Projects. The Department anticipates increases in O&M and CIP work during the 2018-2022 timeframe for project improvements resulting from the recent five-year independent consultant inspection reviews for the Boundary, Skagit, and South Fork Tolt Projects, including several updated FERC requirements for gate and spillway inspections resulting from the February 2017 Oroville Dam incident in California, when the Oroville Dam’s main and emergency spillways were significantly damaged. The Department also anticipates further work or license requirements resulting from pending 2018 FERC audits, including a renewed focus on risk-informed decision-making, related appurtenant structures (outlet works, power plants), organizational structures, and Owners Dam Safety Program audits

The Boundary Project. The Boundary Project is located on the Pend Oreille River in northeastern Washington near the British Columbia and Idaho borders. The plant was placed in service in 1967 and is a significant contributor to the Department’s ability to meet its load requirements. The Boundary Project has a current net nameplate capability of 1,118 MW and expected net power output of 3.7 million MWh under average water conditions. The Department delivers up to 48 MW of energy to Pend Oreille PUD. In September 2016, FERC granted the Department’s request to amend the FERC license and revise the annual charges due to recent efficiency upgrades to two of the generating units. The Boundary Project provides between 20% and 30% of the Department’s total resource requirements and supplied approximately 26% of the Department’s total resources in 2017.

The Department received a new license from FERC for the Boundary Project in 2013. The new license has a 42-year term and incorporates the terms and conditions of a settlement filed by the Department in 2010 (the “Settlement”) among the Department, the Bureau of Indian Affairs, the National Park Service, the U.S. Fish and Wildlife Service (“USFWS”), the U.S. Forest Service, the Kalispel Tribe, the Washington State Department of Fish and Wildlife (“WDFW”), the Washington State Department of Ecology (“Ecology”), The Lands Council, American Whitewater, the Selkirk Conservation Alliance, and Pend Oreille PUD (collectively referred to as the “Settlement Parties”). Pend Oreille PUD is the licensee for the Sullivan Lake Hydroelectric Project (the “Sullivan Lake Project”), which is adjacent to the Boundary Project. As part of the Settlement, Pend Oreille PUD has surrendered the license for the Sullivan Lake Project to FERC, and the project has been decommissioned by the Department and Pend Oreille PUD. The Settlement and new license conditions made no material changes to previous operations at the Boundary Project, which is a significant benefit to the Department's customers, given the load-following nature of operations at the Boundary Project described below. Pursuant to the Settlement and FERC license conditions, the Department will build facilities at the Boundary Project to improve survival of target species (Bull Trout, Westslope Cutthroat Trout, and Mountain Whitefish) or implement appropriate non-operational measures to improve survival of target species, construct upstream passage, improve the habitat condition and function of tributaries draining to Boundary Reservoir, acquire land for wildlife habitat restoration and management, construct a native fish propagation facility, and construct improvements to improve water quality. The levelized cost of these measures over the license term is estimated to be less than \$5/MWh in 2018 dollars; the total estimated cost in 2018 dollars for the remainder of the license period is \$328 million. A portion of the Department’s CIP includes the environmental and other improvements to the Boundary Project that meet the requirements of the Settlement and FERC license. The various mitigation provisions included in the FERC license will be implemented over the term of the license. See “Capital Requirements.”

The Settlement also seeks to minimize the impact of the Sullivan Lake Project surrender proceeding on the Pend Oreille PUD ratepayers, while at the same time preserving the Department’s operational flexibility at the Boundary Project. An important aspect of the Boundary Project’s value to the Department and the region is its flexibility and reliability; the Boundary Project can ramp up or down quickly within the hour and in immediate response to customer demand and regional, variable renewable energy. The tributary restoration measures that the Department proposes to undertake in Sullivan Creek, the primary tributary to Boundary Reservoir, together with other protection, mitigation, and enhancement measures described in the Settlement, will provide substantial natural resource benefits.

The Department has historically delivered up to 48 MW of energy to Pend Oreille PUD at the Boundary Project’s production cost. The Department has agreed to continue delivery to Pend Oreille PUD at this level through the term of the new FERC license for the Boundary Project.

In 2010, the Department and Pend Oreille County reached agreement on impact payments related to the Boundary Project for 2010-2019. The Department will pay a total of \$19 million, to be paid in quarterly payments over a ten-year period that began in 2010, to Pend Oreille County and other affected local governments and school districts. Pend Oreille County supported FERC’s issuance of a license consistent with the Settlement.

As authorized in the High Ross Agreement (described below under “Skagit Project”), British Columbia Hydro (“B.C. Hydro”) increased the reservoir elevation of its Seven Mile Project on the Pend Oreille River in 1988, thereby extending its reservoir across the international border to the tail-race of the Boundary Project. A contract between the City and B.C. Hydro was signed in 1989 to provide energy to the Department in the amount of the encroachment of Seven Mile Reservoir on the Boundary Project concurrent with the High Ross Agreement. In 2015, this encroachment amounted to 0.5% of the Boundary Project’s electrical energy output.

By January 2018, the Department had completed the FERC-required five-year and annual dam safety inspections at the Boundary Project, including identification of Potential Failure Modes to focus on surveillance, monitoring, and prioritized improvements. The dam was determined to be safe for operations. The Department will continue to work with FERC and an independent consultant team on future studies and analysis to ensure continued safe operations of the Boundary Project. Daily, weekly, and monthly visual inspections and quarterly manual readings of all instruments are conducted by the Department’s dam safety staff. Annual dam safety inspections are performed by FERC and department staff.

See “Environmental Matters—Endangered Species Act” for a discussion of the impact of the Endangered Species Act on the Boundary Project. See “—Purchased Power Arrangements—Columbia River Treaty” for a discussion of potential impacts to Boundary Project operations.

Skagit Project. The Gorge, Diablo, and Ross hydroelectric plants, which comprise the Skagit Project, began operation in 1924, 1936, and 1952, respectively. The Skagit Project is located on a 35-mile stretch of the Skagit River above Newhalem, Washington, approximately 120 miles northeast of Seattle. Power is delivered to the Department’s service area via two double-circuit Department-owned 230,000-volt transmission lines. The Ross Plant, located upstream of the other two projects, has a reservoir with usable storage capacity of 1,052,000 acre-feet. Because the Diablo Plant, with usable storage capacity of 50,000 acre-feet, and the Gorge Plant, with usable storage capacity of 6,600 acre-feet, are located downstream from the Ross Dam, their operation is coordinated with water releases from the Ross Reservoir, and the three plants are operated as a single system. The combined nameplate capability of the three plants is 802 MW. Expected power output under average water conditions is 2.4 million MWh. The Skagit Project supplied approximately 17% of the Department’s total resources in 2017.

The three Skagit Project developments are licensed as a unit by FERC under a license that expires in 2025. The Department began the relicensing process in 2017. As a condition of the FERC license, the Department has taken and will continue to take various mitigating actions relating to fisheries, wildlife, erosion control, archaeology, historic preservation, recreation, and visual quality resources. Independent safety inspections of the Skagit Project required by the FERC license and initiated in 2016 revealed no significant dam safety issues, and the final report was submitted to FERC in December 2017. Daily, weekly, and monthly visual inspections and quarterly manual readings of all instruments are conducted by the Department’s dam safety staff. Annual dam safety inspections are performed by FERC and Department staff. Department staff completed five-year inspections at the Skagit Project in 2016-2017.

Although the original plans for the Skagit Project included raising the height of Ross Dam by 122.5 feet to maximize the hydroelectric potential of the plant, the Canadian province of British Columbia protested on environmental and other grounds. After a protracted period of litigation and negotiation, an agreement (the “High Ross Agreement”) was reached under which British Columbia agreed to provide the Department, for 80 years commencing in 1986, with power equivalent to the planned increase in the output of the Ross Plant in lieu of the Department’s construction of the addition in exchange for payments from the City, as described in the following paragraph. The agreement is subject to review by the parties every ten years. The most recent review concluded in 1998 and did not result in any changes to the agreement. Both parties mutually waived the 2009 periodic review.

The Department’s annual payments to British Columbia include a fixed charge of \$21.8 million annually through 2020, which represents the estimated debt service costs that would have been incurred had the addition been constructed and financed with bonds. In 2000, the Department began deferring \$9.1 million of the total \$21.8 million annual payment, and will start amortizing the deferred portion over 15 years starting in 2021. Payment of equivalent maintenance and operation costs and certain other charges began in 1986 and will continue for 80 years. The power delivered from B.C. Hydro under this agreement amounted to 313,973 MWh in 2017. The Department’s contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant, which fluctuates with reservoir levels and the number of units in service, and from April through October in an amount up to 150 MW minus system losses.

If British Columbia discontinues power deliveries, the High Ross Agreement authorizes the Department to proceed with the originally proposed construction and obligates British Columbia to return to the Department sufficient funds to permit the Department to increase the height of Ross Dam and make other improvements as originally proposed. This obligation has been guaranteed by the federal government of Canada.

In August 2015, the Goodell Creek wildfire burned approximately 8,000 acres over several days and threatened the Skagit Project. Department employees in the town of Diablo were temporarily evacuated, and thick smoke in the air caused arcing which forced the shutdown of major 230 kV transmission lines connected to the Skagit Project. The Department spilled and purchased supplemental power and reserves. The fire never reached the project, but damage was sustained to a transmission tower, several distribution poles, a feeder and communication lines, and a portion of the wooden saddles supporting a steel penstock. As of July 2017, costs for repairs, firefighting, evacuation, and emergency management are estimated at \$2.5 million. FEMA reimbursements are expected to offset approximately

75% of this cost, with insurance and State funds covering a portion of the remaining cost. Supplemental energy purchases to make up for stranded generation and capacity due to the fire are estimated at about \$1.0 million. All costs associated with the fire were expensed in 2015. Prior to and since this wildfire incident, the Department has been integrating best management practices for reducing wildfire risk in areas within and adjacent to company towns, generation sites, and transmission rights of way. These practices are designed to reduce the potential wildfire risk for the Department's remote infrastructure.

Small Hydro.

CEDAR FALLS PROJECT. The Cedar Falls Project, built in 1905, is located on the Cedar River, approximately 30 miles southeast of Seattle. The Cedar Falls Project was constructed before the adoption of the Federal Water Power Act of 1920 and is not subject to licensing by FERC, making it a State-jurisdictional project under Ecology. Cedar Falls Project power is delivered through an interconnection with Puget Sound Energy. The nameplate capability of the plant is 30 MW. Power production in 2017 at the Cedar Falls Project was 83,461 MWh. As a State-jurisdictional project, the Cedar Falls Project is not required to have independent inspections. However, the Department chose to conduct an independent inspection in 2013 and received the final report on the project in August 2014. The report concluded that the project is suitable for continued safe and reliable operation, with some recommendations that the Department is implementing. The most recent periodic inspection by the State was conducted in 2016 and concluded that the project was in good condition and safe for operations. Daily, weekly, and monthly visual inspections and drain measurements are performed by the Department and Seattle Public Utilities ("SPU") crews.

NEWHALEM PROJECT. The Newhalem Project is located on Newhalem Creek, a tributary of the Skagit River, and was built in 1921 to supply power for the construction of the Skagit Project. The plant was rebuilt and modernized in 1970. It is operated under a FERC license that expires January 31, 2027. The plant's power is delivered directly to the Gorge Plant station service bus. The nameplate capability of the plant is 2.3 MW. The Newhalem Project had not generated power since 2015, due in part to certain repairs associated with the Goodell Creek fire, but has been generating power since June 2018. Five-year inspections by FERC are not required of the Newhalem Project, due to its size and low criticality; however, FERC inspections are conducted approximately every three years. In-house review of the project is performed annually. Several features of the diversion system will undergo a detailed inspection in 2018 to identify any issues with continued operation of the facility.

SOUTH FORK TOLT PROJECT. The South Fork Tolt Project is located approximately 30 miles east of Seattle on the south fork of the Tolt River and was placed in commercial operation in 1995. The South Fork Tolt Project operates under a 40-year FERC license that expires in 2029. The nameplate capability of the installed unit is 16 MW. Power production at the South Fork Tolt Project in 2017 was 54,803 MWh. To reduce its cost of power from the South Fork Tolt Project, the Department entered into a Billing Credits Generation Agreement with BPA in 1993, under which BPA makes payments to the Department that have the effect of making the cost of power from the South Fork Tolt Project approximately equal to the cost of equivalent power from BPA. This agreement expires in 2028. Payments to the Department under the agreement commenced in 1996 and amounted to \$3.3 million in 2017. Without this agreement, the cost of power would still be relatively low, as all project debt has been paid off and the only expenses are associated with operations and capital refurbishment.

The FERC-mandated five-year dam safety inspection was completed in August 2017 and concluded that the South Fork Tolt Project was in good condition. The 2018 annual inspection of the South Fork Tolt Project included a Special Spillway Inspection as required by FERC due to the February 2017 incident at the Oroville Dam in California. The Department has reviewed the inspection results and submitted a plan and schedule to FERC for additional assessments of what changes to operations, maintenance, or inspections are appropriate. Daily, weekly, and monthly visual inspections and manual readings of all instruments are conducted by SPU dam safety staff. Annual dam safety inspections are performed by FERC.

Purchased Power Arrangements

In 2017, the Department purchased approximately 51% of its total resources from other utilities and energy suppliers in the region, including BPA, under long-term purchase contracts. Some of these contracts obligate the Department to pay its share of the costs of the generating facilities providing the power, including debt service on bonds issued to finance construction, whether or not it receives any power. The Department treats payment of such costs as part of its purchased power expense and includes such costs in its operating and maintenance expenses. See “Security for the Bonds—Pledge of Revenue.”

The Department regularly purchases power under the WSPP Inc. (formerly Western Systems Power Pool) Agreement and the Power Sales Agreement with BPA, described below under “Bonneville Power Administration.” Some of those agreements include an obligation on the part of the Department to post collateral contingent upon the occurrence or nonoccurrence of certain future events, such as future credit ratings or payment defaults. The Department also has entered into, and may in the future enter into, agreements that include an obligation on the part of the Department to make payments or post collateral contingent upon the occurrence or nonoccurrence of certain future events that are beyond the control of the Department. Such contingent obligations are permitted to be characterized as maintenance and operation charges and would be payable from Gross Revenues of the Department prior to the payment of Parity Bond debt service.

Bonneville Power Administration. BPA markets power from the Federal Columbia River Power System (the “Federal System”), comprised of 31 federal hydroelectric projects, several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest region, and various contractual rights. Currently, under low water conditions, approximately 6,945 average annual megawatts are available annually for sale, at BPA’s cost-based rate to preference customers, including the Department. One average annual megawatt (“aMW”) is the number of megawatt hours of electric energy used, transmitted, or provided over the course of a year and is equal to 8,760 MWh. The federal hydroelectric projects are built and operated by the U.S. Bureau of Reclamation and the U.S. Army Corps of Engineers (the “Corps”), and are located primarily in the Columbia River basin. The Federal System currently produces more than 33% of the electric power consumed in the region. BPA’s transmission system includes over 15,000 circuit miles of transmission lines and provides about 75% of the high-voltage bulk transmission capacity in the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 12 million.

Federal law requires BPA to meet certain firm loads in the Pacific Northwest placed on BPA by contract by various preference customers. BPA sells electric power at cost-based wholesale rates to more than 125 utility, industrial, and governmental customers in the Pacific Northwest. In its wholesale power sales, BPA is required by law to give preference to consumer- or publicly-owned utilities and to customers in the Pacific Northwest region.

The Department’s Power Sales Agreement with BPA provides for purchases of power by the Department over the 17-year period beginning October 1, 2011. Until October 1, 2017, power was delivered in two products: a shaped block product (“Block”), which is power provided in pre-determined amounts at pre-determined times, and a slice of the system product (“Slice”), which is a proportionate amount of power if, as, and when generated by the Federal System. The Department’s Slice and Block deliveries have been approximately equal on an annual basis. The BPA contract requires prior notice by the Department before the Department may use, or discontinue using, a generating resource to serve the Department’s own firm loads.

The Department exercised an option under the Power Sales Agreement to switch products and requested a switch to 100% Block effective October 1, 2017, which is earlier than the contract specified date. BPA approved the Department’s request. The Department’s BPA purchase will be for the same amount of power, for critical water conditions, of 515 aMW, which will vary from a high of 835 aMW in January 2018 to a low of zero aMW in June 2018.

Under the BPA contract, the amount of power that BPA’s preference customers (including the Department) may purchase under BPA’s cost-based rate (the “Tier 1 Rate”) is limited to an amount equal to the generating output of the current Federal System, with some limited amounts of augmentation. Any incremental purchases by preference customers from BPA above this base amount of power would be purchased at a different rate (the “Tier 2 Rate”) reflecting the incremental cost to BPA of obtaining additional power to meet such incremental load. Each preference customer’s right to purchase power at Tier 1 Rates is based in part on the proportion that its net requirements bore to

all preference customers' net requirements placed on BPA in a defined period prior to Federal Fiscal Year ("FFY") 2011. The Department currently purchases all of the power it receives under the BPA contract at the Tier 1 Rate. The Department made three separate decisions not to purchase additional energy from BPA, during the contract periods 2012-2014, 2015-2019, and 2020-2024, and will evaluate the remaining future purchase based on need and cost.

BPA Rates. BPA is required by federal law to recover all of its costs through the power and transmission rates it charges its customers. As of October 1, 2017, BPA's average net cost for Tier 1 power is \$35.57 per MWh, excluding delivery charges. BPA conducts a rate case every two years, but the rates are subject to a cost recovery adjustment clause that allows power rates to increase during a two-year rate period if certain events occur. BPA published rates for the period October 1, 2017, to September 30, 2019, on July 26, 2017, that took effect on October 1, 2017. The Tier 1 average net cost increase was 5.4%. See "Department Financial Information—Retail Rates—Automatic BPA Rate Pass-Through."

There are many factors that have impacted and could impact BPA's cost of service and rates, including federal legislation, BPA's obligations regarding its outstanding federal debt, number of customers, water conditions, fish and other environmental regulations, capital needs of the Federal System, outcome of various litigation, regional transmission issues, natural gas prices, and the economy. See "Department Financial Information—Retail Rates—Automatic BPA Rate Pass-Through."

Energy Northwest. The City is a member of Energy Northwest, a municipal corporation and joint operating agency organized under State law, whose members currently include 27 public utility districts and cities within the State. Energy Northwest has the authority to acquire, construct, and operate plants, works, and facilities for the generation and transmission of electric power.

Energy Northwest was originally engaged in the construction of five nuclear generating facilities (Projects 1 through 5), of which one (Columbia Generating Station, formerly Project 2) was placed in commercial operation in 1984. Construction of the others was terminated in the 1980s and 1990s. The Department, Energy Northwest, and BPA entered into separate Net Billing Agreements with respect to Projects 1, 2 and 3 (the "Net Billed Projects"), under which the Department purchased a share of the Net Billed Projects from Energy Northwest and assigned that share to BPA. The Department's share of each is as follows: 8.605% of Project 1, 7.193% of the Columbia Generating Station, and 7.206% of Project 3.

Under the Net Billing Agreements, the Department is obligated to pay Energy Northwest its share of the total annual costs of the Net Billed Projects, including debt service on approximately \$5.1 billion of bonds outstanding on the Net Billed Projects, and accept assignment of the shares of defaulting participants, subject to a cap of 25% of the Department's share. BPA is obligated to credit the Department the same amount of the Department's share (plus any assigned shares) under any power sales agreement between BPA and the Department. These obligations exist regardless of the status, operability, or output of the Net Billed Projects. To the extent that BPA cannot credit the Department because the Department's obligations under a power sales agreement are not sufficient to allow BPA to credit the Department its full share, BPA is obligated, after certain assignment procedures, to pay the uncredited and unassigned amount to the Department, subject to available appropriations.

Subsequently, in 2006, Energy Northwest and BPA executed agreements with respect to the Net Billed Projects (the "Direct Pay Agreements") pursuant to which BPA agreed to pay directly to Energy Northwest all costs (including the debt service on the outstanding bonds) for the Net Billed Projects, including the Department's share. Since 2006, this has resulted in no payments by or credits to the Department under the Net Billing Agreements. If BPA fails to make a payment or the parties terminate the Direct Pay Agreements, the original obligations of the Net Billing Agreements would resume. BPA has always met all of its obligations to Energy Northwest.

Columbia River Treaty. The U.S. and Canada entered into the 1964 Columbia River Treaty (the "Treaty") to increase reservoir capacity in the Canadian reaches of the Columbia River basin for the purposes of power generation and flood control. Although the Treaty does not expire by its own terms, either the U.S. or Canada may elect to terminate it by providing not less than ten years' notice. The Treaty impacts stream flow and power generation in the Columbia River and some of its tributaries. The Treaty's computation of energy benefits that result from the Canadian improvements to upstream storage is of particular interest to utilities because it creates an energy return obligation (the "Canadian

Entitlement”) for U.S. operators of Columbia River dams, including BPA. Treaty modernization (described further below) could impact energy received under the Department’s BPA and Priest Rapids Project contracts, as well as stream flows and generation at the Boundary Project. See “—Purchased Power Arrangements—Bonneville Power Administration” and “—Priest Rapids Project” and “—Department-Owned Resources—Boundary Project.”

In 2013, the United States Entity (which includes BPA and the Corps) sent a final regional recommendation concerning the future of the Treaty to the U.S. Department of State (the “State Department”), which includes modernizing the Treaty to more fairly reflect the distribution of operational benefits between the U.S. and Canada, to ensure that flood risk management and other key river uses are preserved, and to address key ecosystem functions in a way that complements the significant investments made to protect Columbia River basin fish and wildlife since 1964. The Department has been an active participant in the U.S. Entity’s regional review process leading up to the final regional recommendation and supports that recommendation. In 2016, the State Department announced it had completed its review and was prepared to begin negotiations. In December 2017, Canada signaled that it was ready to begin negotiations. Engagement between negotiators for the U.S. and Canada is underway, without any timeline for completion of negotiations.

Priest Rapids Project. Under two agreements effective through 2052, the Department purchases a portion of the output of the Priest Rapids Project. As of November 2009, the Department is obligated to purchase 6.14% of the Priest Rapids Project’s output after Grant PUD meets its retail load. As Grant PUD’s retail load increases, less electrical energy is available for the Department. The Department currently receives only about 2 aMW from these contracts. The Department also receives a portion of the revenues from an auction of 30% of the Priest Rapids Project’s power, totaling \$2.4 million in 2016 and 2017, and \$1.5 million in 2018. Under the contracts, the Department is responsible for its percentage share of the costs of the Priest Rapids Project, including debt service on bonds issued to finance improvements to the Priest Rapids Project.

Columbia Basin Hydropower (formerly Grand Coulee Project Hydroelectric Authority). The Department, in conjunction with the City of Tacoma Department of Public Utilities, Light Division (“Tacoma Power”), has power purchase agreements with three Columbia River basin irrigation districts for the acquisition of power from five hydroelectric plants under 40-year contracts expiring between 2022 and 2027. These plants, which utilize water released during the irrigation season, are located along irrigation canals in eastern Washington. The plants generate power only in the summer and thus have no winter peak capability. Plant output and costs are shared equally between the Department and Tacoma Power. In 2017, the Department received 228,789 MWh from the project.

High Ross Agreement. See “—Department-Owned Resources—Skagit Project.”

Lucky Peak. The Lucky Peak Hydroelectric Power Plant (“Lucky Peak”) was developed by three Idaho irrigation districts and one Oregon irrigation district (the “Districts”) and began operation in 1988. Its FERC license expires in 2030. The plant is located on the Boise River, approximately ten miles southeast of Boise, Idaho, at the Lucky Peak Dam and Reservoir. Power generation was 463,403 MWh in 2017. The nameplate capacity is 113 MW, but the plant operates only during the irrigation season, so it provides no peak capacity during the Department’s winter peak period.

In 1984, the Department entered into a power purchase and sales contract with the Districts under which the Department purchases all power generated by Lucky Peak, in exchange for payment of costs associated with the plant and royalty payments to the Districts. The Department also signed a transmission services agreement with Idaho Power Company (“Idaho Power”) to provide for transmission of power from Lucky Peak to a point of interconnection with the BPA transmission system.

Stateline. An agreement with J.P. Morgan Ventures Energy Corp. (“J.P. Morgan”), which became effective on January 1, 2002, provides for the Department’s purchase of wind-generated power and associated renewable energy credits (“RECs”) from the Stateline Wind Project (“Stateline”) in eastern Washington and Oregon. In 2016, with the Department’s consent, J.P. Morgan sold its interest in Stateline to Exelon Corporation. Wind power received by the Department has a maximum delivery rate of 175 MW per hour; historical output has been about 27% of the maximum delivery rate. The project contributes to the Department’s I-937 compliance. See “—Washington’s Renewable Portfolio Standard (Initiative 937).” The contract ends in 2021; the Department has not currently exercised a renewal or extension of the contract but has the option to do so in the future. However, the Department agreed to buy RECs

from Stateline for the period 2022-2026, which will extend the I-937 compliance component of the project. The Department received 330,161 MWh of wind-generated power under the Stateline purchase contract in 2017.

The Department also entered into a related ten-year agreement with PacifiCorp to purchase integration and exchange services for all of the Department's 175 MW share of Stateline output. Under this agreement, PacifiCorp delivers the Department's share of Stateline output to the Mid-Columbia market hub two months after it is generated. The integration and exchange agreement with PacifiCorp terminates after final delivery in February 2022.

Small Renewables.

BURLINGTON RENEWABLE BIOMASS. Under an agreement with SMUD that began in 2007, SMUD purchased the output from the Sierra Pacific Industries Burlington Biomass Facility, which burns wood waste and produces electrical energy. The Department provided scheduling and delivery services to SMUD for up to 15 MW of power at the California-Oregon border and received financial compensation for these services. The Department purchased from SMUD all of the renewable energy and environmental attributes associated with the resource output in excess of 15 MW. The arrangement expired on July 31, 2017, and was not renewed.

COLUMBIA RIDGE LANDFILL GAS. In December 2009, the Department began taking delivery from Columbia Ridge in Arlington, Oregon, under a 20-year agreement. The plant, which has a nameplate capacity of 6.4 MW and generates an average of 50,500 MWh per year, burns methane produced by the decomposition of solid waste in the landfill. The City sends its solid waste to the landfill. Waste Management Renewable Energy ("WMRE") is the developer, owner, and operator of the project. The Department has firm transmission for project output to the Department's retail load. WMRE added six MW of additional generation in summer 2014, and the Department is buying the output from the expansion under contract. The Department received 96,096 MWh of power under the Columbia Ridge purchase contract in 2017.

KING COUNTY WEST POINT TREATMENT PLANT. In 2010, the Department executed a power purchase agreement with King County (the "County") for the output of a cogeneration plant at the West Point Wastewater Treatment Facility in Seattle, which began commercial operation in 2014. The 4.6 MW plant is providing about 2 aMW of electrical energy and associated renewable energy credits. The contract has specific prices and annual escalation and extends until 2034.

Seasonal and Other Exchanges. The NCPA exchange agreement, which began in 1995 and ended on April 30, 2018, provided for the Department to deliver 60 MW of capacity and 90,580 MWh of power to NCPA in the summer. In return, NCPA delivered 46 MW of capacity and 108,696 MWh of power to the Department in the winter.

Since 2007, the Department has entered into agreements to exchange the entire output of the Lucky Peak project for a fixed amount of firm winter energy. For calendar years 2016 through 2019, the counterparty is Morgan Stanley Capital Group, which will also take on and pay for the associated transmission services from Idaho Power. The Department will consider short-term sales or seasonal exchanges of the output in the future.

Wholesale Market Sales and Purchases

The Department has historically bought and sold power in wholesale power markets to balance its loads and resources. The amount of wholesale power purchased or sold has varied with water conditions and with changes in the Department's loads and firm resource base. On an annual basis, the Department expects to be a net seller of power in the wholesale market, even under adverse water conditions. See "—Integrated Resource Plan." Market sales are the highest during the spring and early summer, when river flows and runoff are the highest. Market sales are the lowest, and the Department may purchase power, in the late summer and early fall, when river flows and runoff are the lowest.

In 2017, hydro flows were above average on rivers where the Department's primary generation hydro facilities are located. The hydro flows at Boundary Project and Ross Dam were 117% and 106% of the historical average, respectively. Regionally, flows at The Dalles Dam were 125% of the historical average. The average revenue per MWh realized from surplus sales in 2017 was \$19.06/MWh. Net wholesale revenue in 2017 was \$50.5 million, lower than the budgeted amount of \$60 million. As of June 30, 2018, net wholesale revenue for 2018 is forecast to be

\$54.5 million, \$5.5 million lower than the budget. This variance will be transferred from the RSA. See “Department Financial Information—Management Discussion of Historical Operating Results 2013-2017” and “—Expectations for 2018 Operating Results” and “Security for the Bonds—Rate Stabilization Account.”

Table 4 displays the Department’s purchases and sales of power in the wholesale market over the 2013-2017 period.

TABLE 4
SUMMARY OF WHOLESALE MARKET SALES AND PURCHASES

	2013	2014	2015	2016	2017
Cost of Wholesale Purchases (\$000)	\$ 31,063	\$ 23,404	\$ 37,658	\$ 21,414	\$ 19,880
Wholesale Market Purchases (MWh in 000s)	2,072	901	1,379	936	904
Average Cost (\$/MWh)	\$ 14.99	\$ 25.98	\$ 27.31	\$ 22.88	\$ 21.99
Revenue from Sales (\$000) ⁽¹⁾	\$ 82,628	\$ 111,993	\$ 76,819	\$ 74,632	\$ 70,422
Wholesale Market Sales (MWh in 000s)	3,854	4,083	3,549	4,044	3,695
Average Revenue (\$/MWh)	\$ 21.44	\$ 27.43	\$ 21.65	\$ 18.45	\$ 19.06
Net Revenue (\$000) ⁽¹⁾	\$ 51,565	\$ 88,589	\$ 39,161	\$ 53,218	\$ 50,542
Sales Net of Purchases (MWh in 000s)	1,782	3,182	2,170	3,108	2,791

(1) Shown as gross, prior to netting of bookouts. Audited financial statements are shown net of bookouts. Bookouts occur when energy is financially settled net without physical delivery, upon agreement among the counterparties, because sales and purchases were separately transacted for delivery at the same time and point of delivery.

Source: *Seattle City Light Department, Accounting Division*

Wholesale Energy Risk Management

The Department sells its surplus power in the wholesale power markets, and the revenue generated is used to offset costs that would otherwise be borne by the Department’s retail ratepayers. The Department’s wholesale energy marketing activities are managed by the Power Management Division, and the Department’s risk management activities are carried out by the Risk Oversight Division. Additionally, the Department’s Risk Oversight Council (“ROC”) serves as the primary body with the authority and responsibility for overseeing and implementing the Department’s Wholesale Energy Risk Management (“WERM”) Policy, which is approved by the Mayor and City Council, and leading the Department’s energy risk management efforts. The ROC is comprised of three voting and three non-voting members: the Department’s Chief Financial Officer (Voting), Power Supply Officer (Voting), Director of Risk Oversight (Voting), Director of Power Management, Director of Power Contracts, Regional Affairs, and Strategic Planning, and Financial Planning Director. The ROC meets at least twice per month to review recent events in the wholesale power markets and review the Department’s market positions, exposures, WERM Policy compliance, and portfolio balancing strategies and plans.

Under the WERM Policy, the Department has the authority to enter into agreements to manage various risks associated with power transactions as long as any agreements are not purely speculative and can be tied to managing an underlying power purchase, asset, or price risk. The policy contains limits on the dollar amount and volume for physical calls and puts. The Department has not entered into any hedging agreements under an International Swaps and Derivatives Master Agreement. The Department has entered into certain forward purchase and sale of electricity contracts that meet the Governmental Accounting Standards Board (“GASB”) definition of a “derivative instrument,” although they are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. See Appendix D—2017 Audited Financial Statements of the Department—Note 17.

Energy Market Risk. For the Department, energy market risk is the risk of adverse water conditions and fluctuations in the price of wholesale electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

To limit energy risk exposure, the Department is not authorized to buy or sell physical energy and associated products in the wholesale energy market more than 24 months prior to the hour of delivery. For longer term transactions, City Council approval is required. The Department's principal objective is to ensure that the Department meets retail customer demand in a way that generates additional value from its generation portfolio, with due consideration of risk. Risk tolerance levels are documented in the WERM Policy.

The Department's exposure to variable output from its hydroelectric resources and market price risk is managed by the Director of Power Management under the supervision of the Power Supply Officer, with oversight and approval from the ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and interday transactions to take advantage of the ability to store water at certain of the Department's generating facilities and owned hydro storage, the Department does not take speculative market positions in anticipation of generating revenue.

With a significant portion (historically about 9% to 20%) of the Department's revenue from wholesale energy market sales, the Department emphasizes the management of risks of this activity. Policies, procedures, and processes have been established to manage, control, and monitor these risks and ensure proper segregation of duties.

Credit Risk. If a counterparty fails to perform on its contractual obligation, the Department may find it necessary to procure or sell electricity at current market prices, which may be unfavorable compared to the contract price. If a counterparty fails to pay its obligation in a timely manner, this has an impact on the Department's revenue and cash flow. As with market risk, the Department has policies in place to mitigate credit risk.

Wholesale counterparties are assigned credit limits based on evaluations of their financial condition that include consideration of liquidity, cash flow, credit ratings, and other indicators from debt and capital markets as deemed appropriate. Credit limits are also used to manage counterparty concentration risk. There is potential for the concentration of credit risk related to geographic location, as a large number of counterparties with which the Department transacts are in the western U.S. This concentration of counterparties and of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because counterparties may be similarly affected by changes in conditions.

Credit limits, exposures, and credit quality are actively monitored. Despite such efforts, defaults by counterparties may occur. The Department's risk policies and some of its contracts require either party to post collateral if certain conditions occur. Posted collateral may be in the form of cash or letters of credit and may represent prepayment or credit exposure assurance. The Department is not currently posting collateral under any of its contracts and does not expect to do so.

Washington's Renewable Portfolio Standard (Initiative 937)

I-937 was approved by State voters in November 2006. Under I-937, utilities such as the Department with more than 25,000 retail customers in the State are required to serve certain percentages of retail load with eligible renewable resources and/or purchase equivalent RECs. This requirement increases over time: 3% of load by January 1, 2012, 9% by January 1, 2016, and 15% by January 1, 2020. I-937 also requires utilities to pursue all available conservation that is cost-effective, reliable, and feasible, and imposes deadlines for meeting conservation targets. I-937 has been codified as "The Energy Independence Act" (chapter 19.285 RCW).

The law is specific about what types of renewable generation are eligible to meet the renewable portfolio standard. Existing hydropower is not considered a renewable resource, but incremental hydropower is considered renewable if it is the result of efficiency improvements completed after March 30, 1999. The City considers I-937 during the preparation of its Integrated Resource Plans ("IRP") and the potential for cost-effective, reliable, and feasible conservation measures that could be derived from more efficient energy use by customers and by the Department's production and distribution facilities.

The Department met I-937's 3% renewable energy target for 2012 to 2015, and has under contract adequate eligible RECs and resources to ensure compliance with the 9% target in effect from 2016 to 2020. The Department estimates that, with the current renewable resources and recent acquisitions of RECs, it will be in compliance with I-937's January 1, 2020, target. The Department continues to evaluate compliance options, and will comply with I-937 using

a combination of RECs and resources. I-937 allows for alternative compliance options if a utility has no load growth or if the utility reaches a cost cap on spending for eligible resources.

Conservation

The Department measures energy conservation results in terms of cost, amount, and duration of savings using regionally and nationally recognized methods. In 2017, the Department achieved 15.60 aMW (136,632 MWh) of energy savings from completed projects, which cost the Department \$245 million in incentives and expenditures associated with the delivery of the energy savings. Total savings in place in 2017 amounted to approximately 157.3 aMW (1,377,899 MWh), representing more than 15% of the Department's total energy needs in 2017. The Department's retail load has been declining since 2011, due in part to its robust conservation program. See "Department Financial Information—Management Discussion of Historical Operating Results 2013-2017."

Under I-937, the Department is required to establish two-year conservation targets. For the 2016-2017 biennium, the I-937 total energy savings target was 25.62 aMW. The Department exceeded this target, and has established a new I-937 energy savings target of 24.50 aMW for 2018-2019. The Department's Integrated Resource Plan, however, has identified a slightly more aggressive annual energy savings target of 26.8 aMW for 2018-2019 and has identified budgets and resources necessary to meet this energy savings target.

The Department's Conservation Resources Division has a long-standing relationship with BPA. Through various contractual agreements over a 30-year period, BPA has provided funding for energy conservation activities. BPA provided \$11.1 million for energy conservation activities over FFY 2016 and 2017, which funded approximately 15% of the Department's total energy savings delivered during this time period. In addition to the current funding, BPA is providing technical assistance for industrial projects and offering regional conservation programs to the Department. For FFY 2018 and FFY 2019 (BPA's current rate period), the Department has an energy efficiency incentive budget of approximately \$10.5 million, which will be received in calendar year 2018.

Integrated Resource Plan

The Department's IRP evaluates a range of resource portfolios that are designed to meet the Department's future resource needs and the State's I-937 renewable portfolio standard. A key objective of the IRP is to ensure that expected long-term customer demand can be met with dependable resources under variable hydro and weather conditions. The IRP preferred resource portfolio is selected after being evaluated against four criteria: reliability, cost, environmental impact, and risk. The main feature of the preferred portfolio is typically conservation. Aligned with the 2019-2024 Strategic Plan, the Integrated Resource Plan, and the need to meet its I-937 energy conservation target, the Department continues to make investments in energy conservation that help to delay the need for new, higher cost generating resources and transmission and distribution system investments.

The Department's 2018 IRP progress report and update affirms its conservation-centered resource strategy. The IRP considers conservation its first-choice resource in meeting expected demand growth. Conservation savings are expected to exceed demand growth over the course of the 20-year study, despite continued regional economic and related population growth. With recent and expected modest gains in nameplate from hydro generator upgrades and conservation, the Department expects to be net surplus in resources for more than a decade. The IRP update indicates that additional RECs may need to be acquired between 2021 and 2024 unless the Department qualifies for alternative compliance options under no load growth or if the utility reaches a cost cap on spending for eligible resources.

The resource strategy continues to be:

- (i) acquire cost-effective energy efficiency;
- (ii) continue to meet I-937 requirements through REC and renewable energy purchases; and
- (iii) make increased use of the flexibility available in existing power contracts for meeting seasonal variability in supply and demand.

The recommended resource strategy continues the Department's policy of obtaining affordable power with low environmental impacts for its ratepayers while making the most of its existing resources. Energy efficiency is the first

choice resource, followed by purchases and sales of 60 months or less that reshape seasonal resources to better match seasonal changes in customer demand.

The City will seek City Council approval acknowledging the IRP update in mid-August before submitting it to the State's Department of Commerce to meet the September 1, 2018, deadline.

TRANSMISSION AND DISTRIBUTION

Introduction

The Department owns transmission facilities for the delivery of energy from the Skagit Project to the Department's service territory. The Department also owns transmission lines interconnecting the Boundary and Cedar Falls Projects to other utilities' transmission systems that allow delivery to the Department's customers or to wholesale markets. See “—Transmission Contracts—Transmission Arrangements with BPA” and “—Other Transmission Contracts.” In addition, the Department has entered into contracts with BPA and others to provide additional transmission capacity for the Boundary Project and all contracted resources that require transmission. These owned facilities and contracted transmission capacity provide the Department with sufficient capacity for meeting its projected winter peak load and delivering the maximum output from all remote resources.

Department-Owned Transmission

The Department owns and operates 656 miles of transmission facilities. The principal transmission lines are the generation interconnection lines transmitting power from the Skagit Project to the Department's service area. Other important facilities include the tie lines connecting the Boundary and Cedar Falls Projects with BPA's transmission grid and transmission within the Department's service area.

In 1994, the Department signed an agreement with BPA for the acquisition of ownership rights to one-thirtieth (160 MW at full rating) of the transmission capability over BPA's share of the Third AC Intertie, which connects the Pacific Northwest with California. The benefits from this investment include avoidance of BPA's transmission charges associated with power sales and the ability to conduct exchanges over the Intertie and enter into long-term firm contracts with out-of-State utilities.

Transmission Contracts

Transmission Arrangements with BPA. The bulk of the Department's remote generation (the Boundary Project, BPA products, and other long-term contracts) and other market transactions utilize BPA's point-to-point (“PTP”) transmission service agreement. See “Power Resources and Cost of Power—Department-Owned Resources—Boundary Project.” The agreement with BPA provides the Department with 1,962 MW of transmission capacity through 2025. This capacity amount ensures that the Department can deliver the maximum output of the Boundary Project and the BPA purchase contract to its customers. Effective October 1, 2017, BPA raised its PTP transmission and other associated rates by a cumulative 0.2% for the rate period FFY 2018-2019.

Power supplied to the Department by B.C. Hydro under the High Ross Agreement is transmitted over BPA's lines under a separate PTP transmission service agreement extending through 2035. This agreement has been assigned to Powerex Corporation, a British Columbia corporation tasked with carrying out certain responsibilities of B.C. Hydro with respect to the High Ross Agreement, including the delivery of High Ross power. Under the provisions of the transmission assignment agreement, Powerex pays BPA directly for all costs associated with the High Ross PTP contract. See “Power Resources and Cost of Power—Department-Owned Resources—Skagit Project.”

Other Transmission Contracts. The Department transmits power under contracts with Idaho Power for the transmission of power from Lucky Peak, with Avista and Grant PUD for transmission of power from Columbia Basin Hydropower, with Puget Sound Energy for transmission of power from the Cedar Falls and South Fork Tolt Projects, and with other utilities. The Department also has a contract with PacifiCorp for integration and exchange of output from Stateline.

The Department may require additional purchases of transmission in the future to accommodate the delivery of power from additional resource acquisitions to the Department's retail customers. The Department may purchase short-term and/or non-firm transmission for its sales of power in the wholesale market and may sell excess transmission that is not needed to serve load and balance resources.

ColumbiaGrid

In 2006, a group of investor-owned and public utilities, including the Department, joined together with BPA to form ColumbiaGrid. ColumbiaGrid currently provides inter-utility regional transmission planning services to members in the Pacific Northwest. ColumbiaGrid is not a Regional Transmission Organization under FERC policies but provides services on a bilateral, contractual basis. ColumbiaGrid's planning role enables the Department to meet federal requirements for regional transmission planning.

Open Access Transmission Services

The Department currently has no open access transmission customers but is committed to offering comparable service upon receiving a valid transmission service request. In 2009, the City Council approved legislation authorizing the Department to implement and administer an open access transmission tariff. The Department periodically updates its open access transmission tariff, which is not filed with FERC but is publicly available on the City Clerk's website.

Retail Service

The Department owns, operates, and maintains overhead and underground transmission and distribution facilities within its 131-square-mile service territory. The distribution system consists of 2,556 miles of overhead and underground wiring. The Department operates 15 major substations throughout the service area, which supply power to the distribution system's primary feeders and ultimately to the Department's retail customers. Most of the distribution system is looped radial design, which means that a single feeder provides electrical energy to customers. Customers in the downtown Seattle, University District, and First Hill neighborhoods are served by a more reliable multiple-feeder network.

Operation and Maintenance

The Department updates its load forecast periodically to track changes in electricity consumption throughout the distribution system. Based on this forecast, the Department makes provisions and recommendations for capacity projects related to transmission, substation, communications, and distribution facilities to serve the system loads.

The Department's System Control Center controls dam operations and monitors delivery of power to the service area. Staff uses a real-time distributed computer system that provides information about loads and resources to the power dispatchers so they can properly balance load and resources.

In 2010, the Department implemented an Outage Management System designed to improve operational efficiencies while responding to service interruptions. The Department installed a work and asset management system, the foundational technology for an asset management practice, to assist in work scheduling, asset cost tracking, and data repository.

The Department inspects the vaults through which transmission lines run, and future maintenance programs are being established for steel lattice tower and monopole transmission equipment. The Department conducts periodic inspections and maintenance on batteries that supply protection for certain higher capacity transmission lines. Relays are tested and maintained on a periodic basis to satisfy NERC requirements.

Since 2009, the Department has inspected 92,000 wood poles in the service area and replaced more than 1,000 poles yearly.

Under the Cable Replacement program, started in 2008 to replace the aging underground cable system in order to improve system reliability, the Department has rejuvenated more than 130 miles of direct buried cables to extend the life of the cables, installed duct systems, and replaced miles of underground cable in the distribution system.

Federal Regulations

The Department's Regulatory Affairs Office manages the Department's FERC regulatory compliance program (Federal Power Act/Part II). FERC reliability standard compliance stands as a central program, with moderate but growing programs that concern FERC transmission and power market matters. The Director of Regulatory Affairs reports to the Customer Service, Communications, and Regulatory Affairs Officer, and has direct access to the General Manager and Chief Executive Officer. Regulatory Affairs has eight employees and functions independently of the Department's operating divisions.

Reliability Compliance Program. Because the Department owns, operates, and uses the bulk power system, Section 215 of the Federal Power Act requires the Department to comply with electric reliability standards. The objective of the Department's reliability compliance program is to achieve compliance with FERC reliability standards, foster a culture of compliance, and support the Department's mission to deliver reliable power to its customers. The Internal Compliance Program Policy documents the Department's regulatory compliance program for FERC reliability standards, providing the framework and key elements of the Department's Internal Compliance Program and describing the responsibilities of the Department's officers and employees. The program incorporates a compliance framework of five interdependent elements, including policies and operating procedures, communication and training, assessment, processes for addressing and remedying compliance concerns, and periodic operating division review, and is designed to ensure compliance and prevent, detect, and correct non-compliance.

Regulatory Affairs conducts assessments on both a regular and periodic basis. Assessments may be performed internally or by external consultants. Regulatory Affairs uses risk assessment to determine when a periodic assessment should occur and to determine FERC reliability standards to evaluate in the assessment. Risk criteria include substantially complex standards, standards with a Department compliance violation history, or standards affected by changes in Department operational practices and/or personnel. Regular assessments occur triennially and annually. Regulatory Affairs engages a consultant to perform the triennial assessment for both due diligence and independence, and to aid Department preparation for its regulatory compliance audit. Annual assessments occur as part of the Department's self-certification process.

The Western Electricity Coordinating Council ("WECC") audits the Department triennially; WECC completed its last audit of the Department on June 23, 2017. An 18-member WECC Audit Team reviewed Department compliance for 23 reliability standards (13 Operations and Planning Standards and ten Cyber Security Standards), which comprise 49 individual requirements. Consistent with the Electric Reliability Enterprise Risk-Based Compliance Monitoring and Enforcement Program, WECC performed an Inherent Risk Assessment of the Department. The results of the Inherent Risk Assessment identified the standard scope for audit, about a quarter of the nearly 90 reliability standards applicable to the Department.

The WECC Audit Team found no potential non-compliance in its review of the Operations and Planning Standards and identified potential non-compliance of eight requirements associated with the Cyber Security Standards. WECC Enforcement is reviewing the Audit Team audit findings to confirm whether non-compliance exists. WECC Enforcement issued one Compliance Exception in May 2018; a Compliance Exception is a zero-penalty disposition and will be excluded from the Department's official compliance record. The Department expects to resolve any remaining audit findings by the end of 2018. Meanwhile, the Department began mitigation work to address any possible security deficiencies. The Department completed measures for issues identified under six of the requirements and plans to complete measures for the remaining two requirements by the second quarter of 2018.

Evolving and changing reliability standards are a fixture for the FERC reliability compliance program. As such, Regulatory Affairs establishes review and coordination practices to ensure Department compliance prior to a standard's effective date. The Version 6 Cyber Security Standard suite was particularly important to the Department because these standards represent significant expansion, from both an operational and a regulatory standpoint. Regulatory Affairs, together with the responsible Department operating divisions, established structured and coordinated processes to ensure Department compliance by the standard's various requirement enforcement dates of July 1, 2016, and April 1, 2017. The Department prepared for similar transitions on a number of Operations and Planning Standards also enforceable in 2017 and 2018.

Federal Energy Market Legislation. Section 222 of the Federal Power Act prohibits electric energy market manipulation. The catalyst for these regulations was the market manipulation associated with the 2000-2001 western energy crisis. The regulations and rules broadly apply to and affect municipal utilities such as the Department. The Department requires annual training for employees with responsibilities associated with the purchase and sale of energy and transmission, finance/risk management, and regulatory compliance.

Federal legislation allows the Commodity Futures Trading Commission to regulate clearing and exchange requirements for the purchase and sale of commodity derivatives, including energy derivatives, which legislation affects entities that transact with municipal utilities.

DEPARTMENT FINANCIAL INFORMATION

Historical Sales

Residential customers make up roughly one-third of total customer sales. Retail power sales in the Department's service area are most affected by economic growth and weather conditions, mainly temperature. Annual peak load occurs in the winter season, due to the use of electricity for residential space heating. Short winter days also increase the consumption of power for both residential and nonresidential lighting. Increased load on hot summer days is due to nonresidential air conditioning. Summer peak load is well below winter peak load.

Table 5 shows that the number of residential and non-residential customers has been increasing during the last five years, at an average annual growth rate of 2.7%. Retail energy sales largely varied with weather between 2013 and 2017. There was a 2% decrease in retail energy sales in 2014 due to an unusually warm winter and another 2% decrease in 2015 due to unseasonably warm weather throughout most of the year. Retail energy sales were flat in 2016, then a cold 2017 drove retail energy sales up by 2%. Peak energy sales for the period 2013-2017 was 1,870 MW in January 2017 compared to the record peak load of 2,055 MW recorded in December 1990 due to unusually cold weather.

TABLE 5
RETAIL CUSTOMER ACCOUNTS, POWER SALES AND ENERGY REQUIREMENTS

	2013	2014	2015	2016	2017
Average Number of Customer Accounts ⁽¹⁾					
Residential	367,837	374,619	381,419	397,074	403,890
Non-Residential	40,218	40,437	41,391	50,258	50,610
Total Customer Accounts	408,055	415,055	422,811	447,332	454,500
Energy Sales (MWh) ⁽²⁾					
Residential	3,158,629	2,987,711	2,914,563	2,917,984	3,132,079
Non-Residential	6,347,771	6,352,873	6,242,931	6,262,454	6,276,580
Total Energy Sales	9,506,400	9,340,584	9,157,494	9,180,438	9,408,659
Peak Demand (MW) ⁽³⁾	1,841	1,867	1,689	1,785	1,870
Energy Requirements (MWh)					
Total Energy Sales	9,506,400	9,340,584	9,157,494	9,180,438	9,408,659
Energy used in Operation	30,910	29,717	25,195	24,912	26,691
System Losses ⁽⁴⁾	511,390	541,323	504,533	491,233	537,750
Total Energy Requirements ⁽⁵⁾	10,048,700	9,911,624	9,687,222	9,696,583	9,973,100

(1) Beginning in September 2016, the Department began recording Service Agreements rather than customer accounts as part of the implementation of the new retail electric billing system. One customer account can have several Service Agreements for the different types of services. Service Agreements determine how the Department and SPU charge customers for services provided. No revisions were made to prior year customer counts.

(2) Amounts include an allocation for the net change in energy use.

(3) Effective for 2014, peak demand represents system load vs. firm load to align with industry practice. Accordingly, prior years presented have been revised.

(4) Includes transmission and distribution losses.

(5) Firm energy required in the Department's service area.

Source: *Seattle City Light Department, Accounting Division*

Largest Customers

Table 6 provides a list of the Department's ten largest customers in 2017.

TABLE 6
TOP TEN CUSTOMERS

Customer	Customer Profile	Annual Dollars Billed	% Total Retail Revenue
University of Washington	Higher Education	\$ 26,780,675	3.19%
Nucor Corporation	Steel Manufacturer	26,232,535	3.12%
City of Seattle ⁽¹⁾	Government	19,953,460	2.37%
Boeing Company	Airplane Manufacturer	16,250,381	1.93%
King County	Government	11,882,002	1.41%
International Gateway/Sabey	Data Center Operator/Developer	9,145,366	1.09%
US Government	Government	8,003,843	0.95%
Ardagh	Building Materials Manufacturer	7,347,518	0.87%
2001 Sixth	Data Center	6,718,394	0.80%
Martin Selig	Developer	6,575,682	0.78%
Total		<u>\$ 138,889,855</u>	<u>16.53%</u>

(1) Includes street lighting, which covers both the costs to provide electricity to street lights and the costs to install, service, repair, and replace street lights.

Source: *Seattle City Light Department, Finance Division*

Financial Policies

In 2010, the City Council established revised financial policies and additional parameters for the RSA within the Light Fund. The financial policies include three main elements: (i) additional parameters for the funding, operation, and expenditure of amounts in the RSA, together with the creation of automatic rate surcharges to replenish the RSA, (ii) a rate-setting guideline to maintain debt service coverage, and (iii) a requirement for revenue funding a portion of the Department's capital program. Each provision is discussed in greater detail below.

Rate Stabilization Account. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount (due to low water or lower wholesale prices, for example), and deposits are made to the RSA if surplus power sales exceed expectations. The budgeted amount of net wholesale revenues is known as the RSA baseline. The financial policies specify the target size of the RSA between \$100 million and \$125 million and authorize the collection of a temporary automatic surcharge on electric rates in the event the RSA drops to \$90 million or below. Pursuant to City ordinance, the City Council is required to take action to bring the RSA balance down to \$125 million within a period of 12 or fewer months if, at any time, the balance exceeds \$125 million. See “—Retail Rates—Rate Changes 2010-2018” and “Security for the Bonds—Rate Stabilization Account”

The RSA has been in use since January 1, 2011. As of June 30, 2016, the RSA balance was \$89.1 million, which fell below the surcharge trigger of \$90 million and caused the automatic implementation of a 1.5% surcharge on August 1, 2016. The surcharge currently remains in place. See “Department Financial Information—Expectations for 2018 Operating Results.”

**TABLE 7
AUTOMATIC SURCHARGES**

RSA Balance	Action
Less than or equal to \$90 million but greater than \$80 million	Automatic 1.5% surcharge
Less than or equal to \$80 million but greater than \$70 million	Automatic 3.0% surcharge
Less than or equal to \$70 million but greater than \$50 million	Automatic 4.5% surcharge
Less than or equal to \$50 million	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100 million within 12 months

The 2019-2024 Strategic Plan includes a transition to less dependence on sales of surplus wholesale power that aligns with lower expected net wholesale volumes and market prices. The reduction is being implemented gradually over the period 2013-2022. See “Seattle City Light Department—2019-2024 Strategic Plan.”

Debt Service Coverage. The Department’s financial policies require setting rates designed to achieve a debt service coverage ratio (Net Revenue divided by Debt Service) of 1.80x based on the annual Department budget. See Table 12—Historical Debt Service Coverage. The Bond Ordinance requires that Gross Revenues be sufficient to pay the Department’s maintenance and operation expenses and provide for the payments required to be made into the Parity Bond Fund.

Funding of Capital Improvement Program. The Department’s policy is to fund its CIP so that on average, over the term of any given six-year CIP, approximately 40% of the expenditures will be funded with cash from operations, including contributions to fund connections or extensions. The percentage of cash from operations available to fund the CIP in a given year varies, depending on the Department’s revenues and expenses. See “Capital Requirements—Financing Plans.”

City Investment Pool

The City’s Finance Department invests the Department’s funds. See “The City of Seattle—Investments” and Appendix D—2017 Audited Financial Statements of the Department—Note 5. The City’s Director of Finance is authorized to make loans to individual funds participating in the City’s common investment portfolio (the “Investment Pool”), including the Light Fund, by carrying such funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by the City Council by ordinance, to the extent such loans can be supported prudently by the Investment Pool and the borrowing fund is reasonably expected to be able to repay the loan. Such loans bear interest at the Investment Pool’s rate of return. Currently there are no Investment Pool loans to the Department. See “The City of Seattle—Investments—Interfund Loans.”

Taxation and Intergovernmental Payments

The Department pays a utility tax to the City equal to 6% of Gross Revenues from retail sales, less certain adjustments. The proceeds of this tax are deposited into the City’s General Fund. The City Charter does not permit the Department to pay taxes to the City’s General Fund “until ample provision has been made for the servicing of the debts and obligations of the utility and for necessary betterments and replacements for the current year.” A State public utility tax is paid at a rate of 3.8734% of Gross Revenues from sales within the State, less certain adjustments.

Certain contractual payments are made to Pend Oreille and Whatcom Counties in Washington for services rendered by these jurisdictions where the Department has generating facilities. In addition, under the terms of franchise agreements with several suburban cities, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila in amounts ranging from 4% to 6% of the revenue from rates charged to customers residing in those cities. The Department incorporates expected payments to the suburban cities into the retail rates that it charges retail customers residing in those cities. See “—Retail Rates.”

Retail Rates

Rate Setting. The City Council has exclusive jurisdiction with respect to establishing and revising the Department's retail rates. State law requires that rates be fair, nondiscriminatory and fixed to produce revenue that is adequate to pay operation and maintenance expenses of the Department and to meet all debt service requirements payable from such revenue. In its retail rate-setting capacity, the City Council is not subject to control by the Washington Utilities and Transportation Commission, but it is subject to certain rate-making provisions of the Public Utility Regulatory Policies Act of 1978 ("PURPA"). The Department has never been cited for failing to comply with PURPA, and believes that it is operating in compliance with PURPA's requirements.

Since 1980, the City Council has conducted periodic reviews of the Department's rate levels and rate structure, normally at intervals of two or three years. In the course of its rate reviews, the City Council holds public meetings to consider the Department's proposed operating budget, capital improvements plan, load forecast, and resource plans. Based on these planning documents, as approved by the City Council, the Department's staff estimates the Department's revenue requirements and develops a rate proposal that is expected to produce the required amount of revenue and will allocate the revenue requirement among the various rate classes in accordance with adopted City policies. The City Council makes final decisions regarding rates through passage of a rate ordinance.

The current rate-setting objectives recommended by the Review Panel and adopted by the City Council include encouraging the efficient use of resources needed to provide electrical service, achieving rate predictability in an orderly way so as to avoid large changes for some customers or customer classes, providing for public involvement, achieving consistency with the 2019-2024 Strategic Plan and financial policies, establishing rates sufficient to meet annual revenue requirements, basing rates on the marginal cost to customers, fairly apportioning costs of providing service among customer classes, and allocating the costs of conservation and providing low-income residential service to all customer classes. Resolution 31819 adopting the 2019-2024 Strategic Plan requests the Seattle City Light Review Panel and General Manager, in consultation with community partners, to make recommendations on updated rate design options in early 2019 that would create greater revenue stability, while promoting conservation and distributed energy resources. The request also includes an evaluation and comparison of current financial policies and practices with other similarly situated utilities and the impacts of such policies and practices on revenue requirements and rates. The Department's rates for 2019 and 2020 are subject to further action and approval by the City Council; the Department anticipates that such action will occur after the date of this Official Statement. See "Seattle City Light Department—2019-2024 Strategic Plan."

Automatic BPA Rate Pass-Through. The City Council passed an ordinance in 2001 that allows the Department to pass-through to its customers the financial impact of any increase or decrease in rates charged by BPA. The pass-through was amended by City Council ordinance in 2013 to clarify that the pass-through applies to both power and transmission rate changes. These rate changes take effect without passage of a new ordinance by the City Council. In October 2017, new BPA rates went into effect and the Department changed its BPA energy product selection. These two concurrent changes resulted in a net BPA cost decrease. Per the terms of the BPA rate pass-through, a rate decrease of \$0.0014 per kWh on all retail energy charges became effective October 1, 2017. See "Power Resources and Cost of Power—Purchased Power Arrangements."

Rate Changes 2010-2018. Table 8 summarizes the Department's rate changes for the period 2010-2018. The City Council approved annual rate increases of 5.6% for 2017 and 2018 (exclusive of BPA rate pass-throughs and RSA surcharges) on October 10, 2016. The automatic BPA rate pass-through, which became effective October 1, 2017, decreased adopted 2017 and 2018 rates by approximately 1.6%. Rate increases between 3.6% and 5.8% are projected for the 2019-2024 Strategic Plan.

TABLE 8
RATE CHANGES, 2010-2018

<u>Effective Date</u>	<u>Percent Change</u>	<u>Type</u>
January 1, 2010	13.8%	Base Rate Increase
May 1, 2010 ⁽¹⁾	4.5%	RSA Surcharge
October 1, 2010	0.5%	BPA Rate Pass-Through
January 1, 2011	4.3%	Base Rate Increase
January 1, 2012	3.2%	Base Rate Increase
January 1, 2013	4.4%	Base Rate Increase
October 1, 2013	1.2%	BPA Rate Pass-Through
January 1, 2014	5.6%	Base Rate Increase
January 1, 2015	4.2%	Base Rate Increase
October 1, 2015	1.0%	BPA Rate Pass-Through
January 1, 2016	4.9%	Base Rate Increase
August 1, 2016 ⁽²⁾	1.5%	RSA Surcharge
January 1, 2017	5.6%	Base Rate Increase
October 1, 2017	-1.6%	BPA Rate Pass-Through
January 1, 2018 ⁽³⁾	5.6%	Base Rate Increase

(1) Temporary surcharge to help initially fund the RSA; lifted as of December 31, 2010.

(2) Temporary surcharge effective until the quarter-end RSA balance is \$100 million or more. See “—Financial Policies—Rate Stabilization Account.”

(3) Reflected in rates currently in effect.

Rates for Customers Outside the City of Seattle. The Department provides electric service to the residents and businesses in the cities of Shoreline, Burien, Lake Forest Park, SeaTac and Tukwila (the “Franchise Cities”) and unincorporated parts of the County, under individual franchise agreements with the Franchise Cities and the County. The agreements grant the Department a non-exclusive franchise to operate within the Franchise Cities’ and the County’s right-of-way, and establish terms and conditions under which the Department works with the Franchise Cities and the County on a variety of related issues, including rates as established by the Seattle City Council, fees, and operational requirements. Rates for Department customers in the Franchise Cities and unincorporated parts of the County are up to 8% higher than rates for customers located within the Seattle city limits. The exact rate difference varies and depends on the terms of each franchise agreement.

Fifteen-year franchise agreements are currently in place for all five Franchise Cities. Recently renewed agreements expire in 2029 (Shoreline) and 2030 (Lake Forest Park, SeaTac, and Burien), while one (Tukwila) expired in March 2018. Tukwila’s franchise renewal discussions are ongoing; Tukwila and the Department have agreed to continue services under the existing agreement until a new agreement is reached. The Department has two franchise agreements with the County that have expired, but services are continuing to be provided to those unincorporated areas under the expired contracts. The Department is in negotiations with the County to renew its expired agreements. The Franchise Cities represent approximately 84% of the Department’s retail power sales outside the City but within the service area; the unincorporated areas of the County represent approximately 16%.

The franchise agreements include provisions for payment for service levels that exceed the standard levels normally provided by the Department. The Department currently collects revenue from suburban franchise customers to reimburse the capital costs of seven completed undergrounding projects: five in Shoreline and two in Burien. These undergrounding charges will be in effect for approximately 25 years, or until the Department has been reimbursed with interest for the capital cost of the projects.

The Department's service area also includes portions of the cities of Normandy Park and Renton, which represent less than 1% of sales outside the City's boundaries. These areas are charged the suburban rates but do not have franchise agreements with the Department.

Voluntary Green Power Program. Pursuant to State law, since 2002 the Department has provided customers the option of making voluntary payments to fund new renewable resources. Currently, there is one voluntary green power program for residential and non-residential customers, Green Up, which allows customers to purchase green power at a retail rate of \$15 per MWh. Green Up revenues are used to acquire RECs, to administer and market the program, and to invest in local solar projects and education programs through Green Up Grants. Monthly payments for residential customers are \$3, \$6, or \$12 (for 200, 400, or 800 kWh per month). Suggested (marketed) monthly payments for non-residential customers are \$15 or \$150, although non-residential customers may participate at any level they choose. They may also purchase RECs separately from their bill, for example, to earn LEED (Leadership in Energy and Environmental Design) credits, or to purchase green power for events. As of December 31, 2017, 13,054 customers participated in Green Up through payments on their bills. Green Up revenue in 2017 totaled \$1.3 million. REC purchases on behalf of Green Up customers totaled 83,441 MWh in 2017. Green Up is certified and annually audited by Green-e, a clean energy certification program offered by the non-profit Center for Resource Solutions.

Rate and Bill Comparisons. Table 9 shows average rates and bills paid by the various customer classes, and Table 10 compares annual amounts paid by the Department's customers and the customers of neighboring utilities. In addition to being competitive within the Puget Sound region, the Department's rates are among the lowest of any major city in the United States.

TABLE 9
AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS⁽¹⁾
(AS OF JUNE 30, 2018)

	Average Revenue in Cents per kWh							Average Monthly Bills (\$)						
	City Standard	City Network ⁽²⁾	Burien	Lake Forest Park	SeaTac and Shoreline	Suburban ⁽³⁾	Tukwila	City Standard	City Network ⁽²⁾	Burien	Lake Forest Park	SeaTac and Shoreline	Suburban ⁽³⁾	Tukwila
Residential														
500 kWh per month	10.0	(4)	10.4	10.6	10.6	10.0	10.5	50	(4)	52	53	53	50	53
1,000 kWh per month	11.6		12.1	12.4	12.4	11.6	12.3	116		121	124	124	116	123
2,000 kWh per month	12.4		13.0	13.3	13.3	12.4	13.2	249		261	266	265	249	264
Small General Service														
10,000 kWh per month (40kW)	9.6	(4)	9.9	10.1	10.1	9.6	10.1	960	(4)	989	1,011	1,008	960	1,005
Medium General Service														
20,000 kWh per month (60kW)	8.4	10.8	8.9	9.1	9.1	8.4	9.1	1,683	2,169	1,786	1,825	1,821	1,683	1,818
200,000 kWh per month (500kW)	8.2	10.5	8.7	8.9	8.9	8.2	8.9	16,485	20,915	17,490	17,875	17,830	16,485	17,805
Large General Service														
400,000 kWh per month (1,000kW)	8.2	10.2	8.6	8.9	8.8	8.1	8.7	32,642	40,838	34,318	35,520	35,257	32,266	34,812
1,800,000 kWh per month (5,000kW)	8.2	10.4	8.7	9.0	8.9	8.2	8.8	148,473	187,736	156,113	161,562	160,367	146,783	158,365
High Demand General Service														
6,000,000 kWh per month (20,000kW)	7.8	(5)	(5)	(5)	(5)	(5)	8.5	466,593	(5)	(5)	(5)	(5)	(5)	508,300
18,000,000 kWh per month (60,000kW)	7.8						8.5	1,399,778						1,524,899

- (1) The Department's rates include municipal taxes and a 1.5% surcharge effective August 1, 2016.
- (2) City Network includes Medium and Large General Service customers in downtown Seattle that are served by an underground, interconnected distribution network, which provides a higher level of reliability than typical radial distribution. City Network's higher rates reflect the higher costs of building and maintaining this type of distribution service.
- (3) All jurisdictions outside the City of Seattle, except the cities of Burien, Lake Forest Park, SeaTac, Shoreline, and Tukwila.
- (4) Residential and Small General Service customers receiving network service are charged City standard rates.
- (5) All High Demand General Service customers are located in Seattle or Tukwila.

Source: Seattle City Light Department, Finance Division

TABLE 10
ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(AS OF JUNE 30, 2018)

<u>Monthly Use</u>		<u>Seattle</u>	<u>Puget Sound</u>	<u>Snohomish</u>	<u>Tacoma</u>
<u>kWh</u>	<u>kW</u>	<u>City Light (\$) ⁽¹⁾</u>	<u>Energy (\$) ⁽²⁾</u>	<u>County PUD (\$) ⁽³⁾</u>	<u>Power (\$) ⁽⁴⁾</u>
Residential					
100		155	204	205	294
500		598	639	662	677
1,000		1,394	1,279	1,325	1,155
3,000		4,576	3,937	3,974	3,070
Small General Service					
300	1	346	491	488	555
3,000	10	3,456	3,793	3,593	3,121
12,000	40	13,824	14,797	13,942	11,675
Medium General Service					
150,000	500	153,600	183,422	167,233	131,675
200,000	500	197,820	223,201	211,626	158,563
360,000	900	356,076	400,686	379,733	284,684
Large General Service					
300,000	1,000	303,286	365,500	332,975	262,439
1,000,000	5,000	1,074,354	1,424,331	1,214,979	1,039,668
2,500,000	7,500	2,495,686	2,931,397	2,709,579	2,096,802
High Demand General Service					
6,000,000	20,000	5,599,113	7,284,435	6,631,155	5,231,448
18,000,000	60,000	16,797,340	21,850,616	19,890,483	15,692,520
24,000,000	60,000	21,635,653	26,624,051	25,217,619	18,919,056
Last Rate Change		01/01/2018	05/01/2018	10/1/2017	4/1/2018

(1) The Department's rates include municipal taxes and a 1.5% surcharge effective August 1, 2016.

(2) Puget Sound Energy's Large Demand General Service is compared to the Department's Medium, Large, and High Demand General Service. Bills are adjusted by 6% to reflect city taxes.

(3) Snohomish PUD's General Service, Medium Load, is compared to the Department's Medium, Large, and High Demand General Service. Bills are adjusted by 6% to reflect the City of Everett's utility tax rate.

(4) Tacoma Power's Small General Service is compared to the Department's Small General Service. Electric rates include municipal taxes.

Source: *Seattle City Light Department, Finance Division*

Billing and Collection Processes

The City's utility billing function is co-managed by both SPU and the Department. SPU provides customer service through the call center and walk-in center. The Department operates and manages the billing system. SPU and the Department bill and reimburse each other for these services. A new billing system, implemented September 2016, provides utility customers with new self-service features while improving operational efficiencies.

The Department currently bills the majority of its residential customers and some small commercial customers bi-monthly and all other customers monthly. All bills are due within 21 days of receipt.

The Department has established various payment programs for its customers, including a levelized payment program to allow for monthly payments and an Automatic Bill Payment program. The majority of the customers on the levelized payment program are billed bi-monthly with an option to pay one half of the amount by the bill due date and

the remainder in the following month. An exception is made when a customer is enrolled in both the levelized payment plan and the automatic bill payment program, in which case all of the billed amount is drafted from the customer's bank account by the bill due date.

If the customer is not able to pay the entire amount of the billed charges by the due date, the Department allows the customer to make payment arrangements. Customers also have the option to either make a one-time online payment or sign up for recurring automatic online payments using debit/credit cards or bank account information, as long as the account is in good standing.

Accounts receivable write-offs by the Department in 2017 were \$5.2 million, or 0.59%, of retail electrical energy sales revenue, compared to write-offs of \$5.1 million, or 0.66%, in 2016. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department.

Historical Operating Results 2013-2017

Table 11 presents information on operating results for the period 2013-2017, along with revenue available for debt service. Revenue available for debt service is then used in Table 12 to calculate the debt service coverage ratio in each of those years.

The financial statements of the Light Fund as of and for the fiscal year ended December 31, 2017, included herein as Appendix D, have been audited by Baker Tilly Virchow Krause, LLP ("Baker Tilly"), independent accountants, as stated in its report appearing herein. The City has not requested that Baker Tilly provide consent for inclusion of its audited financial statements in this Official Statement, and neither the City'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.

TABLE 11
SUMMARY OF HISTORICAL OPERATING RESULTS
(\$000)

	2013	2014	2015	2016	2017
OPERATING REVENUES:					
Retail power revenues	\$ 697,696	\$ 720,777	\$ 736,582	\$ 788,029	\$ 875,235
Short-term wholesale power revenues	63,035	96,815	61,219	62,909	60,868
Other power-related revenues ⁽¹⁾⁽²⁾⁽³⁾	40,439	50,825	36,833	32,558	35,791
Transfers from/(to) rate stabilization account ⁽⁴⁾	18,285	(4,369)	23,363	(142)	(2,264)
Other operating revenues	22,774	22,395	24,860	19,821	20,080
Total Operating Revenues	\$ 842,229	\$ 886,443	\$ 882,857	\$ 903,175	\$ 989,710
OPERATING EXPENSES:					
Long-term purchased power—Bonneville and other	\$ 203,126	\$ 214,262	\$ 213,621	\$ 219,795	\$ 224,857
Short-term wholesale power purchases	19,759	14,912	26,812	15,048	15,223
Other power expenses	66,325	65,843	59,597	60,052	65,358
Transmission ⁽⁵⁾	48,213	52,833	54,289	53,488	52,514
Distribution	59,568	59,753	65,052	63,522	60,402
Customer service	39,177	37,621	38,302	42,636	49,390
Conservation	21,504	27,271	29,122	30,217	32,505
Administrative and general ⁽⁶⁾	71,751	75,774	92,108	104,998	128,687
Taxes	79,321	80,007	81,114	85,202	94,765
Depreciation and amortization	102,261	105,813	112,000	120,808	128,768
Total Operating Expenses	\$ 711,005	\$ 734,089	\$ 772,017	\$ 795,766	\$ 852,469
Net Operating Revenue ⁽⁷⁾	\$ 131,224	\$ 152,354	\$ 110,840	\$ 107,409	\$ 137,241
Adjustments to Net Operating Revenue ⁽⁸⁾					
City Taxes ⁽⁹⁾	\$ 42,834	\$ 44,608	\$ 45,534	\$ 48,456	\$ 54,414
Depreciation and amortization	102,261	105,813	112,000	120,807	128,768
Depreciation and amortization included in operating and maintenance expenses ⁽¹⁰⁾	22,250	24,679	27,132	29,871	32,412
Pension expense ⁽¹¹⁾	-	-	27,912	40,797	37,055
Pension contributions ⁽¹¹⁾	-	-	(24,883)	(25,331)	(23,714)
Valuation on exchange power, net ⁽²⁾⁽³⁾	(251)	271	634	16	20
BPA Conservation Augmentation/Agreement revenue ⁽¹²⁾	(464)	(722)	(946)	(1,233)	(1,592)
Investment income ⁽¹³⁾	4,724	5,430	6,746	7,342	7,422
Non-cash expenses ⁽¹⁴⁾	10,796	1,935	(320)	1,806	2,362
Other ⁽¹⁵⁾	6,192	7,004	1,943	1,988	2,405
Total Adjustments	\$ 188,342	\$ 189,018	\$ 195,752	\$ 224,519	\$ 239,552
Net Revenue Available for Debt Service	\$ 319,566	\$ 341,372	\$ 306,592	\$ 331,928	\$ 376,793
Total Debt Service ⁽¹⁶⁾	\$ 172,800	\$ 184,756	\$ 189,573	\$ 196,548	\$ 203,264
Ratio of Available Net Revenue to Debt Service	1.85	1.85	1.62	1.69	1.85

NOTES TO TABLE:

- (1) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (2) Effective in 2012, the Department adopted GASB Statement No. 62 ("GASB 62"), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Non-monetary transactions are measured at fair value in accordance with GASB 62. Additionally, effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurements and Application*. Non-monetary transactions are measured at fair value and are valued at market.
- (3) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (4) Transfers from/(to) the RSA in accordance with Ordinance 123260, primarily to address fluctuations in surplus power sales.
- (5) Includes revenue from the short-term sale of excess transmission capacity.
- (6) 2016 increase is primarily the result of an \$11.3 million increase in pension expense due to the actual performance of plan investments compared to the expected rate of return.
- (7) Operating income per audited financial statements.
- (8) Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for Debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines in this table, and are unaudited.
- (9) City taxes are excluded because the lien of such taxes on revenue is junior to debt service in accordance with the Bond Ordinance.
- (10) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (11) Pension expense is the amount recorded for compliance with GASB Statement No. 68 ("GASB 68"), implemented in 2015, a non-cash item. Pension contributions are the Department's cash contributions to the Seattle City Employees' Retirement System ("SCERS").
- (12) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (13) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from the City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (14) Primarily claim expenses and capital project expenditures from prior years that were determined not to be capital expenditures.
- (15) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items. In 2014, the line item labeled Other included a one-time true-up downward adjustment to unbilled revenue of \$4.1 million, a non-cash transaction recorded in 2014. Prior years were not revised. In 2013, the line item labeled Other included operating grants totaling \$3.2 million.
- (16) Net of federal bond subsidies. See "Other Considerations—Federal Sequestration and Other Federal Funding Considerations."

Source: Audited Financials through Net Operating Revenue; the remainder is unaudited information; Seattle City Light Department, Accounting Division

Historical Debt Service Coverage. The Bond Ordinance does not define a "coverage requirement" beyond what is necessary to pay all Operating and Maintenance Expense, to pay into the Parity Bond Fund the amounts required to be applied to the payment of debt service on the Outstanding Parity Bonds, to pay into the Junior Lien Debt Service Fund the amounts (if any) required to be paid into that fund in respect of outstanding Junior Lien Bonds, and to pay all other indebtedness to which revenues of the Light System have been pledged. See "Security for the Bonds—Rate Covenant" and Appendix A—Bond Ordinance—Section 17(a)(ii). The test for the issuance of Future Parity Bonds requires delivery of a Parity Certificate demonstrating coverage of Net Revenue equal to 125% of Maximum Annual Debt Service on all Parity Bonds then outstanding plus the proposed series of Future Parity Bonds, with certain permitted adjustments. See "Security for the Bonds—Future Parity Bonds" and Appendix A—Bond Ordinance—Section 18(a)(ii).

The ordinances authorizing the Outstanding Parity Bonds did not provide a definition for the phrases describing operating and maintenance expense as used in those ordinances in the definitions of Net Revenue, the rate covenant, and the Parity Conditions. Nonetheless, the Department has historically calculated the operating expenses for these purposes in accordance with applicable Generally Accepted Accounting Principles ("GAAP"). For purposes of clarification, the Bond Ordinance has adopted a definition for the term "Operating and Maintenance Expense" that is consistent with its historical practice.

The debt service coverage calculations set forth below are intended to reflect compliance with the rate covenant and the Future Parity Bond covenant contained in the Bond Ordinance and described under “Security for the Bonds” and for no other purpose. Such calculations reflect the application of GAAP as applied to financial results and may reflect non-recurring or extraordinary accounting transactions permitted under the Bond Ordinance.

In providing a rating on the Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology, which may not reflect the provisions of the Bond Ordinance. See “Other Bond Information—Ratings on the Bonds.” The City makes no representation as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any bond covenants or the availability of particular revenues for the payment of debt service, or for any other purpose.

TABLE 12
HISTORICAL DEBT SERVICE COVERAGE
(\$000)

	2013	2014	2015	2016	2017
Revenue Available for Debt Service ⁽¹⁾	\$ 319,566	\$ 341,372	\$ 306,592	\$ 331,928	\$ 376,793
Debt Service ⁽¹⁾					
Parity Bonds	\$ 172,800	\$ 184,756	\$ 189,573	\$ 196,548	\$ 203,264
Debt Service Ratios-Times Covered					
Parity Bonds ⁽²⁾	1.85	1.85	1.62	1.69	1.85

(1) Net of federal subsidy payments. See “Other Considerations—Federal Sequestration and Other Federal Funding Considerations.”

(2) Revenue Available for Debt Service (see Table 11) divided by Parity Bond Debt Service.

Source: *Seattle City Light Department, Accounting Division*

Management Discussion of Historical Operating Results 2013-2017

This section provides a discussion of operating results for the period 2013-2017, based on information in Tables 11 and 12, and an expanded discussion for the period 2016-2017, based on a summary of the Management’s Discussion and Analysis included in Appendix D—2017 Audited Financial Statements of the Department.

Summary 2013-2017. Retail revenues increased from \$697.7 million in 2013 to \$875.2 million in 2017, primarily due to the Department’s average system rate increases during this period (see “—Retail Rates”). This increase in retail revenues also reflects the increase in the number of customers, from 408,055 in 2013 to 454,500 in 2017 (customer counts changed to Service Agreements with the implementation of the new billing system in September 2016).

Net wholesale revenues varied during this period, ranging from a high of \$81.9 million in 2014 to a low of \$34.4 million in 2015. This variability is primarily due to fluctuations in hydro volumes, wholesale power market prices, and retail load. The RSA has been in place since January 1, 2011, and less-than-budgeted net wholesale revenue in 2017, offset primarily by greater RSA rate surcharge revenue, resulted in a net cash transfer to the RSA from operating cash. An RSA rate surcharge of 1.5% has been in effect since August 1, 2016, as the RSA balance dropped below \$90.0 million at the end of June 2016, and currently remains in place. The RSA balance was \$93.4 million at the end of 2017.

Debt service on Parity Bonds increased from \$172.8 million in 2013 to \$203.3 million in 2017. Debt service coverage ranged from a high of 1.85x in 2013, 2014, and 2017 to a low of 1.62x in 2015, reflecting the effect of \$39.3 million lower than planned retail revenue. The debt service coverage for 2017 was 1.85x, higher than projected primarily because of higher first-half 2017 retail sales due to a cold winter and associated higher heating load. The Department’s financial policies require the Department to set electric rates designed to achieve a debt service coverage ratio of 1.80x, based on the annual Department budget. Table 12 shows that, historically, the Department was able to achieve this level of coverage except for years 2015 and 2016.

Billed retail sales increased approximately 2.5% between 2017 and 2016, mostly attributed to colder weather and more associated heating load in 2017. The majority of the change in the Department's billed retail sales from 2013-2017 is attributed to impacts of weather. On a weather-adjusted basis, retail sales are estimated to be relatively flat, showing only a small gradual decline over this time period. The number of customers has been growing significantly but the use per customer has been declining because of efficiencies including LED lighting, appliance standards, and improved building standards. The Department's robust conservation program is also contributing to the declining use per customer. See "Conservation." The Department's adopted 2017 retail sales forecast projects a gradual decline of retail sales over the next six years. See "Seattle City Light Department—2019-2024 Strategic Plan."

Operating Revenues—2017 vs. 2016. Retail revenues in 2017 were \$875.2 million, \$87.2 million or 11.1% higher than in 2016, because of a 5.6% average system rate increase effective January 1, 2017, and the 1.5% RSA rate surcharge effective August 1, 2016. Higher consumption due to the colder weather during the first two months of the year also contributed to the higher retail revenues compared to 2016. The number of retail customers also increased to 454,500 in 2017, a 1.6% increase from 2016.

Net wholesale revenues were \$45.6 million, a decrease of \$2.2 million, or 4.6% from 2016. Wholesale power sales were \$60.9 million in 2017, a decrease of \$2.0 million from 2016, whereas wholesale power purchases increased by \$0.1 million to \$15.2 million. The decrease in net wholesale revenues was primarily due to lower net energy sales volume affected somewhat by higher average wholesale power prices. The average peak Mid-Columbia Hub electricity price for 2017 was \$25.50 per MWh, compared to \$22.60 per MWh in 2016.

Other power-related revenues, including valuation of power exchanges, increased by \$3.3 million to \$35.9 million. Other power-related purchases, including valuation of power exchanges, increased by \$1.0 million to \$11.5 million in 2017, resulting in net other power-related revenues of \$24.4 million in 2017, a net increase of \$2.3 million or 10.6% from net other power-related revenues of \$22.1 million in 2016. The net increase was due in part to additional ancillary contracts in 2017. In 2017, net transfers to the RSA unearned revenue account were \$2.3 million, the net effect of the RSA rate surcharge revenues, transfers from the RSA unearned revenue account for lower wholesale power revenues compared to budget and interest earnings. In 2016, net transfers to the RSA were (\$0.1 million), the result of comparable components with different amounts.

Revenues from other sources increased slightly by \$0.3 million, totaling \$19.8 million in 2017.

Operating Expenses—2017 vs. 2016. In 2017, long-term purchased power (BPA and other) increased by \$5.0 million to \$224.8 million, primarily due to changing to Block power purchases only, effective October 2017, and because of a lower Slice true-up credit compared to 2016.

Other power expenses, including generation, power exchanges, and other at \$65.5 million, were \$5.3 million higher because of higher operating costs, including for an abandoned plan to replace the AC/DC electrical supply system at the Skagit Ross Dam. Transmission expenses, including wheeling, were \$52.5 million, a decrease of \$1.0 million from 2016. See "Power Resources and Cost of Power—Department-Owned Resources—Skagit Project." Distribution expenses decreased by \$3.1 million to \$60.4 million. Several categories of expenses were lower, including for underground system network maintenance, contracting and support services, fewer wireless antenna upgrades, street lighting maintenance due to use of LEDs, and other.

Other operating and maintenance expenses at \$210.6 million increased by \$32.7 million from 2016, for customer service, conservation, and administrative and general ("A&G"). Customer service expenses were higher by \$6.8 million, driven by higher bad debt expense for retail sales, due to the higher balances of aged receivables as accounts are processed through collection. Conservation increased by \$2.3 million, primarily for higher amortization. A&G increased a net \$23.7 million. The largest increase was for information technology costs being billed and consolidated within A&G from Seattle IT totaling \$18.1 million. In previous years, technology costs were recorded throughout capital and operations projects; total technology costs were comparable for 2017 and 2016. Other increases were for cost-of-living adjustments, year-end estimated accruals, and compensated absences. Increases were offset by lower general plant maintenance, industrial insurance, and pension and benefits because of staff transferring to Seattle IT, and other. GASB 68 actuarially-determined pension expense decreased by \$3.7 million due in part to transfer of staff to Seattle IT. Taxes in 2017 were \$94.8 million, an increase of \$9.6 million from 2016, due to higher

revenues. Depreciation and amortization increased by \$8.0 million to \$128.8 million, due to additional assets placed in service.

Net Operating Revenue—2017 vs. 2016. Net operating revenue in 2017 was \$137.4 million, \$29.8 million higher than in 2016. Higher retail electric revenues were primarily the result of rate increases, including the 1.5% rate surcharge. These were offset by lower net short-term wholesale power revenues and higher long-term purchased power, bad debt, A&G, taxes, and depreciation.

Although not included in Table 11, changes in nonoperating revenues and expenses provide additional information on the financial condition of the Department. Nonoperating revenues decreased by \$1.3 million, to \$13.3 million in 2017 from \$14.6 million in 2016. In 2017, there was no State Department of Ecology grant received, compared to 2016. This was offset by higher unrealized gains on pooled investments due to favorable market performance, higher interest earnings on bond proceeds, and higher surplus property sales.

Nonoperating expenses increased by \$0.3 million to \$75.4 million in 2017. Higher interest on the greater average balance of outstanding bonds during the year and refunding loss amortization were offset by higher interest charged to construction projects and bond premium amortization.

Capital contributions and grants were \$45.3 million in 2017, an increase of \$6.9 million from 2016. Increases for new amperage fees charged to large service connections and service work charged to telecommunication companies were the main elements.

Expectations for 2018 Operating Results

As of June 30, 2018, the full-year forecast indicates that the Department's debt service coverage ratio is expected to be 1.78x, very close to the City Council-adopted financial policy target of 1.80x. Retail sales from base rates are expected to come in slightly lower than the level assumed to set rates. However, this is offset by lower debt service costs from lower interest rates on recent debt issues compared to planned amounts. Combined generation volumes for the Skagit and Boundary Projects for the calendar year are forecasted to be 106% of the average of the past five years. Net wholesale revenue is forecasted to be \$54.5 million, \$5.5 million below the budgeted amount of \$60.0 million. This variance will be transferred from the RSA. As of June 30, 2018, the RSA balance was \$90.7 million. A 1.5% RSA surcharge, applied since August 1, 2016, is expected to produce approximately \$13.2 million in revenue in 2018 (\$11.9 million deposited into the RSA after reduction for taxes). While there is uncertainty associated with forecasting, the current forecast has the RSA balance returning to above \$100 million by the end of Q1 2019 with the 1.5% surcharge being removed in May 2019. See "Security for the Bonds—Rate Stabilization Account." Net income is expected to be approximately \$131.5 million.

Debt Service Requirements

As of August 7, 2018, the principal amount of Outstanding Parity Bonds totaled \$2,515,370,000. Principal and interest payments due on the Department's Outstanding Parity Bonds are shown in Table 13. Projected principal and interest payments due on the Bonds are shown in Table 14. See "Capital Requirements—Financing Plans" for a discussion of the Department's future financing plans.

Outstanding Variable Rate Parity Bonds

The City previously issued the 2015B-1 Bonds and 2015B-2 Bonds, currently outstanding in the amount of \$100,000,000, and the 2017A Bonds and 2017B Bonds, currently outstanding in the amount of \$98,220,000. These bonds constitute the Refunded Bonds and will no longer be outstanding as of the Issue Date.

Subordinate Obligations

In the Bond Ordinance, the City has established a Junior Lien position and has reserved the right to issue Junior Lien Bonds (which term includes Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations) in the future under certain conditions set forth in the Bond Ordinance. There are no currently outstanding Junior Lien Bonds. See "Security for the Bonds—Subordinate Obligations."

TABLE 13
DEBT SERVICE REQUIREMENTS—ALL PARITY BONDS

Year	Outstanding Parity Bonds			The Bonds			Total Parity Bonds		
	Principal	Interest ⁽²⁾⁽³⁾	Total	Principal	Interest	Total	Principal	Interest ⁽²⁾⁽³⁾	Total
2018 ⁽¹⁾	\$ 118,805,000	\$ 101,299,274	\$ 220,104,274			\$ -	\$ 118,805,000	\$ 101,299,274	\$ 220,104,274
2019	118,480,000	109,569,503	228,049,503			-	118,480,000	109,569,503	228,049,503
2020	118,555,000	104,186,436	222,741,436			-	118,555,000	104,186,436	222,741,436
2021	118,085,000	99,683,166	217,768,166			-	118,085,000	99,683,166	217,768,166
2022	117,950,000	93,968,576	211,918,576			-	117,950,000	93,968,576	211,918,576
2023	120,310,000	88,024,529	208,334,529			-	120,310,000	88,024,529	208,334,529
2024	123,945,000	81,970,031	205,915,031			-	123,945,000	81,970,031	205,915,031
2025	113,850,000	75,646,983	189,496,983			-	113,850,000	75,646,983	189,496,983
2026	110,970,000	70,188,392	181,158,392			-	110,970,000	70,188,392	181,158,392
2027	86,090,000	65,103,225	151,193,225			-	86,090,000	65,103,225	151,193,225
2028	87,935,000	61,207,465	149,142,465			-	87,935,000	61,207,465	149,142,465
2029	82,120,000	57,394,132	139,514,132			-	82,120,000	57,394,132	139,514,132
2030	67,720,000	53,884,471	121,604,471			-	67,720,000	53,884,471	121,604,471
2031	70,360,000	50,808,762	121,168,762			-	70,360,000	50,808,762	121,168,762
2032	73,140,000	47,612,594	120,752,594			-	73,140,000	47,612,594	120,752,594
2033	76,045,000	44,261,981	120,306,981			-	76,045,000	44,261,981	120,306,981
2034	79,010,000	40,968,486	119,978,486			-	79,010,000	40,968,486	119,978,486
2035	82,165,000	37,626,825	119,791,825			-	82,165,000	37,626,825	119,791,825
2036	90,630,000	33,976,337	124,606,337			-	90,630,000	33,976,337	124,606,337
2037	80,500,000	30,136,701	110,636,701			-	80,500,000	30,136,701	110,636,701
2038	83,545,000	26,675,728	110,220,728			-	83,545,000	26,675,728	110,220,728
2039	86,730,000	23,082,004	109,812,004			-	86,730,000	23,082,004	109,812,004
2040	90,045,000	19,333,384	109,378,384			-	90,045,000	19,333,384	109,378,384
2041	79,490,000	15,791,183	95,281,183			-	79,490,000	15,791,183	95,281,183
2042	66,010,000	12,865,788	78,875,788			-	66,010,000	12,865,788	78,875,788
2043	68,725,000	10,158,712	78,883,712			-	68,725,000	10,158,712	78,883,712
2044	60,560,000	7,335,065	67,895,065			-	60,560,000	7,335,065	67,895,065
2045	53,825,000	4,887,363	58,712,363			-	53,825,000	4,887,363	58,712,363
2046	40,235,000	3,050,788	43,285,788			-	40,235,000	3,050,788	43,285,788
2047	28,420,000	1,448,400	29,868,400			-	28,420,000	1,448,400	29,868,400
2048	14,995,000	299,900	15,294,900			-	14,995,000	299,900	15,294,900
Total	\$2,609,245,000	\$1,472,446,186	\$4,081,691,186	\$ -	\$ -	\$ -	\$2,609,245,000	\$1,472,446,186	\$4,081,691,186

- (1) Reflects full year of debt service.
- (2) Reflects taxable rates on bonds issued as taxable bonds with a federal subsidy, but does not reflect the interest credit associated with those bonds. For a description of the effect of federal sequestration on these direct-pay tax credit bonds, see “Other Considerations—Federal Sequestration and Other Federal Funding Considerations.”
- (3) Includes the Refunded Bonds. Assumes interest rates on the Refunded Bonds of 2.50% in 2018, 3.00% in 2019, 3.50% in 2020, and 4.00% thereafter, per the Department’s financial plan.

TABLE 14
DEBT SERVICE REQUIREMENTS—THE BONDS⁽¹⁾

Year	2018B-1 Bonds		2018B-2 Bonds		2018C-1 Bonds		2018C-2 Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018 ⁽¹⁾	\$ -	\$ 309,051	\$ -	\$ 309,051	\$ 630,000	\$ 302,184	\$ 630,000	\$ 302,184	\$ 1,260,000	\$ 1,222,471
2019	-	1,480,699	-	1,480,699	1,435,000	1,432,151	1,435,000	1,432,151	2,870,000	5,825,701
2020	-	1,730,842	-	1,730,842	1,240,000	1,625,267	1,240,000	1,625,267	2,480,000	6,712,217
2021	-	1,983,922	-	1,983,922	1,055,000	1,814,451	1,055,000	1,814,451	2,110,000	7,596,746
2022	-	2,005,400	-	2,005,400	1,075,000	1,791,866	1,075,000	1,791,866	2,150,000	7,594,532
2023	-	2,005,400	-	2,005,400	1,120,000	1,748,718	1,120,000	1,748,718	2,240,000	7,508,236
2024	-	2,011,810	-	2,011,810	1,160,000	1,709,128	1,160,000	1,709,128	2,320,000	7,441,876
2025	-	1,998,960	-	1,998,960	1,215,000	1,651,871	1,215,000	1,651,871	2,430,000	7,301,662
2026	1,665,000	1,966,352	1,665,000	1,966,352	1,260,000	1,608,458	1,260,000	1,608,458	5,850,000	7,149,620
2027	1,735,000	1,898,111	1,735,000	1,898,111	1,310,000	1,557,893	1,310,000	1,557,893	6,090,000	6,912,008
2028	1,805,000	1,828,052	1,805,000	1,828,052	1,360,000	1,506,042	1,360,000	1,506,042	6,330,000	6,668,188
2029	1,870,000	1,761,948	1,870,000	1,761,948	1,410,000	1,457,755	1,410,000	1,457,755	6,560,000	6,439,406
2030	1,960,000	1,671,500	1,960,000	1,671,500	1,480,000	1,390,139	1,480,000	1,390,139	6,880,000	6,123,279
2031	2,040,000	1,591,654	2,040,000	1,591,654	1,535,000	1,331,083	1,535,000	1,331,083	7,150,000	5,845,473
2032	2,120,000	1,513,554	2,120,000	1,513,554	1,595,000	1,273,773	1,595,000	1,273,773	7,430,000	5,574,655
2033	2,210,000	1,425,085	2,210,000	1,425,085	1,660,000	1,208,579	1,660,000	1,208,579	7,740,000	5,267,328
2034	2,300,000	1,335,260	2,300,000	1,335,260	1,725,000	1,142,529	1,725,000	1,142,529	8,050,000	4,955,578
2035	2,385,000	1,247,852	2,385,000	1,247,852	1,790,000	1,078,836	1,790,000	1,078,836	8,350,000	4,653,376
2036	2,495,000	1,137,420	2,495,000	1,137,420	1,870,000	996,415	1,870,000	996,415	8,730,000	4,267,670
2037	2,595,000	1,040,622	2,595,000	1,040,622	1,940,000	925,982	1,940,000	925,982	9,070,000	3,933,208
2038	2,700,000	934,879	2,700,000	934,879	2,020,000	848,559	2,020,000	848,559	9,440,000	3,566,877
2039	2,810,000	824,300	2,810,000	824,300	2,100,000	767,496	2,100,000	767,496	9,820,000	3,183,591
2040	2,920,000	713,480	2,920,000	713,480	2,180,000	686,869	2,180,000	686,869	10,200,000	2,800,698
2041	3,045,000	587,147	3,045,000	587,147	2,275,000	593,548	2,275,000	593,548	10,640,000	2,361,389
2042	3,170,000	463,380	3,170,000	463,380	2,365,000	503,021	2,365,000	503,021	11,070,000	1,932,802
2043	3,300,000	335,008	3,300,000	335,008	2,460,000	409,512	2,460,000	409,512	11,520,000	1,489,041
2044	3,435,000	200,192	3,435,000	200,192	2,555,000	310,971	2,555,000	310,971	11,980,000	1,022,327
2045	3,575,000	59,093	3,575,000	59,093	2,660,000	208,154	2,660,000	208,154	12,470,000	534,493
2046	-	-	-	-	2,765,000	101,510	2,765,000	101,510	5,530,000	203,019
Total	\$ 50,135,000	\$ 36,060,975	\$ 50,135,000	\$ 36,060,975	\$ 49,245,000	\$ 31,982,759	\$ 49,245,000	\$ 31,982,759	\$ 198,760,000	\$ 136,087,468

(1) Preliminary, subject to change. Assumes interest rates of 2.50% in 2018, 3.00% in 2019, 3.50% in 2020, and 4.00% thereafter, per the Department's financial plan.

CAPITAL REQUIREMENTS

Every year during its annual budget process, the City adopts a six-year CIP, which outlines anticipated investments over that timeframe. The Department's CIP is a part of the City's CIP. The current adopted CIP covers calendar years 2018-2023. The Department owns, maintains, and operates a multi-billion-dollar physical plant that includes power generation hydroelectric plants, transmission lines, distribution system, substations, and other utility assets. The Department's CIP is the vehicle for repairing, upgrading, and expanding this infrastructure. This section describes the adopted 2018-2023 CIP and other capital requirements that the Department intends to implement over the period 2018-2023. Any amounts listed for specific projects are for expenses expected to occur only during the period 2018-2023 and may not represent the total cost of the project.

Central Utility/General Plant

These expenses are related to General Plant and include investments in non-electrical system assets including buildings and facilities, such as the North and South Service Centers, and investments in office-related computer equipment, information and communications systems, furniture, and mobile equipment. Over the six-year planning period, the largest expenditures are expected to be for the replacement of fleet equipment (\$42.9 million) and for miscellaneous building improvements (\$16.3 million).

Distribution

Distribution plant includes poles, wires and cables, transformers, manholes, vaults, ducts, and other electrical equipment and infrastructure needed to deliver power from the substation to the customer connection at home or business in both network and non-network areas. Over the six-year planning period, the largest projects are expected to be replacement of overhead equipment (\$112.3 million), medium overhead and underground services (\$71.3 million), and replacement of underground equipment (\$69.8 million).

External Projects

These projects include work related to relocating infrastructure for transportation projects, investments in streetlight assets, various undergrounding work, and City-driven IT projects. Over the six-year planning period, the largest projects are expected to be the Alaskan Way Viaduct and seawall replacement (\$57.3 million), the streetlight LED conversion program (\$33.0 million), and work on streetlights, including arterial residential streetlights and floodlights (\$23.0 million).

Power Supply

Power supply includes generation facilities used to produce electricity. Typical assets would be reservoirs, dams, waterways, waterwheels, turbines, generators, and accessory electrical equipment. A large percentage of generation investment is dedicated to core Department functions that maintain or add to generation infrastructure and ensure system reliability and power availability to customers, including the Department's generator and turbine runner rebuild programs. Over the six-year planning period, the largest projects are expected to be license mitigation at the Boundary Project (\$96.3 million), relicensing at the Skagit Project (\$52.4 million), and minor improvement programs at the Boundary Project (\$38.7 million).

Transmission

Transmission plant includes poles, towers, and conductors used to carry electricity from generation facilities to substations. Over the six-year planning period, the largest projects are expected to be transmission lines for the Denny Substation (\$48.3 million), transmission reliability (\$20.2 million), and transmission line inductor installations (\$9.4 million).

Conservation

Conservation programs offer financial incentives (such as rebates, discounts, and loans) to customers who produce energy savings by installing approved energy-saving equipment or weatherization measures or by designing a building to exceed energy code requirements. Program costs include program administration, audits and inspections, and the costs of designing and installing energy savings measures. The current expenditure level is expected to achieve

64.8 aMW of cumulative annual energy savings between 2018 and 2023. The Department is forecasting an annual achievement of 10.8 aMW over this six-year period, and the expenditure forecast reflects this level of effort.

High Ross Payment Amortization

The City Council has directed the Department to amortize the \$21.8 million capital portion of the annual payment to B.C. Hydro under the High Ross Agreement through 2035. The Department pays B.C. Hydro \$21.8 million each year from 2000 through the final capital payment in 2020, \$9.1 million of the annual payment is deferred, and \$12.7 million is recognized as an expense. From 2021 through 2035, the remaining balance of deferred costs will be amortized. The deferred portion of the payments to B.C. Hydro is capitalized and therefore is treated as a component of capital requirements. See “Power Resources and Cost of Power—Department-Owned Resources—Skagit Project” for a discussion of the High Ross Agreement.

Relicensing, Mitigation, and Other Costs

In addition to including capital expenditures for environmental mitigation in the CIP, the Department pays in the year incurred, but for planning purposes defers and capitalizes, certain operation and maintenance expenditures for environmental mitigation. These deferred operation and maintenance expenditures are for mitigation measures similar to those included in the CIP; however, they differ from those in the CIP in that they are for measures on land or structures belonging to entities other than the Department and involve payments to the owners. Recipients of these payments include a variety of nonprofit organizations and governmental agencies with which the Department has entered into contracts for environmental mitigation pursuant to the terms of relicensing settlement agreements. The Department also defers environmental remediation expenditures, most of which are related to the Duwamish Waterway cleanup activities. Other deferred costs include city and State taxes on suburban undergrounding to match the timing of the repayment by customers of the Franchise Cities.

Adopted CIP and Conservation and Other Capital Requirements

The Department does not as a matter of course make public projections as to future sales, earnings, or other results. However, the Department has prepared the prospective financial information as set forth in Table 15 to provide readers of this Official Statement information related to projected capital expenditures of the Department. This information was not prepared with a view toward securities 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 the Department, the information was based on reasonable information available to the Department as of the date presented, 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 capital expenditures of the Department. 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 information.

TABLE 15
CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS AND OTHER CAPITAL REQUIREMENTS
2018-2023 (ADOPTED NOVEMBER 20, 2017)
(\$ million)

	2018	2019	2020	2021	2022	2023	Total
Central Utility Projects	\$ 44.6	\$ 20.3	\$ 22.8	\$ 24.1	\$ 26.3	\$ 24.2	\$ 162.4
Distribution	178.6	191.7	171.6	206.8	230.3	221.8	1,200.8
External Projects ⁽¹⁾	56.4	47.4	43.1	29.0	30.4	18.8	225.1
Power Supply	96.6	83.6	90.0	89.4	96.5	58.6	514.7
Transmission	18.4	10.5	8.6	40.2	3.9	5.4	86.9
Total CIP	\$ 394.6	\$ 353.5	\$ 336.1	\$ 389.5	\$ 387.4	\$ 328.8	\$ 2,189.8
Conservation ⁽²⁾	\$ 35.4	\$ 36.1	\$ 36.8	\$ 37.6	\$ 38.3	\$ 39.1	\$ 223.3
High Ross Payment Amortization ⁽²⁾	9.1	9.1	9.1	-	-	-	27.3
Relicensing, Mitigation and Other Costs	5.2	3.9	4.0	3.7	10.3	10.7	37.9
Total Funds Required	\$ 444.3	\$ 402.6	\$ 386.0	\$ 430.8	\$ 436.0	\$ 378.6	\$ 2,478.3
Sources of Funds							
Cash from Operating Account	\$ 116.2	\$ 120.4	\$ 92.9	\$ 73.3	\$ 203.0	\$ 128.0	\$ 733.8
Cash from Contributions	60.1	34.0	35.7	38.9	40.5	35.9	244.9
Cash from Bond Sale	268.1	248.2	257.4	318.6	192.6	214.8	1,499.7
Total Funds Available	\$ 444.3	\$ 402.6	\$ 386.0	\$ 430.8	\$ 436.0	\$ 378.6	\$ 2,478.3

(1) Includes Alaskan Way Viaduct and seawall replacement. See “Other Considerations—Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program.”

(2) The City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with GASB 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Programmatic conservation costs are amortized to expense over 20 years. The deferred portion of annual payments to B.C. Hydro under the High Ross Agreement, which amounts to \$9.1 million per year in years 2000 through 2020, will be amortized over 15 years beginning in 2021. See “Power Resources and Cost of Power—Department-Owned Resources.” Includes relicensing, mitigation, toxic cleanup, and other costs such as City and State taxes on suburban undergrounding. These costs are deferred and amortized to expense over the respective project license period or other relevant period.

Source: *Seattle City Light Department, Finance Division*

Financing Plans

Capital requirements of \$2,478.3 million from 2018 through 2023 (including \$2,189.8 million of the CIP and \$288.5 million of certain capitalized costs) are expected to be financed through a combination of cash from operations, contributions in aid of construction, capital grants, and the proceeds of the previously issued Municipal Light and Power Improvement Revenue Bonds, 2018, Series A, and Future Parity Bonds. The Department projects that bond proceeds will fund approximately 67% of the capital requirements over the period 2018-2023, with the remaining 33% funded by cash from operations and contributions. This is lower than the 40% policy target due to the concentration of many large, one-time projects during this six-year timeframe, including Denny Substation, advanced metering, Alaska Way Viaduct relocations, and service center replacement. Cash funding will return to above target levels following the completion of these projects. The City expects to issue additional Parity Bonds in an aggregate principal amount of approximately \$255 million in July 2019.

ENVIRONMENTAL MATTERS

Impact of Environmental Matters

The Department manages its legal obligations for environmental protection through programs that are expected to produce compliance with regulations. Although the Department cannot predict the outcome or effect of the matters described in this section, the Department does not expect that any of these matters will affect adversely the ability of the City to pay the principal of and interest on the Bonds.

Routine operations in connection with the generation and delivery of electric power are regulated by federal, State, and local laws that prescribe standards, work practices, and training requirements, requiring extensive documentation to ensure the protection of the environment and human health. Noncompliance creates the potential for violations that can result in civil and criminal penalties and substantial fines. Some of these laws also impose strict liability for environmentally damaging releases, including costs of investigation and cleanup, damages, restoration, and the costs of agency oversight and enforcement.

Waste Management and Disposal Issues

Department operations generate a variety of wastes, including dangerous wastes. The Department's efforts have reduced waste generation and disposal costs, and the Department maintains those reduced levels. The Department promotes compliance with federal and State dangerous waste regulations through use of operations manuals, staff training, and periodic internal inspections or audits. Besides the dangerous waste regulations, internal inspections are used to monitor compliance with other laws, including the Toxic Substances Control Act, Clean Water Act, and Underground Storage Tank regulations.

Contaminated Site Liability

As of December 31, 2017, the Department had recorded environmental liability amounts net of recoveries of \$92.7 million under the GASB reporting requirements. This amount is evaluated semi-annually and is subject to adjustment based on future developments.

No assurances can be given that other contaminated sites do not exist or will not be discovered in the future. The Department's policy has been to undertake voluntary cleanup action when contamination is discovered during regular maintenance and construction.

Lower Duwamish Waterway. In 2001, the U.S. Environmental Protection Agency (the "EPA") listed the Lower Duwamish Waterway as a Superfund site. A remedial investigation ("RI") and feasibility study ("FS") and a study and cleanup of early action sites was completed in 2012 pursuant to an Administrative Settlement Agreement Order on Consent entered into among the City (through the Department and SPU), the County, the Port of Seattle, and the Boeing Company. EPA released its Record of Decision in 2014 estimating the cost to be \$342 million, with a seven-year construction period beginning in 2022. More than 100 entities have been identified as potentially responsible parties ("PRPs"). Over the next two years, a third party will determine the liability of each of the PRPs in accordance with a voluntary allocation agreement.

Harbor Island—East Waterway. The East Waterway was designated as a Superfund site in 2001 as an operable unit of the overall Harbor Island Superfund Site, which was listed by EPA in 1983. Current PRPs include the City, the Port of Seattle, the County, and Seattle Iron & Metals Corporation ("SIMC"). Potential Department liability derives from Department transformers sold to SIMC, from which contaminants are thought to have drained into the waterway. A Supplemental Remedial Investigation and Feasibility Study ("SRI/FS"), with the Port of Seattle taking the lead, was completed in 2017. The City has agreed to an interim sharing of on-going costs of the SRI/FS with the Port and the County. The Department expects that EPA will publish the proposed plan in late 2018.

Georgetown Steam Plant. The Department signed an order with Ecology to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's property known as the Georgetown Steam Plant, and the King County Airport. The draft RI report was submitted to Ecology in June 2016; the FS is anticipated to be complete in 2018. The Department completed interim actions at the Georgetown Steam Plant property in 2012.

The Department is also conducting voluntary remedial actions related to pesticides, PCB, and lead contamination at some of its discontinued electrical facilities.

Endangered Species Act

The Endangered Species Act (“ESA”) is administered by the USFWS and the National Oceanic and Atmospheric Administration (“NOAA”). Recovery plans for ESA-listed fish affect Department operations and power purchases.

Columbia and Snake River Biological Opinions. The three federal action agencies responsible for operating the Federal System—the Corps, the Bureau of Reclamation, and BPA—have been engaged in ESA Section 7 consultation for many years. As a result of litigation, NOAA Fisheries has been required to develop a series of Biological Opinions that provide the basis for the species recovery plans that NOAA has developed for the Columbia and Snake River fisheries. These recovery plans seek to protect and recover listed species including salmon, steelhead, Bull Trout, and sturgeon by regulating stream flow and other aspects of hydropower operations in the watersheds. The Biological Opinion for the 14 dams in the Federal System has been the subject of ongoing litigation in U.S. District Court (Oregon). Most recently, the U.S. District Court rejected the federal government’s recovery plan for Columbia River salmon and steelhead in an opinion and order filed on May 4, 2016. The court remanded the 2014 Biological Opinion completed by NOAA Fisheries, but left it in place so that ongoing recovery actions could continue, while ordering NOAA to complete a new Biological Opinion by the end of 2018. The court order also required an updated Environmental Impact Statement (“EIS”) for Columbia River Systems Operations that will need to be completed by the Corps, the Bureau of Reclamation, and BPA by 2020. The outcome of this litigation, the new Biological Opinion, and the new EIS for the Federal System may affect the price and supply of power that the Department purchases from BPA and Grant PUD. See “Power Resources and Costs of Power—Purchased Power Arrangements.”

The Department’s power generation at the Boundary Project has been affected by NOAA’s salmon and steelhead recovery plans and the Biological Opinions on which they were based. Specifically, the Biological Opinions require reservoirs upstream from the Boundary Project to store more water during the winter for release in the spring and summer when it is needed for downstream juvenile fish migration. Therefore, generation at the Boundary Project is reduced in the fall and winter, when the region experiences its highest sustained energy demand. The water not released in the fall and winter from reservoirs upstream from the Boundary Project on the Pend Oreille River is released in the spring and summer, when it is sometimes spilled because the Boundary Project does not have sufficient hydraulic capacity to use all the available water for generation. This reduces the Boundary Project’s firm capability under the terms of the Coordination Agreement. See “Power Resources and Cost of Power—Overview of Resources.” Any new recovery plan or Biological Opinion issued by NOAA will likely result in changes in flows that could have an impact on the Boundary Project. For a discussion of additional environmental issues and the Boundary project, see “Power Resources and Cost of Power—Department-Owned Resources—Boundary Project.”

Recovery efforts for Bull Trout affect the cost of operations at the Boundary Project, but not power generation. The 2013 FERC license for the Boundary Project requires the Department to enhance the habitat for Bull Trout and suppress non-native trout. See “Power Resources and Cost of Power—Department-Owned Resources.”

Skagit, Tolt, and Cedar Rivers ESA-Listed Fish. ESA fish listings that may affect Department operations in western Washington include Bull Trout, Chinook Salmon, and steelhead. Bull Trout was listed as a threatened species by the USFWS in 1999. The Skagit River populations of Bull Trout are among the healthiest in the U.S. due to excellent habitat, cold water, and abundant food supply. Bull Trout are also found in Chester Morse Lake, in the Cedar River in the vicinity of the Cedar Falls Project, and in the mainstream Tolt River downstream of the South Fork Tolt Project. The Skagit River downstream of the Skagit Project is listed as Critical Habitat for Bull Trout by the USFWS, as are the major tributaries to the three project reservoirs. Bull trout populations have been increasing in the Skagit Project reservoirs and tributaries since the mid-2000s, and the populations have remained large and stable in the river downstream of the reservoirs. The Tolt and Cedar Rivers and reservoirs are excluded from the Critical Habitat designations for this species. A final recovery plan for Bull Trout was released by the USFWS in 2015.

Chinook Salmon in Puget Sound were listed as threatened by NOAA Fisheries in 1999, and are present in the Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities. Chinook Salmon populations increased to 30-year-high levels on the Skagit River from 2004 through 2006, declined below long-term average levels from 2007 through 2011, returned to average levels between 2012 and 2014, and increased above average levels in

2015 and 2016. The Skagit River continues to support the largest populations of Chinook Salmon in Puget Sound. The Skagit, Cedar, and Tolt Rivers downstream of the Department's hydroelectric facilities were designated as Critical Habitat for Chinook Salmon by NOAA Fisheries. The Department's dams on the Skagit and Tolt Rivers are located above natural passage barriers to salmon and steelhead.

Steelhead were listed as threatened by NOAA Fisheries in 2007. Winter steelhead populations are located in the Skagit, Cedar, and Tolt Rivers downstream of the Department's hydroelectric facilities. The South Fork Tolt River also has one of the few summer steelhead populations in the Puget Sound region, and summer steelhead are also present in the Skagit River. Steelhead populations declined to 30-year-low levels in most Puget Sound rivers during the early 2000s. Steelhead returns to the Skagit River basin declined below long-term average levels from 2006 through 2012, but increased above average values from 2013 through 2016. The Skagit River continues to support the largest steelhead populations in the Puget Sound region. NOAA Fisheries is in the process of developing a recovery plan for steelhead in the Puget Sound region, with the plan expected to be completed by the end of 2018.

Department Mitigation Efforts. The Department has undertaken a wide range of actions to reduce and mitigate potential adverse impacts of its operations on these listed fish species. On the Cedar River, the Department's activities are covered by a Habitat Conservation Plan that governs operations of the Cedar Falls Project with regard to all listed species and by an incidental take permit. Both the Skagit and South Fork Tolt Projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries, USFWS, WDFW, and tribes. These agreements include extensive measures to protect fish, including flow management measures and non-flow measures such as habitat restoration, conservation land acquisition, and research and monitoring. In addition, the Department is continuing an ESA habitat restoration, conservation land acquisition, and research program that supports the recovery of Bull Trout, Chinook Salmon, and steelhead populations in the Skagit and Tolt River watersheds. This program has funded several major habitat restoration projects for the three listed fish species in the Skagit and Tolt River watersheds. The Department has also acquired more than 3,000 acres of high quality habitat for listed fish species in these watersheds for permanent conservation protection. Monitoring and research studies by the Department are continuing in partnership with WDFW, the National Park Service, U.S. Fish and Wildlife Service, Skagit River System Co-op, and the Upper Skagit Tribe to determine the population status of and the factors potentially limiting Bull Trout, Chinook Salmon, and steelhead populations downstream of the Skagit Project, and Bull Trout populations in the three Skagit River reservoirs. In addition, monitoring and research studies are continuing in partnership with Tulip Tribes and WDFW on the South Fork Tolt River focused on Chinook Salmon and both summer and winter steelhead. These studies continue to be used to develop recovery plans and actions in cooperation with state and federal agencies, tribes, and regional salmon recovery organizations to improve habitat conditions for ESA-listed fish species.

The Skagit Project Biological Opinion for Chinook Salmon and steelhead was completed by NOAA Fisheries in 2012. It included four additional flow protection measures that the Department had already adopted voluntarily. The Skagit Project Biological Opinion for Bull Trout was completed by the USFWS in 2013 and included the same flow protection measures contained in the NOAA Fisheries Biological Opinion, as well as specific habitat conservation measures and population monitoring requirements. Continuing these required conservation measures will have no significant effect on the Department's operations at the Skagit Project.

Clean Water Act

As a condition for certain federal actions, including the licensing of hydroelectric projects, Section 401 of the federal Clean Water Act ("CWA") requires states to provide a "water quality certification." Section 401 certification demonstrates that discharges comply with state water quality standards, including various physical and chemical parameters. Section 401 has been interpreted to authorize states to condition their certification on standards for minimum stream flows to protect fish.

An agreement with State and federal agencies on minimum flows for the Newhalem Project was incorporated into the FERC license issued in 1997. These minimum flows were required for the Section 401 certification issued in 1996. Ecology implemented new water quality standards in 2007, intended to protect aquatic uses, including federally-listed fish species such as Bull Trout, Chinook Salmon, and steelhead. In 2011, Ecology issued a Section 401 certification as part of the FERC license for the Boundary Project. See "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project." The Department also participates in other water quality regulatory processes.

In August 2015, a new rule defining the “waters of the United States” under the CWA went into effect. Promulgated by EPA and the Corps, the rule redefines what individual bodies of water are jurisdictional under the CWA and thus subject to federal permitting requirements. The rule clarifies that certain tributaries, wetlands, and ditches connected to designated “waters of the United States” are also protected under the CWA. Following legal challenges throughout the country, a nationwide stay of the rule was issued by the U.S. Court of Appeals (Sixth Circuit) on October 2015. In May 2016, the U.S. Supreme Court ruled that landowners can challenge “waters of the United States” rulings in federal court. The final rule was published in the *Federal Register* on February 6, 2018, but won’t be applicable until 2020. The impact of the rule on the Department is expected to be minimal.

Renewable Energy and Greenhouse Gas Mitigation

In 2000, the City Council set a long-term goal for the Department to achieve greenhouse gas neutrality while meeting all of the electricity needs of the City. In 2005, the Department became the first electric utility in the country to achieve zero net greenhouse gas emissions. It has maintained that carbon neutral status every year since.

The Department has a very low emission factor as reported to and verified through the Climate Registry. The Department’s greenhouse gas emissions are so low because the Department currently uses hydroelectric resources for 88% of the power it provides. The Department’s carbon emissions are further reduced by its aggressive energy efficiency and conservation programs. Renewable energy projects have been added to the Department’s resource mix. See “Power Resources and Cost of Power—Purchased Power Arrangements.” The Department’s Green Up program offers its retail customers the opportunity to further support the acquisition of renewable energy credits. See “Department Financial Information—Retail Rates—Voluntary Green Power Program.” In addition, the Department’s IRP relies only on new renewables and conservation to meet future load growth. The Department purchases greenhouse gas offsets for the emissions it does generate.

Federal and state initiatives have been proposed to address global climate change by controlling or monitoring greenhouse gas emissions, encouraging renewable energy development, and implementing other measures. Several carbon taxes have been proposed for the State, but none have been adopted to date. Ecology released the draft of the proposed Clean Air Rule in June 2016. The Department is not expected to be regulated under this newly proposed rule, and as of December 15, 2017, the Rule’s compliance requirements have been suspended. The Department reports to EPA a small amount of emissions of a potent greenhouse gas used in electrical equipment, but any associated cost impacts resulting from future legislation are expected to be low. The Department has no fossil fuel plants and very small operational emissions. In addition, IRP analyses suggest that a carbon tax or carbon cap and trade regime could increase the competitiveness of the Department’s wholesale power sales, because 88% are from power resources with no CO₂ emissions.

Climate Change

The Department continues to research and monitor potential effects of climate change. In 2016, the Department completed a Climate Change Vulnerability Assessment and Adaptation Plan to identify potential actions to reduce risks associated with climate change. The Department is a member of the U.S. Department of Energy Partnership for Energy Sector Climate Resilience, developing best practices to increase resilience to climate change and extreme weather.

The Department’s resource mix is 88% hydro-based generation. The physical effects of climate change are expected to affect the amount, timing, and availability of hydroelectric generation in the future. In cooperation with the University of Washington’s Civil and Environmental Engineering Department, the Department is studying how projected changes in temperature, rainfall, and snowpack could affect glaciers and streamflow in the region and thus future output from its hydropower generating plants and other hydropower purchases. The climate change studies described in the 2010 through 2014 IRPs suggest little change in annual generation, but gradually increasing runoff during the winter peak demand period, accompanied by gradually decreasing runoff during the late summer and fall. Warmer temperatures may also cause small decreases in winter electricity demand. The projected effects of climate change on hydropower generation and demand are much less adverse for the Department as a winter-peaking utility than for summer-peaking utilities. In cooperation with the University of Washington’s Climate Impacts Group, the Department conducted research on future changes in lightning potential and windstorms due to climate change in western Washington. The study showed little change in these extreme weather events. The Department will be less

affected by changes in extreme weather and sea level rise than other City departments, but coordinates with other City departments to understand potential risks. The Department continues to monitor new information on potential climate change effects through its Climate Change Initiative as part of the 2019-2024 Strategic Plan.

VARIOUS FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of many electric utilities, including the Department, and the level of utilization of generating and transmission facilities. Such factors include, among others:

- (i) effects of compliance with changing environmental, safety, licensing, regulatory, and legislative requirements;
- (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy;
- (iii) changes resulting from a national energy policy;
- (iv) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and “strategic alliances” of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity;
- (v) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities;
- (vi) increased competition from independent power producers and marketers, brokers, and federal power marketing agencies;
- (vii) “self-generation” or “distributed generation” (such as microturbines and fuel cells) by industrial and commercial customers and others;
- (viii) effects of inflation on the operating and maintenance costs of an electric utility and its facilities;
- (ix) changes from projected future load requirements;
- (x) increases in costs and uncertain availability of capital;
- (xi) shifts in the availability and relative costs of different fuels (including the cost of natural gas);
- (xii) increases or decreases in the price of energy purchased or sold on the open market that may occur in times of high peak demand or supply;
- (xiii) issues with transmission capacity and integrating wind power generation;
- (xiv) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity;
- (xv) other legislative changes, voter initiatives, referenda, statewide propositions, sequestration, and other failures of Congress to act;
- (xvi) effects of changes in the economy;
- (xvii) effects of possible manipulation of the electric markets;
- (xviii) natural disasters or other physical calamities, including, but not limited to, earthquakes, tsunamis, floods, mud slides, volcanic eruptions, wildfires, droughts, and wind storms;
- (xix) man-made physical and operational disasters, including but not limited to terrorism, security (including cybersecurity) breaches, cyber-attacks, and collateral damage from untargeted computer viruses;
- (xx) variations in the weather and changes in the climate; and
- (xxi) failures of or other issues with infrastructure.

Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities, including the Department, in different ways.

The Department is unable to predict what impact such factors will have on its business operations and financial condition. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

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

The 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, firefighting 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 seven Municipal Court judges are all elected to four-year terms. The nine City Council members are elected to staggered four-year terms.

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

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

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

Financial Management

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

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

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the 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 2016 may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>. The City anticipates that its audited financial statements for its fiscal year 2017 will be made publicly available after the date of this Official Statement.

The Department's 2017 financial statements are also audited by an independent auditor and are attached as Appendix D.

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 2018 budget was adopted on November 20, 2017. The City's adopted General Subfund budget was approximately \$1.22 billion in 2017 and is approximately \$1.27 billion in 2018.

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; certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar-denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder; Federal Home Loan bank notes and bonds, Federal Land Bank bonds and Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation, or the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve system; bankers' acceptances purchased on the secondary market; commercial paper purchased in the secondary market, provided that any local government of the State that invests in such commercial paper must adhere to the investment policies and procedures adopted by the Washington State Investment Board; and corporate notes purchased on the secondary market, provided that any local government of the State that invests in such notes must adhere to the investment policies and procedures adopted by the Washington State Investment Board.

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 used 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, 2017, the combined investment portfolios of the City, not including pensions, totaled \$2,352.2 million at par value. The City’s investment portfolios consist solely of City funds. As of December 31, 2017, the earnings yield on the City’s investment portfolios was 1.56%, and the average maturity of the City’s investment portfolios was 941 days. Approximately 41.0%, or \$965.3 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 and Agencies	29%
U.S. Government	20%
Commercial Paper	16%
Taxable Municipals	15%
U.S. Government Agency Mortgage-Backed	10%
State Local Government Investment Pool	5%
Bank Deposit Notes	2%
Repurchase Agreements	2%

(1) Includes FDIC-backed and U.S. Department of Housing and Urban Development securities.

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. As of May 31, 2018, the City has outstanding 12 interfund loans totaling \$41.1 million, in amounts ranging from \$2.2 million to \$18.6 million.

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

The information below describes pension plans available to City employees generally. City employees are eligible for coverage by one of the following defined benefit pension plans: 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").

Pursuant to an agreement with various City labor unions, the City Council passed legislation in August 2016 that created a new defined benefit retirement plan, SCERS Plan 2 ("SCERS 2"), covering non-uniformed employees. The new plan is open to employees first hired on or after January 1, 2017. SCERS 2 includes, among other adjustments to SCERS Plan 1 ("SCERS 1"), a slight decrease in benefit levels, raising the minimum retirement age, and deferring retirement eligibility by increasing the age-plus-years-of-service required for retirement with full benefits. The City expects SCERS 2 to provide a more cost-effective method for the City to provide retirement benefits to its employees. It does not affect uniformed employees. The historical information provided in this section relates only to SCERS 1.

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

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. Newly-hired uniformed police and fire personnel are generally eligible for membership in LEOFF. The Seattle Firefighters' Pension Fund and Police Relief and Pension Fund have been closed to new members since 1977.

Change in Accounting Standards. In 2012, the Governmental Accounting Standards Board ("GASB") approved Statement No. 67 ("GASB 67") and GASB 68, which modified the accounting and financial reporting of pensions by pension plans (GASB 67) and by state and local government employers (GASB 68). GASB 67 affects the financial reporting requirements for the pension systems and does not change the funding requirements for members, employers, or the State. Under GASB 67, pension plans are required to report Total Pension Liability ("TPL") and Net Pension Liability instead of the previously required Unfunded Actuarial Accrued Liability ("UAAL"). GASB 67 requires multi-employer plans to provide a schedule in the notes to the financial statements that displays the proportionate share of contributions per employer, to be used in determining the proportionate share of the NPL that the employer recognizes on its financial statements under GASB 68. GASB 68 requires employers to report any NPL, including a proportionate share of the multiple-employer plans to which they contribute, as a liability in their Statement of Net Position.

The SCERS Annual Report (for the fiscal year ended December 31, 2016) and the DRS Comprehensive Annual Financial Reports for LEOFF (for the fiscal year ended June 30, 2016) were prepared in accordance with GASB 67.

The 2017 Financial Statements, attached as Appendix D, have been prepared in accordance with GASB 68. The Seattle City Light Fund reported a liability of \$288.8 million and \$317.8 million representing its proportionate share of NPL for SCERS as of December 31, 2017, and December 31, 2016, respectively. The effect of this recognition is reflected in its Balance Sheets and its Statement of Revenues, Expenses and Changes in Net Position in the 2017 Financial Statements. The NPL was measured as of December 31, 2016, and December 31, 2015, and the TPL used to calculate the NPL was based on the actuarial valuations as of January 1, 2016, and January 1, 2015, rolled forward to December 31, 2017, and December 31, 2016, respectively. The Seattle City Light Fund's proportion of the NPL was based on contributions to SCERS during the fiscal years ended December 31, 2016, and December 31, 2015. The Seattle City Light Fund's proportionate share was 22.13% and 24.46% for the years ended December 31, 2017, and December 31, 2016, respectively. Schedules of the Seattle City Light Fund's proportionate share of NPL and of the Seattle City Light Fund's contributions are provided as required supplementary information to the Department's 2017 Financial Statements.

The City's financial statements for the fiscal year ended December 31, 2016, were prepared in accordance with GASB 68. The City's Comprehensive Annual Financial Report for 2016 may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>.

Seattle City Employees' Retirement System. SCERS is a cost-sharing multiple-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 Director of Finance, the City's Human Resources 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 is a pension trust fund of the City and provides retirement, death, and disability benefits under SCERS 1 and SCERS 2. Employees first entering the system on or after January 1, 2017, are enrolled in SCERS 2, with limited exceptions for certain exempt employees and those with service credit prior to January 1, 2017. Members already enrolled in SCERS 1 do not currently have an option to switch to SCERS 2.

Under SCERS 1, 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. Under SCERS 2, 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 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months. The benefit is actuarially reduced for early retirement.

According to the most recent actuarial valuation (with a valuation date as of January 1, 2017), which was completed on June 30, 2017 (the "2016 Actuarial Valuation"), there were 6,382 retirees and beneficiaries receiving benefits, and 9,151 active members of SCERS 1. There are an additional 1,394 terminated employees in SCERS 1 who are vested and entitled to future benefits and another 958 who are not vested and not entitled to benefits beyond contributions and accumulated interest. From January 1, 2016, to January 1, 2017, the net number of active members in SCERS 1 increased by 3.0%, the net number of retirees receiving benefits increased by 2.6%, and the net number of vested terminated members increased by 2.7%. Information regarding enrollment in SCERS 2 is not available, as the plan opened on January 1, 2017.

Certain demographic data from the 2016 Actuarial Valuation are shown below:

TABLE 16
PLAN MEMBER DEMOGRAPHIC INFORMATION, SCERS 1

<u>Age Range</u>	<u>Retirees and Beneficiaries</u>		<u>Active Employees</u>	
	<u>Number⁽¹⁾</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<25	-		90	1.0%
25-39	-		2,239	24.5%
40-49	10 ⁽²⁾	0.2% ⁽²⁾	2,283	24.9%
50-59	304	4.8%	2,758	30.1%
60-69	2,341	37.2%	1,653	18.1%
70+	3,633	57.8%	128	1.4%

(1) Does not include 91 survivors receiving Option B or Option C benefits for a certain period.

(2) Includes everyone under the age of 50.

Source: 2016 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, for the years ended December 31, 2016, and December 31, 2015, was transmitted on July 7, 2017, by CliftonLarsonAllen LLP (the “2016 SCERS Annual Report”)

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 set forth in the financial statements for the year ending December 31, 2013. 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).

Milliman Consultants and Actuaries, as consulting actuary, has evaluated the funding status of SCERS annually since 2010. The most recent actuarial report is the 2016 Actuarial Valuation (with a valuation date as of January 1, 2017). The SCERS actuarial valuation as of January 1, 2018, is expected to be presented to the SCERS Board for review and approval on or about August 9, 2018. Once approved, the actuarial valuation report will be available on the City’s website at <http://www.seattle.gov/retirement/about-us/board-of-administration#actuarialreports>. Historically, the City prepared actuarial valuations biennially, but has prepared them annually since 2010.

As of January 1, 2017 (as set forth in the 2016 Actuarial Valuation), the actuarial value of net assets available for benefits was \$2.564 billion and the actuarial accrued liability was \$3.766 billion. The 2016 Actuarial Valuation utilized 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%.

A UAAL exists to the extent that actuarial accrued liability exceeds plan assets. The UAAL decreased from \$1,208.0 million as of January 1, 2016, to \$1,202.3 million as of January 1, 2017. The funding ratio increased from 66.5% as of January 1, 2016, to 68.1% as of January 1, 2017, which increase is primarily due to the UAAL amortization payment made by the City during the prior year. For the year ending December 31, 2016, SCERS assets returned about 8.4% on a market basis (net of investment expenses), a rate of return greater than the assumed rate of 7.50%. The result is an actuarial gain on assets for 2016, but only one-fifth of this gain will be recognized in the current year actuarial value of assets (“AVA”). 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 for SCERS 1:

TABLE 17
HISTORICAL SCERS 1 SCHEDULE OF FUNDING PROGRESS⁽¹⁾
(\$000,000)

Actuarial Valuation Date (January 1)⁽²⁾	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)⁽³⁾	Unfunded AAL (UAAL)	Funding Ratio	Covered Payroll⁽⁴⁾	UAAL as % of Covered Payroll
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 %
2015 ⁽⁵⁾	2,266.7	3,432.6	(1,165.9)	66.0%	630.9	184.8 %
2016 ⁽⁵⁾	2,397.1	3,605.1	(1,208.0)	66.5%	641.7	188.3 %
2017 ⁽⁵⁾	2,564.1	3,766.4	(1,202.3)	68.1%	708.6	169.7 %

(1) For accounting purposes under GASB 67/68, UAAL is replaced with NPL. However, because the City continues to set its contribution rates based on an actuarially required contribution (“ARC”) based on the UAAL and funding ratios calculated under the pre-GASB 67/68 methodology, both methods are currently reported in the SCERS actuarial valuations and annual reports.

(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: 2016 Actuarial Valuation

In accordance with GASB 67, the SCERS 2016 Annual Report calculated TPL and NPL based on the actuarial valuation dated as of January 1, 2017, rolled forward using generally accepted actuarial procedures (assuming a 7.50% investment rate of return and 4.00% salary increases) to December 31, 2016, as follows: TPL was calculated to be \$3,793.6 million; plan fiduciary net position (“Plan Net Position”) was calculated to be \$2,488.5 million, and NPL was calculated to be \$1,305.0 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 65.6%. A Schedule of the Department’s Proportionate Share of the Net Pension Liability and Schedule of the Department’s Contributions are set forth in the required supplementary information in Appendix D—2017 Audited Financial Statements of the Department.

SCERS CONTRIBUTION RATES. Member and employer contribution rates for SCERS 1 and SCERS 2 are established separately by Chapter 4.36 of the SMC. The SMC provides that the City contribution for SCERS 1 must match the normal contributions of SCERS 1 members and does not permit the employer rate

to drop below the employee rate. There is no similar restriction in the SMC with respect to SCERS 2. 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 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 2016 Actuarial Valuation calculation, a 26-year amortization period was used. This policy may be revised by the City Council in future years. The 2016 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 for SCERS 1, based on a percentage of employee compensation (exclusive of overtime), are shown in the table below. The employee rate for SCERS 2 beginning on January 1, 2017, is 7.0%, and the employer rate is 14.42%.

**TABLE 18
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
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%
2015	15.73%	10.03%	25.76%	25.76%	100%	26.38%	98%
2016	15.23%	10.03%	25.26%	25.26%	100%	N/A	N/A
2017	15.29%	10.03%	25.32%	25.32%	100%	N/A	N/A
2018	15.23%	10.03%	25.26% ⁽³⁾	25.00%	100%	N/A	N/A

(1) Reflects total actuarial required contribution (*i.e.*, 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. 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).

(3) The City is intentionally contributing more than the total ARC in 2018 to reduce the projected increase in future contribution rates. See Table 19.

Source: Seattle Municipal Code; 2017 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 with its budget. See Table 18—Employer and Employee SCERS Contribution Rates and Table 19—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.

Projected total actuarially required contribution rates for SCERS 1 reported in the 2016 Actuarial Valuation are shown in the table below:

**TABLE 19
PROJECTED ACTUARIALY REQUIRED TOTAL CONTRIBUTION RATES FOR SCERS 1
BY EMPLOYER AND EMPLOYEE**

Contribution Year⁽¹⁾	Assuming 7.50% Returns	Confidence Range⁽²⁾
2018	25.00%	25.00-25.00
2019	25.08%	25.82-24.35
2020	25.41%	27.05-23.86
2021	25.67%	28.47-23.10
2022	25.63%	29.85-21.86
2023	25.63%	31.52-20.45

(1) Contribution year lags valuation year by one. For example, contribution year 2018 is based on the 2016 Actuarial Valuation (as of January 1, 2017) results, amortized over 26 years beginning in 2017 if the contribution rate change takes place in 2017.

(2) Confidence range if asset return at 95th percentile and if asset return at 5th percentile.

Source: 2016 Actuarial Valuation

Employer contributions were \$108.5 million in 2016, of which approximately \$25.3 million was from the Seattle City Light Fund. In 2017, employer contributions were approximately \$112.1 million, of which approximately \$23.7 million was from the Seattle City Light Fund. The employer share for employees of each of the utility funds is allocated to and paid out of those funds.

INVESTMENT OF SCERS PLAN FUNDS. In accordance with chapter 35.39 RCW, the Board has established an investment policy for the systematic administration of SCERS funds. The investment of SCERS funds is governed primarily by the prudent investor rule, as set forth in RCW 35.39.060. SCERS invests retirement funds for the long term, anticipating both good and poor performing financial markets. Contributions into SCERS 1 and SCERS 2 are invested together

SCERS' net assets increased by \$175.5 million (7.6%) during 2016, including member and employer contributions of \$180.2 million and net revenue from investment activity totaling \$189.9 million. Expenses increased by \$11.0 million in 2016, primarily attributed to a \$9.6 million increase in retiree benefit payments.

Table 20 shows the historical market value of SCERS' net assets (as of each December 31). Table 21 shows the revenue or loss from investment activity for the last ten years.

TABLE 20
MARKET VALUE OF ASSETS

Year (As of December 31)	Market Value of Assets (MVA)⁽¹⁾
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
2014	2,322.7
2015	2,313.0
2016	2,479.8

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 21
SCERS INVESTMENT RETURNS

Year (As of December 31)	Net Investment Income (Loss)	
	Amount⁽¹⁾	%⁽²⁾
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%
2014	122.5	5.7%
2015	7.1	0.3%
2016	189.9	8.6%

(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 22
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2017	2016	2015	2014	2013
Fixed Income	22.9%	28.4%	24.2%	23.7%	23.1%
Domestic and International Stocks	57.4%	53.3%	60.0%	60.8%	59.4%
Real Estate	12.2%	12.8%	11.0%	10.6%	11.3%
Alternative Investments	7.4%	5.4%	4.8%	4.9%	6.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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 January 1, 2017, membership in these plans consisted of 675 fire employees and survivors and 745 police employees and survivors. 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 valuations, dated January 1, 2017, use the Entry Age Normal ("EAN") Actuarial Cost Method and value plan assets at fair value. The actuarial valuation for the firefighters' pension fund uses the following long-term actuarial assumptions: inflation rate (CPI), 2.25%; investment rate of return, 6.00%; and projected salary increases, 2.75%. The actuarial valuation for the Police Relief and Pension Fund uses the following long-term actuarial assumptions: inflation rate (CPI), 2.25%; investment rate of return, 3.75%; and projected salary increases, 2.75%. 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 and last year was extended again to 2028). For 2017, the City funded 100% of the ARC but only a portion of the projected payment necessary to fully fund the AAL by 2028. The City's 2018 budget also anticipates fully funding the ARC and making partial payments toward the full funding of the AAL. As of January 1, 2017, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was \$15.3 million, and the AAL was \$83.2 million. As a result, the UAAL was \$67.9 million and the funded ratio was 18.4%. The City's employer contribution to the fund in 2016 was \$6.9 million, representing 140% of the ARC; there were no current member contributions. Under State law, partial funding of the Firefighters' Pension Fund may be provided by an annual property tax levy of up to \$0.225 per \$1,000 of assessed value within the City. The City does not currently levy this additional property tax, but makes contributions out of the General Fund levy. The fund also receives a share of the State tax on fire insurance premiums.

The City funds the Police Relief and Pension Fund as benefits become due. As of January 1, 2017, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was \$6.0 million, and the AAL was \$93.4 million. As a result, the UAAL was \$87.4 million and the funded ratio was 6.4%. The City's employer contribution to the fund in 2016 was \$7.8 million, representing 127% 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 State-wide, multiple-employer 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 \$14.7 million in 2016 and \$14.2 million in 2015. The following table outlines the contribution rates of employees and employers under LEOFF.

TABLE 23
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL
(AS OF JULY 1, 2017)

	From January 1, 2017 Through June 30, 2017		As of July 1, 2017	
	Plan 1	Plan 2	Plan 1	Plan 2
Employer	0.18% ⁽¹⁾	5.23% ⁽¹⁾	0.18% ⁽¹⁾	5.43% ⁽¹⁾
Employee	0.00	8.41%	0.00	8.75%
State	N/A	3.36%	N/A	3.50%

(1) Includes a 0.18% 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 2016 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 30, 2016, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 126% and LEOFF Plan 2 had a funded ratio of 105%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.7% 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, 3.0% consumer price

index increase, and annual growth in membership of 1.25%. Liabilities were valued using the EAN Actuarial Cost Method and assets were valued using the AVA, 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 1, SCERS 2, 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 GASB 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 1, SCERS 2, or LEOFF plans. The last valuation was as of January 1, 2017, and showed the UAAL for the implicit rate subsidy was \$70.1 million; the City’s estimated annual cost in 2017 was \$7.0 million and the City’s estimated contribution in 2017 was \$2.3 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, 2017, the UAAL for OPEB in the City’s Firefighters’ Pension Fund was \$301.3 million; the estimated annual cost for 2017 was \$16.2 million and the estimated annual contribution for 2017 was \$11.5 million. As of January 1, 2017, the UAAL for OPEB in the Police Relief and Pension Fund was \$330.9 million; the estimated annual cost for 2017 was \$22.1 million and the estimated annual contribution for 2017 was \$14.0 million.

For additional information regarding the City’s OPEB liability, see Note 11 to the City’s 2016 Comprehensive Annual Financial Report.

Labor Relations

As of March 2018, the City had 36 separate departments and offices with approximately 13,660 regular and temporary employees. Twenty-three different unions and 50 bargaining units represent approximately 74% of the City’s regular employees.

In 2016, the City adopted legislation approving an agreement reached in 2015 with the Coalition of City Unions (comprising bargaining units representing the majority of City employees) and other non-Coalition unions. All of the agreements with the bargaining units comprising the Coalition of City Unions and with the other non-Coalition unions have been fully implemented. These agreements are effective through December 31, 2018. The City has completed negotiations with the Seattle Police Management Association (agreement expires December 31, 2019), the Seattle Fire Chiefs (expires December 31, 2018), and IBEW Local 77 Seattle City Light and Seattle Department of Transportation (expire January 22, 2021).

The City has opened contract negotiations with the Seattle Fire Fighters and soon will be opening contract negotiations with the Coalition of City Unions, other non-Coalition unions, and the Seattle Fire Chiefs. The City has transitioned from mediation back to negotiations with the Seattle Police Officers’ Guild, whose contract expired in 2014. Under Washington State law, police are prohibited from striking, so if negotiations or mediation fail, the parties would be subject to arbitration. Members of the Seattle Police Officers’ Guild continue to work under the terms of the expired contract.

There is no expected date by which the agreements that are currently in negotiations will be reached, and unions continue to operate under current or expired contracts.

All of the agreements with bargaining units whose members are SCERS participants (which excludes the Seattle Police Management Association, Seattle Police Officers’ Guild, and Seattle Fire Chiefs’ Association) contain or will contain a provision for the implementation of SCERS 2 as of January 1, 2017. See “Pension Plans.”

Emergency Management and Preparedness

The City's Office of Emergency Management ("OEM") is responsible for coordinating the City's resources and responsibilities in dealing with emergencies. The OEM prepares for emergencies, coordinates with regional, State, and federal response agencies, 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, active shooter incidents, 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. For a description of risk management and emergency response specific to the Department, see "Seattle City Light Department—Enterprise Risk Management and Emergency Response."

Climate Change. There are potential risks to the City associated with changes to the climate over time and from increases in the frequency, timing, and severity of extreme weather events. The City is preparing for a changing climate and the resulting economic, infrastructure, health, and other community impacts by integrating consideration of climate change into decision making and identifying mitigation and adaptation actions to enhance the resilience of services and infrastructure. The City passed Resolution 31447 in June 2013 adopting a Climate Action Plan to provide long-term planning direction and guide climate protection and adaptation efforts through 2030. In November 2017, the City's Office of Sustainability and the Environment ("OSE") released a report, "Preparing for Climate Change," that focuses on strategies and actions that can be taken over the next five years to improve the climate preparedness of City infrastructure and services and will help facilitate coordination across City government. The report includes sector-specific strategies for transportation; land use and buildings; city buildings; parks; drainage, and water supply; electricity system; and community preparedness. The City cannot predict how or when various climate change risks may occur nor can it quantify the impact on the City, its population, or its operations. Over time, the costs could be significant and could have a material adverse effect on the City's finances by requiring greater expenditures to counteract the effects of climate change. For a description of climate change factors specifically affecting the Department, see "Environmental Matters—Climate Change."

Cybersecurity. Cybersecurity threats continue to become more sophisticated and are increasingly capable of impacting the confidentiality, integrity, and availability of City systems and applications, including those of critical controls systems. Seattle IT, working in conjunction with various City departments, has and continues to institute processes, training, and controls to maintain the reliability of its systems and protect against cybersecurity threats as well as mitigate intrusions and plan for business continuity via data recovery. Cybersecurity incident response plans are reviewed regularly, and tabletop and other exercises are conducted annually to assess the effectiveness of those plans. Seattle IT and third-party professional services also conduct cyber security assessments with the intent to identify areas for continual improvement, and develop work plans to address issues and support the cyber security program. This includes technical vulnerability assessments, penetration testing, and National Institute of Standards ("NIST") 800-53a cybersecurity risk assessments. Seattle IT continuously reviews and updates processes and technologies to mature security practices according to the NIST Cybersecurity Framework. Cybersecurity risks create potential liability for exposure of nonpublic information and could create various other operational risks. The City cannot anticipate the precise nature of any particular breach or the resulting consequences. For a description of cybersecurity issues affecting the Department, see "Seattle City Light Department—Enterprise Risk Management and Emergency Response—Cybersecurity."

OTHER CONSIDERATIONS

Federal Sequestration and Other Federal Funding Considerations

Federal Sequestration. The sequestration provisions of the Budget Control Act of 2011 ("Sequestration") went into effect on March 1, 2013, and are currently scheduled to remain in effect through federal fiscal year 2024. The only direct impact of sequestration on the Department for FFY 2018 is expected to be a 6.6% reduction in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds; 2010C

(Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department received approximately \$434,000 less in interest subsidies than originally anticipated for 2017. The Department has sufficient revenues to pay the interest without these subsidies. Sequestration was originally in effect through FFY 2021 and has subsequently been extended through FFY 2024.

The City cannot predict whether the current Congress and administration will continue to implement Sequestration or other federal funding policies in the same manner as under the previous administration. Further, the City cannot predict whether Sequestration or other federal funding policies may be enacted or implemented in a way that negatively or disproportionately affects certain cities or regions that adopt policies that are inconsistent with the current federal administration’s policy priorities.

Other Federal Funding Considerations Relating to “Sanctuary Cities” Executive Order and Related Matters. On March 29, 2017, the City filed a challenge (the “Complaint”) to President Trump’s January 25, 2017, Executive Order (the “Order”) which directs reductions in or denial of federal funds to local jurisdictions that refuse to assist in federal immigration enforcement activities. The Complaint argues that the Order violates the 10th Amendment and the Spending Clause (Art. I, §8, cl. 1) of the U.S. Constitution. The Order has also been challenged by multiple other local jurisdictions. A nation-wide preliminary injunction was entered against its implementation on April 25, 2017, by the U.S. District Court for the Northern District of California in the case of *County of Santa Clara v. Trump*. On November 20, 2017, the District Court granted summary judgment in favor of the plaintiffs, thus making the preliminary injunction permanent. The court’s order is currently on appeal to the Ninth Circuit Court of Appeals. Because the issues in *County of Santa Clara* are nearly identical to those in Seattle’s case (*City of Seattle v. Trump*), the parties in Seattle’s case agreed to stay the case pending the final conclusion of the *County of Santa Clara* case.

At this time, it is unclear how, whether, or when actions might be taken to reduce funding to any local jurisdiction pursuant to this Order. Nonetheless, the City expects that, if the Ninth Circuit Court of Appeals lifts the injunction and the administration were to implement reductions, the City would likely be one of many local jurisdictions affected. The City cannot predict the outcome of its lawsuit or the effect of any other pending lawsuits or appeals challenging the Order.

The Department does not receive significant amounts of federal funding for capital or operating purposes for the Light System (other than the tax credit subsidy payments discussed above under “Federal Sequestration”). The City would not expect the Light System to be materially affected if federal funding reductions were to occur.

Considerations Related to Alaskan Way Viaduct Replacement Program and Waterfront Seattle Program

Alaskan Way Viaduct Replacement Program and Waterfront Seattle Program. The Alaskan Way Viaduct Replacement Program (“AWVR Program”) consists of multiple projects to remove and replace the State Route 99 Alaskan Way Viaduct with a bored tunnel, including the Waterfront Seattle Program, which is a City program consisting of multiple projects that replace an existing seawall (the “Seawall Project”) and will create 20 acres of new and improved parks and public space and connectivity in and around the City’s central waterfront area (“Waterfront Seattle Program”). The various projects comprising the AWVR Program are separate public projects by separate lead public agencies being implemented in a coordinated and phased manner pursuant to a series of written agreements. There is also coordination between the Waterfront Seattle Program and other redevelopment projects undertaken by other public agencies in the central waterfront area, such as the recently completed Pike Place Market Preservation and Development Authority’s MarketFront Project.

State’s Bored Tunnel Project. The State’s project to replace the Alaskan Way viaduct with a bored tunnel (the “State’s Bored Tunnel Project”) is currently scheduled for completion in late 2018. The State’s Bored Tunnel Project is being undertaken pursuant to a contract between the Washington State Department of Transportation (“WSDOT”) and a joint venture named Seattle Tunnel Partners. The City is not a party to that contract, and responsibility for any direct cost overruns will be governed by that contract; the City has no direct contractual liability.

State's Alaskan Way Viaduct Demolition and Battery Street Tunnel Decommissioning Project. Upon completion of the State's Bored Tunnel Project, the State will undertake the Alaskan Way Viaduct Demolition and Battery Street Tunnel Decommissioning Project ("State's Demolition Project"), which is scheduled to begin in early 2019, along with various work to make the final connections necessary to open the State's bored tunnel to traffic and to complete surface street improvements near the tunnel's entrances.

City Contracts with the State. The City has a series of written agreements with WSDOT relating to the coordination of projects within the AWVR Program, covering various issues such as the protection, repair, and relocation of the City's utility infrastructure impacted by or constructed as part of the State's Bored Tunnel or Demolition Projects. In general, these agreements provide that the City is responsible for relocating certain utility infrastructure that conflicts with the State's Projects and the State is responsible for avoiding damage and repairing or replacing damaged utility infrastructure as defined in the agreements. The City's utilities have budgeted according to the agreements for the State's Bored Tunnel and Demolition Projects, plus necessary contingencies. The City has also entered into an agreement with WSDOT regarding the New Alaskan Way Roadway. The City is working with the State to closely coordinate the construction of the New Alaskan Way Roadway with the State's Alaskan Way Viaduct Demolition Project. Although the State is responsible for the cost of constructing the New Alaskan Way Roadway (after removal of the Alaskan Way Viaduct), the City will be responsible for the construction project.

Waterfront Seattle Program. This Program includes or will include various City capital improvements that span the City's central waterfront from Pioneer Square to Belltown. It includes the rebuilt Elliott Bay Seawall, and will include 20 acres of new and improved public space, improved connections between center city neighborhoods and Elliott Bay, critical utility infrastructure, and new Alaskan Way and Elliott Way surface streets to serve all modes of travel. The budget for the Program projects, except the Seawall Project, is approximately \$688 million. The City's funding plan for the Program, except the Seawall Project, includes a mix of funding sources from various City revenues (e.g. commercial parking tax, real estate excise tax), grant funding, WSDOT funding, philanthropy (approximately \$100 million) to be raised by Friends of the Waterfront, and proposed local improvement district assessments (see "— Central Waterfront Local Improvement District" below). Construction of the various projects in the Program will be phased and construction of the first elements are anticipated to begin in mid-2019.

Status of City's Seawall Project. Construction of the major elements of the City's Seawall Project was completed in 2017. The final component of the Seawall Project will be constructed in conjunction with the Waterfront Seattle Program on a timeline that is yet to be determined.

Central Waterfront Local Improvement District. The City is pursuing the creation of a local improvement district ("LID") to finance a portion of the costs of certain improvements that are part of the Waterfront Seattle Program. A Preliminary Local Improvement District Feasibility Study was completed in August 2017, studying the feasibility of financing all or a portion of seven projects which are elements of the Seattle Waterfront Program. In May 2018, the City released a Summary of Formation Special Benefit/Proportionate Assessment Study that provided special benefit estimates and recommended preliminary assessments to finance six of those projects, including Promenade, Overlook Walk, Pioneer Square Street Improvements, Union Street Pedestrian Connection, Pike/Pine Streetscape Improvements, and Waterfront Park (the "LID Improvements"), through an LID.

On June 1, 2018, the City Council adopted Resolution 31812 declaring its intention to order the construction of the Waterfront Seattle Program; to form an LID that would issue bonds in an amount not to exceed \$200 million to finance a portion of the LID Improvements, and to set a public hearing schedule as part of the formal public comment period which began July 13, 2018, and concluded July 31, 2018. Under State law, the owners of property within the proposed LID have an opportunity to protest or challenge the formation of an LID. Formal comments submitted at the public hearings will be compiled into a report for City Council to review prior to its consideration of passing an ordinance to form the LID, anticipated for fall 2018. Property owners may also submit written protests through the date 30 days after the LID formation ordinance, if adopted. As currently proposed, the share of the LID costs to be borne by special assessments is estimated to be approximately \$200 million. If an LID is formed, the City would then consider the need for interim financing pending the issuance of LID bonds to finance the proposed improvements. LID bonds, payable from the special assessments, would then likely be issued within the following two to five years.

Considerations Specific to the Department. The AWVR Program, including the State's Bored Tunnel Project, the Seawall Project, and the Waterfront Seattle Program, involves the relocation and construction of various components

of the City’s utility infrastructure, including infrastructure that is or will be owned by the Department. The budgeted CIP for each City utility, including that of the Department, incorporates the estimated cost and timing of expenditures associated with its respective utility infrastructure projects. See “Capital Requirements—Distribution.” Any revision in the scope or timing may lead to an increase in the ultimate cost of these various utility infrastructure projects.

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

LEGAL AND TAX INFORMATION

No Litigation Relating to the Bonds

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds. 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, the Department is subject to legal actions that arise in the ordinary course of business of running a municipal electric power utility, including various lawsuits and claims involving claims for money damages. (See Appendix D—2017 Audited Financial Statements of the Department—Notes 10, 11, and 14.) Based on its past experience and the information currently known, the Department 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 Department 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 Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix C. 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 opinions to

reflect any facts or circumstances that may thereafter come to its attention or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and do not constitute a guarantee of result. Certain legal matters will be passed on for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Seattle, Washington. Any opinion of Orrick, Herrington & Sutcliffe LLP will be addressed solely to the Underwriter and may not be relied upon by owners of the Bonds. Bond Counsel and Underwriter's 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 Ordinance 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 Ordinance or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the Registered Owners of the Bonds.

The rights and obligations under the Bonds and the Bond Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

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

The opinion to be delivered by Stradling Yocca Carlson & Rauth, a Professional Corporation, 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 C.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, 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 calculating the federal alternative minimum tax imposed on individuals.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of the Bond is excluded from gross income of such Beneficial Owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount, if any) on the Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount, if any) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount, if any) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes

amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Beneficial Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Bond Ordinance and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount, if any) on any Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest (and original issue discount, if any) on the Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount, if any) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount, if any) on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

CONTINUING DISCLOSURE AGREEMENT

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of SEC Rule 15c2-12(b)(5) ("Rule 15c2-12"), as applicable to a participating underwriter for the Bonds, the City will execute the Continuing Disclosure Agreement (the "CDA") 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 regarding the Light System of the type included in this Official Statement as generally described below ("annual financial information"). The timely filing of unaudited financial statements will satisfy the requirements and filing deadlines described below under "Type

of Annual Financial Information Undertaken to be Provided,” so long as audited financial statements are filed if and when they are otherwise prepared and available to the City; 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), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
 - (g) modifications to rights of holders of the Bonds, if material;
 - (h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
 - (i) defeasances;
 - (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
 - (k) rating changes;
 - (l) bankruptcy, insolvency, receivership, or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12;
 - (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

- (i) annual financial statements of the Light 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;
- (ii) a statement of outstanding Parity Bonds, Junior Lien Bonds (if any), and any other bonded indebtedness secured by Net Revenue of the Light System;
- (iii) debt service coverage ratios for the then-Outstanding Parity Bonds, Junior Lien Bonds (if any), and any other bonded indebtedness secured by Net Revenue of the Light System;
- (iv) sources of Light System power and the MWh produced by those sources; and
- (v) the average number of customers, revenues, and energy sales by customer class.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City’s fiscal year ended December 31, 2018. 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 CDA. The CDA 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, including:

- (i) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identify, nature, or status of the City, or type of business conducted;
- (ii) The undertaking, as amended, would have complied with the requirements of the rule at the time of the primary offering, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and
- (iii) The amendment does not materially impair the interests of holders, as determined either by parties unaffiliated with the City (e.g., bond counsel or other counsel familiar with federal securities laws), or by approving vote of bondholders pursuant to the terms of the Bond Ordinance at the time of the amendment.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the CDA 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 CDA. The City's obligations under the CDA will terminate upon the legal defeasance, prior repayment, or payment in full of all of the outstanding Bonds. In addition, the City's obligations under the CDA will terminate if those provisions of Rule 15c2-12 that require the City to comply with the CDA 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 CDA. The City has agreed to proceed with due diligence to cause any failure to comply with the CDA 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 CDA 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 CDA.

Compliance with 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. The City's review of its compliance during the past five years did not reveal any failure to comply, in a material respect, with any undertakings in effect during this time.

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated "Aa2" and "AA" by Moody's Investors Service, Inc. and S&P Global Ratings, respectively. In general, rating agencies base their ratings on rating materials furnished to them (which may include information provided by the City that is not included in this Official Statement) and on the rating agency's own investigations, studies and assumptions. The ratings will reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from the respective rating agencies. 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.

Municipal Advisor

The City has retained Piper Jaffray & Co., Seattle, Washington, as municipal advisor (the “Municipal Advisor”) in connection with the preparation of the City’s financing plans and with respect to the authorization and issuance of the Bonds. The Municipal Advisor is not obligated to undertake and has not undertaken to make any independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is a full service investment banking firm that provides financial advisory and underwriting services to state and local governmental entities. While under contract to the City, the Municipal Advisor may not participate in the underwriting of any City debt.

Underwriter of the Bonds

The Bonds are being underwritten by RBC Capital Markets, LLC (the “Underwriter”). The 2018B-1 Bonds are being purchased at a price of \$_____ and will be reoffered at a price of \$_____. The 2018B-2 Bonds are being purchased at a price of \$_____ and will be reoffered at a price of \$_____. The 2018C-1 Bonds are being purchased at a price of \$_____ and will be reoffered at a price of \$_____. The 2018C-2 Bonds are being purchased at a price of \$_____ and will be reoffered at a price of \$_____. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offerings of the City. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City.

Conflicts of Interest

Some of the fees of the Municipal Advisor, Bond Counsel, and Underwriter’s Counsel are contingent upon the sale of the Bonds. From time to time Bond Counsel serves as counsel to the Municipal Advisor in matters unrelated to the Bonds, and Underwriter’s Counsel serves as counsel to the City and the Municipal Advisor. 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: _____
 Glen M. Lee
 Director of Finance

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APPENDIX A
BOND ORDINANCE

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CITY OF SEATTLE

ORDINANCE 125460

COUNCIL BILL 119104

AN ORDINANCE relating to the electric system of The City of Seattle; authorizing and providing for the issuance and sale, from time to time in multiple series, of municipal light and power refunding revenue bonds for the carrying out the current or advance refunding of all or a portion of the City's outstanding municipal light and power revenue bonds pursuant to an approved refunding plan, providing for the reserve requirement (if any), and paying the administrative costs of carrying out such refundings and paying costs of issuance of the refunding bonds; describing the lien of those refunding bonds and authorizing their issuance as either senior lien parity bonds or as junior lien bonds; providing parameters for the bond sale terms including conditions, covenants, and other sale terms; rescinding the authorization to issue any future refunding parity bonds under Ordinance 121941 (as amended by Ordinance 122838, as amended and restated by Ordinance 124335, and as further amended by Ordinance 124916); authorizing the Director of Finance to enter into agreements providing for the disposition of the refunding bond proceeds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle (the "City") owns, operates, and maintains a municipal light and electric power generation, transmission, and distribution system (the "Light System") which Light System has from time to time required various additions, improvements, betterments, and extensions; and

WHEREAS, the City currently has outstanding certain municipal light and power revenue bonds (as identified in Exhibit A, the "Outstanding Parity Bonds") having a charge and lien upon Gross Revenues of the Light System available after payment of the Operating and Maintenance Expense ("Net Revenue") prior and superior to all other charges whatsoever, which Outstanding Parity Bonds are designated as Refundable Bonds pursuant to this ordinance; and

WHEREAS, pursuant to the Outstanding Parity Bond Ordinances, the City reserved the right to issue additional municipal light and power revenue bonds ("Future Parity Bonds") having a lien and charge on Net Revenue of the Light System on parity with the lien and charge

1 of the Outstanding Parity Bonds, upon satisfaction of certain conditions (the “Parity
2 Conditions”), which Future Parity Bonds are eligible to be designated as Refundable Bonds
3 pursuant to this ordinance; and

4 WHEREAS, pursuant to the Outstanding Parity Bond Ordinances, the City also reserved the right
5 to issue additional municipal light and power revenue bonds or other obligations having a
6 lien and charge on Net Revenue of the Light System that is junior and subordinate to the
7 lien and charge of the Outstanding Parity Bonds (the “Junior Lien Bonds”), which Future
8 Junior Lien Bonds are eligible to be designated as Refundable Bonds pursuant to this
9 ordinance (the “Refundable Junior Lien Bonds”); and

10 WHEREAS, it is advantageous to the City and its ratepayers to provide for the refunding of such
11 Refundable Parity Bonds and Refundable Junior Lien Bonds (together and without
12 distinction, “Refundable Bonds”) whenever the Director of Finance determines that such
13 refunding will achieve a cost savings or other benefit to the City or its ratepayers as
14 permitted under chapter 39.53 RCW; and

15 WHEREAS, the City has therefore determined that it is in the best interest of the City and its
16 ratepayers to authorize, pursuant to this Omnibus Refunding Ordinance, the issuance and
17 sale of Refunding Bonds, to be designated as either Refunding Parity Bonds and Refunding
18 Junior Lien Bonds, from time to time multiple Series for the purpose of (1) carrying out
19 the current or advance refunding of all or a portion of the Refundable Bonds, (2) providing
20 for the reserve requirement, if necessary, and (3) paying the administrative costs of carrying
21 out the refunding and the costs of issuance of the Refunding Bonds; and

22 WHEREAS, pursuant to the authority delegated in this ordinance, the Director of Finance from
23 time to time will receive, review, and adopt a plan (a “Refunding Plan”) to refund selected

1 maturities (or partial maturities) of certain series of those Refundable Bonds, which
2 selected series and maturities (or partial maturities) will be identified in the Refunding
3 Plan; and

4 WHEREAS, this ordinance will allow the Director of Finance to carry out the defeasance and
5 refunding of any Refundable Bonds in accordance with the City's debt policies regarding
6 refundings, as such policies may be amended from time to time and as most recently
7 amended by the City Council in Resolution 30630; and

8 WHEREAS, from and after the effective date of this ordinance the authority to issue Refunding
9 Parity Bonds, previously granted in Ordinance 121941, as amended by Ordinance 122838,
10 as amended and restated by Ordinance 124335, and as further amended by Ordinance
11 124916 (the "Prior Omnibus Refunding Ordinances") shall sunset and shall be replaced by
12 the authority granted in this ordinance, such that future Refunding Parity Bonds shall be
13 issued under this authority and within the parameters set forth herein, without affecting the
14 outstanding bonds previously issued under the Prior Omnibus Refunding Ordinances;

15 NOW, THEREFORE,

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

17 Section 1. **Definitions.** As used in this ordinance, the following capitalized terms shall
18 have the meanings set forth below.

19 "Accreted Value" means with respect to any Capital Appreciation Bond (a) as of any
20 Valuation Date, the amount determined for such Valuation Date in accordance with the applicable
21 Bond Documents, and (b) as of any date other than a Valuation Date, the sum of (i) the Accreted
22 Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the numerator of
23 which is the number of days having elapsed from the preceding Valuation Date and the

1 denominator of which is the number of days from such preceding Valuation Date to the next
2 succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during
3 any semiannual period in equal daily amounts on the basis of a year of 12 30-day months, and (B)
4 the difference between the Accreted Values for such Valuation Dates.

5 **“Acquired Obligations”** means Government Obligations maturing or having guaranteed
6 redemption prices at the option of the holder at such time or times as may be required to provide
7 funds sufficient to carry out a Refunding Plan, and satisfying the requirements of the Refunded
8 Bond Documents relating to the Refunded Bonds included in that Refunding Plan. For purposes
9 of this definition, eligible “Government Obligations” for inclusion in a Refunding Plan shall be
10 determined in accordance with the applicable Refunded Bond Documents.

11 **“Adjusted Net Revenue”** means Net Revenue, less any deposits into the Rate Stabilization
12 Account, and plus any withdrawals from the Rate Stabilization Account. In calculating Net
13 Revenue, the City may include the Tax Credit Subsidy Payments the City expects to receive from
14 the federal government in respect to the interest on any Tax Credit Subsidy Bonds (or with respect
15 to which the federal government will provide direct payments). In a Parity Certificate, Adjusted
16 Net Revenue is subject to further adjustment as set forth in Section 18(a)(ii). In a Junior Lien
17 Coverage Certificate, Adjusted Net Revenue is subject to further adjustment as set forth in Section
18 18(b)(ii).

19 **“Alternate Reserve Security”** means Qualified Insurance or a Qualified Letter of Credit
20 that is used by the City to satisfy part or all of the Reserve Fund Requirement, and which is not
21 cancelable on less than five years’ notice.

22 **“Annual Debt Service”** means, with respect to either Parity Bonds (or a series of Parity
23 Bonds) (**“Annual Parity Bond Debt Service”**) or Junior Lien Bonds (or a series of Junior Lien

1 Bonds) (“**Annual Junior Lien Debt Service**”), as applicable, the sum of the amounts required in
2 a calendar year to pay the interest due in such calendar year (excluding interest to be paid from the
3 proceeds of the sale of bonds), the principal of Serial Bonds maturing in such calendar year, and
4 the Sinking Fund Requirements for any Term Bonds due in such calendar year. Additionally, for
5 purposes of this definition:

6 (a) **Calculation of Interest Due – Generally.** Except as otherwise provided below,
7 interest shall be calculated based on the actual amount of accrued, accreted, or otherwise
8 accumulated interest that is payable in respect of the relevant series of Parity Bonds or Junior Lien
9 Bonds, as applicable, taken as a whole, at the rate or rates set forth in the applicable Bond
10 Documents.

11 (b) **Capital Appreciation Bonds.** The principal and interest portions of the Accreted
12 Value of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund
13 Requirement shall be included in the calculations of accrued and unpaid and accruing interest or
14 principal in such manner and during such period of time as is specified in the Bond Documents
15 applicable to such Capital Appreciation Bonds.

16 (c) **Variable Interest Rate Bonds.**

17 (i) **Assumed Interest on Variable Interest Rate Parity Bonds.** The amount
18 of interest deemed to be payable on any series of Parity Bonds that are Variable Interest Rate
19 Bonds shall be calculated on the assumption that the interest rate on those bonds is equal to the
20 rate that is 90% of the average RBI during the four calendar quarters ending at least 15 days
21 preceding the quarter in which the calculation is made. *Upon the Parity Covenant Date, the*
22 *following sentence shall replace the immediately preceding sentence: The amount of interest*
23 *deemed to be payable on any series of Junior Lien Bonds that are Variable Interest Rate Bonds*

1 *shall be calculated on the assumption that the interest rate on those bonds is equal to the highest*
2 *12-month rolling average of the SIFMA Municipal Swap Index over the preceding ten years.*
3 *And, upon the redemption or defeasance of all of the Outstanding Parity Bonds identified in*
4 *Exhibit A to this ordinance, a five-year look back period shall be substituted for the ten-year*
5 *period referenced in the immediately preceding sentence.*

6 (ii) **Assumed Interest on Variable Interest Rate Junior Lien Bonds.** The
7 amount of interest deemed to be payable on any series of Junior Lien Bonds that are Variable
8 Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds is
9 equal to the highest 12-month rolling average (ending with the month preceding the date of the
10 calculation) of the SIFMA Municipal Swap Index over the preceding five years.

11 (d) **Interest on Bonds with Respect to Which a Payment Agreement is in Force.** In
12 general, debt service on any bonds (Parity Bonds or Junior Lien Bonds, as applicable) with respect
13 to which a Payment Agreement is in force shall be based on the net economic effect on the City
14 expected to be produced by the terms of the applicable Bond Documents and the terms of the
15 Payment Agreement. For example, if the net effect of the Payment Agreement on a series of bonds
16 otherwise bearing interest at a variable interest rate is to produce an obligation bearing interest at
17 a fixed rate, the relevant series of bonds shall be treated as fixed rate bonds. And if the net effect
18 of the Payment Agreement on a series of bonds otherwise bearing interest at a fixed interest rate
19 is to produce an obligation bearing interest at a variable interest rate, the relevant series of bonds
20 shall be treated as Variable Interest Rate Bonds.

21 Accordingly, the amount of interest deemed to be payable on any series of Parity Bonds
22 (or Junior Lien Bonds, as applicable) with respect to which a Payment Agreement is in force shall
23 be an amount equal to the amount of interest that would be payable at the rate or rates stated in or

1 determined pursuant to the applicable Bond Documents, plus Payment Agreement Payments,
2 minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable
3 Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement that
4 includes a variable rate component determined by reference to a pricing mechanism or index that
5 is not the same as the pricing mechanism or index used to determine the variable rate interest
6 component on the series of bonds to which the Payment Agreement is related, it shall be assumed
7 that: (i) the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of
8 the fixed rate specified by the Payment Agreement, and (ii) the pricing mechanism or index
9 specified by the Payment Agreement is the same as the pricing mechanism or index specified by
10 the applicable Bond Documents. Notwithstanding the other provisions of this definition, the City
11 shall not be required to (but may in its discretion) take into account in determining Annual Debt
12 Service the effects of any Payment Agreement that has a term of ten years or less.

13 (e) **Parity Payment Agreements; Junior Lien Payment Agreements.** For any
14 period during which Payment Agreement Payments under a Parity Payment Agreement (or Junior
15 Lien Payment Agreement, as applicable) are taken into account in determining Annual Debt
16 Service on the related Parity Bonds (or Junior Lien Bonds, as applicable) under subsection (d), no
17 additional debt service shall be taken into account with respect to that Parity Payment Agreement
18 (or a Junior Lien Payment Agreement, as applicable). However, for any period during which
19 Payment Agreement Payments are not taken into account under subsection (d) because the Parity
20 Payment Agreement (or Junior Lien Payment Agreement, as applicable), is not then related to any
21 outstanding Parity Bonds (or Junior Lien Bonds, as applicable) payments on that Payment
22 Agreement shall be taken into account by assuming:

1 (i) **If City is Obligated to Make Payments Based on Fixed Rate.** If the City
2 is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified
3 Counterparty is obligated to make payments based on a variable rate index, it shall be assumed
4 that payments by the City will be based on the assumed fixed payor rate, and that payments by the
5 Qualified Counterparty will be based on a rate equal to the average rate determined by the variable
6 rate index specified by the Payment Agreement during the four calendar quarters preceding the
7 quarter in which the calculation is made.

8 (ii) **If City is Obligated to Make Payments Based on Variable Rate Index.**
9 If the City is obligated to make Payment Agreement Payments based on a variable rate index and
10 the Qualified Counterparty is obligated to make payments based on a fixed rate, it shall be assumed
11 that payments by the City will be based on a rate equal to the average rate determined by the
12 variable rate index specified by the Payment Agreement during the four calendar quarters
13 preceding the quarter in which the calculation is made, and that the Qualified Counterparty will
14 make payments based on the fixed rate specified by the Payment Agreement.

15 (f) **Balloon Bonds.** *Upon the Parity Covenant Date, the following sentence shall*
16 *become effective: In calculating Annual Bond Debt Service for any series of Parity Bonds, the*
17 *City may in its discretion treat the debt service requirements with respect to Parity Bonds that*
18 *are Balloon Bonds (including principal of and interest on such bonds at the applicable rate or*
19 *rates) as being amortized in approximately equal annual installments over a period equal to the*
20 *longer of 30 years or the remaining term of such series of Parity Bonds.*

21 In calculating Annual Debt Service for any series of Junior Lien Bonds, the City may in its
22 discretion treat the debt service requirements with respect to Junior Lien Bonds that are Balloon
23 Bonds (including principal of and interest on such bonds at the applicable rate or rates) as being

1 amortized in approximately equal annual installments over a period equal to the longer of 30 years
2 or the remaining term of such series of Junior Lien Bonds.

3 (g) **Adjustments for Defeased Bonds.** For purposes of determining compliance with
4 the rate covenants set forth in Sections 17(a)(ii) and (b)(ii), calculating the Reserve Fund
5 Requirement, and making coverage ratio calculations in connection with the delivery of a Parity
6 Certificate or Junior Lien Coverage Certificate, Annual Debt Service shall be adjusted as set forth
7 in Section 20(d).

8 (h) **Intermediate and Junior Lien Reimbursement Obligations.** If any payment
9 under an Intermediate Lien Reimbursement Obligation or under a Junior Lien Reimbursement
10 Obligation is then due and payable, or is then reasonably expected to become due and payable, the
11 reasonably estimated amount and timing of such payment, calculated in accordance with
12 applicable generally accepted accounting principles and as reflected in the annual financial
13 statements of the Light System, shall be included in calculating Annual Junior Lien Debt Service
14 for purposes of delivering a Junior Lien Coverage Certificate.

15 **“Authorized Denomination”** means \$5,000 or any integral multiple thereof within a
16 maturity of a Series, or such other minimum authorized denominations as may be specified in the
17 applicable Bond Documents.

18 **“Average Annual Debt Service”** means, for purposes of calculating the Reserve Fund
19 Requirement with respect to all Parity Bonds outstanding at the time of calculation, the sum of the
20 Annual Parity Bond Debt Service remaining to be paid to the last scheduled maturity of the
21 applicable Parity Bonds, divided by the number of years such Parity Bonds are scheduled to remain
22 outstanding.

1 **“Balloon Bonds”** means any series of either Parity Bonds or Junior Lien Bonds, as
2 applicable, the aggregate principal amount (including Sinking Fund Requirements) of which
3 becomes due and payable in any calendar year in an amount that constitutes 25% or more of the
4 initial aggregate principal amount of such series.

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

7 **“Bond”** means a municipal light and power revenue bond issued pursuant to this
8 ordinance.

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

11 **“Bond Documents”** means (a) (i) with respect to any Series of the Bonds, this ordinance
12 (including any amendatory or supplemental ordinances), (ii) with respect to a series of Parity
13 Bonds other than a Series of the Bonds, the applicable Parity Bond Ordinance(s), and (iii) with
14 respect to any Junior Lien Bonds other than a Series of the Bonds, the applicable Junior Lien Bond
15 Ordinance(s); (b) the authenticated bond form; and (c) the written agreement(s) setting forth the
16 Bond Sale Terms and additional terms, conditions, or covenants pursuant to which such bond was
17 issued and sold, as set forth in any one or more of the following (if any): (i) a sale resolution, (ii)
18 a bond purchase contract (as defined in the applicable authorizing ordinance), (iii) a bond indenture
19 or a fiscal agent or paying agent agreement (other than the State fiscal agency contract), and (iv) a
20 direct purchase or continuing covenant agreement.

21 **“Bond Owners’ Trustee”** means a bank or trust company organized under the laws of the
22 State, or a national banking association, appointed in accordance with Section 24(e) of this

1 ordinance to act as trustee on behalf of the owners, from time to time, of either the Outstanding
2 Parity Bonds or the Outstanding Junior Lien Bonds, as the case may be.

3 **“Bond Purchase Contract”** means a written offer to purchase a Series of the Bonds
4 pursuant to certain Bond Sale Terms, which offer has been accepted by the City in accordance
5 with this ordinance. In the case of a competitive sale, the Purchaser’s bid for a Series, together
6 with the official notice of sale and a Pricing Certificate confirming the Bond Sale Terms, shall
7 comprise the Bond Purchase Contract.

8 **“Bond Register”** means the books or records maintained by the Bond Registrar for the
9 purpose of registering ownership of each Bond.

10 **“Bond Registrar”** means the Fiscal Agent (unless the Director of Finance appoints a
11 different person to act as bond registrar with respect to a particular Series), or any successor bond
12 registrar selected in accordance with the Registration Ordinance.

13 **“Bond Sale Terms”** means the terms and conditions for the sale of a Series of the Bonds
14 approved by the Director of Finance consistent with the parameters set forth in Section 5, including
15 the amount, date or dates, denominations, interest rate or rates (or mechanism for determining the
16 interest rate or rates), payment dates, final maturity, redemption rights, price, and other terms,
17 conditions, or covenants. In connection with a negotiated sale or private placement, the Bond Sale
18 Terms shall be set forth in the Bond Purchase Contract; in connection with a competitive sale, the
19 Bond Sale Terms shall be set forth in a Pricing Certificate.

20 **“Book-Entry Form”** means a fully registered form in which physical bond certificates are
21 registered only in the name of the Securities Depository (or its nominee), as Registered Owner,
22 with the physical bond certificates held by and “immobilized” in the custody of the Securities
23 Depository or its designee, where the system for recording and identifying the transfer of the

1 ownership interests of the Beneficial Owners in those Bonds is neither maintained by nor the
2 responsibility of the City or the Bond Registrar.

3 **“Capital Appreciation Bond”** means any Parity Bond or Junior Lien Bond, all or a portion
4 of the interest on which is compounded and accumulated at the rates or in the manner, and on the
5 dates, set forth in the applicable Bond Documents, and is payable only upon redemption or on the
6 maturity date of such Capital Appreciation Bond. A Parity Bond or a Junior Lien Bond that is
7 issued as a Capital Appreciation Bond, but which later converts to an obligation on which interest
8 is paid periodically, shall be a Capital Appreciation Bond until the conversion date and thereafter
9 shall no longer be a Capital Appreciation Bond, but shall be treated as having a principal amount
10 equal to its Accreted Value on the conversion date. For purposes of (a) receiving payment of the
11 redemption premium, if any, on a Capital Appreciation Bond that is redeemed prior to maturity,
12 or (b) computing the principal amount of Parity Bonds (or Junior Lien Bonds, a applicable) held
13 by the Owner of a Capital Appreciation Bond in connection with any notice, consent, request, or
14 demand pursuant to this ordinance or for any purpose whatsoever, the principal amount of a Capital
15 Appreciation Bond shall be deemed to be its Accreted Value at the time that such notice, consent,
16 request, or demand is given or made.

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

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

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

1 **“Conservation Plan”** means the Conservation Potential Assessment 2016 of the City with
2 respect to the Light System endorsed by the City Council in Resolution 31631, adopted January 11,
3 2016, as that plan may be amended, updated, supplemented, or replaced from time to time, to the
4 extent that funds are appropriated by the City therefor.

5 **“Continuing Disclosure Agreement”** means, for each Series that is sold in an offering
6 subject to federal securities regulations requiring a written undertaking to provide continuing
7 disclosure, a continuing disclosure agreement entered into pursuant to Section 22 in substantially
8 the form attached as Exhibit B.

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

10 **“Deferred Hydroelectric Project Relicensing Costs”** means certain costs required by the
11 Federal Energy Regulatory Commission to be incurred as a condition of the renewal of licenses
12 for the Light System’s hydroelectric projects, which costs are treated in the same manner as capital
13 expenditures.

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

17 **“Event of Default”** has the meaning given in Section 24. A “Parity Bond Event of Default”
18 shall refer to those Events of Default relating to nonpayment of Parity Bonds, or defaults in respect
19 of the Parity Bond covenants set forth herein and in the applicable Parity Bond Documents giving
20 rise to remedies available to the owners of Parity Bonds. A “Junior Lien Bond Event of Default”
21 shall refer to those Events of Default relating to nonpayment of Junior Lien Bonds, or in respect
22 of the Junior Lien Bond covenants set forth herein and in the applicable Junior Lien Bond
23 Documents giving rise to remedies available to the owners of Junior Lien Bonds.

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

3 **“Future Junior Lien Bonds”** means, with reference to any Series designated as Junior
4 Lien Bonds, any revenue obligations of the Light System issued or entered into after the Issue Date
5 of such Series, the payment of which constitutes a charge and lien upon Net Revenue equal in
6 priority with the charge and lien upon such revenue for the payment of the amounts required to be
7 paid into the Junior Lien Debt Service Fund to pay and secure payment of the Junior Lien Bonds
8 (including Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations), in
9 accordance with the priority of payment set forth in Section 14. Future Junior Lien Bonds may
10 include Junior Lien Payment Agreements issued in compliance with the Junior Lien Additional
11 Bonds Test.

12 **“Future Parity Bond Ordinance”** means any ordinance passed by the City Council
13 providing for the issuance and sale of a series of Future Parity Bonds, and any other ordinance
14 amending or supplementing the provisions of any such ordinance.

15 **“Future Parity Bonds”** means, with reference to any Series designated as Parity Bonds,
16 any revenue obligations of the Light System issued or entered into after the Issue Date of such
17 Series, the payment of which constitutes a charge and lien upon Net Revenue equal in priority with
18 the charge and lien upon such revenue for the payment of the amounts required to be paid into the
19 Parity Bond Fund and the Reserve Fund to pay and secure payment of the Parity Bonds (including
20 Parity Payment Agreements), in accordance with Section 14. Future Parity Bonds may include
21 Parity Payment Agreements and any other obligations issued in compliance with the Parity
22 Conditions.

1 **“Government Obligations”** means, unless otherwise limited in the Bond Documents for
2 a particular Series of the Bonds, any government obligation as that term is defined in RCW
3 39.53.010, as now in effect or as may hereafter be amended.

4 **“Gross Revenues”** means (a) all income, revenues, receipts and profits derived by the City
5 through the ownership and operation of the Light System; (b) the proceeds received by the City
6 directly or indirectly from the sale, lease or other disposition of any of the properties, rights or
7 facilities of the Light System; (c) Payment Agreement Receipts, to the extent that such receipts are
8 not offset by Payment Agreement Payments; and (d) the investment income earned on money held
9 in any fund or account of the City, including any bond redemption funds and the accounts therein,
10 in connection with the ownership and operation of the Light System. Gross Revenues do not
11 include: (i) insurance proceeds compensating the City for the loss of a capital asset; (ii) income
12 derived from investments irrevocably pledged to the payment of any defeased bonds payable from
13 Gross Revenues; (iii) investment income earned on money in any fund or account created or
14 maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code;
15 (iv) any gifts, grants, donations or other funds received by the City from any State or federal
16 agency or other person if such gifts, grants, donations or other funds are the subject of any
17 limitation or reservation imposed by the donor or grantor or imposed by law or administrative
18 regulation to which the donor or grantor is subject, limiting the application of such funds in a
19 manner inconsistent with the application of Gross Revenues hereunder; (v) the proceeds of any
20 borrowing for capital improvements (or the refinancing thereof); and (vi) the proceeds of any
21 liability or other insurance (excluding business interruption insurance or other insurance of like
22 nature insuring against the loss of revenues).

1 **“High Ross Agreement”** means the agreement dated as of March 30, 1984, between the
2 City and Her Majesty the Queen in Right of the Province of British Columbia relating to the City’s
3 High Ross Dam.

4 **“High Ross Capital Payments”** means the deferred portion of the annual capital payments
5 required to be made by the City under Section 5 of the High Ross Agreement, representing the
6 annual cost that would have been incurred by the City for the construction of the High Ross Dam.

7 **“Intermediate Lien Reimbursement Obligation”** means any payment or reimbursement
8 obligation incurred under a written agreement entered into in connection with a series of Parity
9 Bonds or to obtain Qualified Insurance or a Qualified Letter of Credit, under which the City’s
10 payment obligations are expressly stated to constitute a lien and charge on Net Revenue junior in
11 rank to the lien and charge upon such Net Revenue required to be paid into the Parity Bond Fund
12 to pay and secure the payment of the Parity Bonds, but senior to the lien and charge upon such Net
13 Revenue required to be paid into the Junior Lien Bond Fund to pay and secure the payment of the
14 Junior Lien Bonds. Intermediate Lien Obligations shall include the subordinate “Obligations”
15 incurred under (and as defined in) that certain Continuing Covenant Agreement executed in
16 connection with the issuance and sale of the City’s outstanding Municipal Light and Power
17 Revenue Bonds, 2017A (Multimodal) and Municipal Light and Power Revenue Bonds, 2017B
18 (Multimodal). For purposes of determining percentages of ownership of Junior Lien Bond under
19 this ordinance or under any Bond Documents, Junior Lien Reimbursement Obligations shall be
20 deemed to have no principal amount, and any consent or similar rights (if any) shall be determined
21 only as set forth in the applicable Junior Lien Reimbursement Obligations.

22 **“Issue Date”** means, with respect to a Bond, the initial date on which that Bond is issued
23 and delivered to the initial Purchaser in exchange for its purchase price.

1 **“Junior Lien Additional Bonds Test”** means the conditions set forth in Section 18(b) for
2 issuing additional Junior Lien Bonds (including Junior Lien Payment Agreements and Junior Lien
3 Reimbursement Obligations).

4 **“Junior Lien Coverage Certificate”** means a certificate delivered pursuant to Section
5 18(b)(ii), for purposes of satisfying the Junior Lien Additional Bonds Test in connection with the
6 issuance of Future Junior Lien Bonds.

7 **“Junior Lien Debt Service Fund”** means the special fund of the City known as the Seattle
8 Municipal Light Revenue Junior Lien Debt Service Fund established within the Light Fund
9 pursuant to this ordinance for purpose of paying and securing the principal of and interest on Junior
10 Lien Bonds and securing obligations under Junior Lien Payment Agreements and Junior Lien
11 Reimbursement Obligations.

12 **“Junior Lien Bond”** means, generally, any bond or obligation secured by a lien and charge
13 on Net Revenue that is junior and subordinate to the lien and charge of the Parity Bonds, but prior
14 and superior to other liens and charges, in accordance with the priority of payment set forth in
15 Section 14. The term Junior Lien Bond may refer to (a) any Bond of a Series issued pursuant to
16 this ordinance that is so designated by the Director of Finance upon satisfaction of the Junior Lien
17 Additional Bonds Test, (b) any Future Junior Lien Bond; (c) any Junior Lien Payment Agreement;
18 and (d) any Junior Lien Reimbursement Obligation.

19 **“Junior Lien Bond Documents”** means those Bond Documents applicable to a series of
20 Junior Lien Bonds.

21 **“Junior Lien Bond Ordinance”** means this ordinance, and any other ordinance passed by
22 the City Council in the future authorizing the issuance and sale of any Future Junior Lien Bonds,

1 including any ordinance amending or supplementing the provisions of any Junior Lien Bond
2 Ordinance.

3 **“Junior Lien Payment Agreement”** means any Payment Agreement, which is entered
4 into in compliance with the Junior Lien Additional Bonds Test, and under which the City’s
5 payment obligations are expressly stated to constitute a lien and charge on Net Revenue equal in
6 rank with the lien and charge upon such Net Revenue required to be paid into the Junior Lien Debt
7 Service Fund to pay and secure the payment of the Junior Lien Bonds in accordance with Section
8 14. For purposes of determining percentages of ownership of Junior Lien Bonds under this
9 ordinance or under any Bond Documents, Junior Lien Payment Agreements shall be deemed to
10 have no principal amount, and any consent or similar rights (if any) shall be determined only as
11 set forth in the applicable Junior Lien Payment Agreement.

12 **“Junior Lien Reimbursement Obligation”** means any reimbursement obligation
13 incurred under a written reimbursement agreement (or similar agreement) entered into in
14 connection with a series of Junior Lien Bonds to obtain Qualified Insurance or a Qualified Letter
15 of Credit, under which the City’s payment obligations are expressly stated to constitute a lien and
16 charge on Net Revenue equal in rank with the lien and charge upon such Net Revenue required to
17 be paid into the Junior Lien Debt Service Fund to pay and secure the payment of the Junior Lien
18 Bonds. For purposes of determining percentages of ownership of Junior Lien Bond under this
19 ordinance or under any Bond Documents, Junior Lien Reimbursement Obligations shall be deemed
20 to have no principal amount, and any consent or similar rights (if any) shall be determined only as
21 set forth in the applicable Junior Lien Reimbursement Obligations.

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

4 **“Light Fund”** means the special fund of the City of that name heretofore created and
5 established by the City Council.

6 **“Light System”** means the municipal light and power generation, transmission, and
7 distribution system now belonging to or which may hereafter belong to the City.

8 **“MSRB”** means the Municipal Securities Rulemaking Board.

9 **“Maximum Annual Debt Service”** means, with respect to Parity Bonds or Junior Lien
10 Bonds, as applicable, the maximum amount of Annual Debt Service that shall become due in the
11 current calendar year or in any future calendar year with respect to those Parity Bonds (or Junior
12 Lien Bonds, as applicable) that are outstanding as of the calculation date.

13 **“Net Revenue”** for any period means Gross Revenues less Operating and Maintenance
14 Expense.

15 **“Omnibus Refunding Ordinance”** means this ordinance (as it may be amended from time
16 to time) or any other ordinance of the City passed in the future, pursuant to which the Bonds (or
17 any Series of the Bonds) are designated as Refundable Bonds.

18 **“Operating and Maintenance Expense”** means all reasonable charges incurred by the
19 City in causing the Light System to be operated and maintained in good repair, working order and
20 condition, including but not limited to all operating expenses under applicable generally accepted
21 accounting principles included in the annual audited financial statements of the Light System,
22 except those excluded in this definition. Operating and Maintenance Expense does not include: (a)
23 extraordinary, nonrecurring expenses of the Light System or any judgments or amounts to be paid

1 in settlement of claims against the Light System, (b) non-cash expenses relating to a mark-to-
2 market treatment of energy-related contracts, (c) any costs or expenses (including interest expense)
3 for new construction, replacements, or renewals of Light System property, (d) Deferred
4 Hydroelectric Project Relicensing Costs, the High Ross Capital Payments, or other similar
5 payments under any agreement for the development or licensing of a capital improvement or asset,
6 under which agreement the City agrees to make periodic payments in respect of the its share of the
7 capital expense, (e) any allowance for depreciation, amortization, or similar recognitions of non-
8 cash expense items made for accounting purposes only (including non-cash pension expense), (f)
9 any taxes levied by or paid to the City (or payments in lieu of taxes) upon the properties or earnings
10 of the Light System, or (g) any obligation authorized pursuant to ordinance or resolution
11 specifically excluding the payment of such obligation from Operating and Maintenance Expense.

12 **“Outstanding Junior Lien Bonds”** means, with reference to a particular Series of Junior
13 Lien Bonds issued pursuant to this ordinance, those Junior Lien Bonds that are outstanding as of
14 the Issue Date of such Series.

15 **“Outstanding Parity Bonds”** means those outstanding Parity Bonds identified in Exhibit
16 A. When used in reference to a particular date or series of Parity Bonds, Outstanding Parity Bonds
17 shall mean those Parity Bonds (including any Parity Bonds issued subsequent to the date of this
18 ordinance) that are outstanding as of that date or as of the issue date of such series.

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

21 **“Parity Bond”** means, generally, any bond or obligation secured by a lien and charge on
22 Net Revenue that is prior and superior to any other liens or charges whatsoever, in accordance with
23 the priority of payment set forth in Section 14. The term Parity Bond may refer to: (a) the

1 Outstanding Parity Bonds identified in Exhibit A; (b) each Series of the Bonds designated by the
2 Director of Finance as a Series of Parity Bonds upon satisfaction of the Parity Conditions; (c) any
3 Future Parity Bonds; and (d) any Parity Payment Agreement entered into upon satisfaction of the
4 Parity Conditions.

5 **“Parity Bond Documents”** means those Bond Documents applicable to a series of Parity
6 Bonds.

7 **“Parity Bond Fund”** means the special fund of the City known as the Seattle Municipal
8 Light Revenue Parity Bond Fund established within the Light Fund pursuant to Ordinance 92938
9 for the purpose of paying and securing the payment of principal of and interest on Parity Bonds.

10 **“Parity Bond Ordinance”** means any ordinance passed by the City Council providing for
11 the issuance and sale of any Series of Parity Bonds, and any other ordinance amending or
12 supplementing the provisions of any Parity Bond Ordinance.

13 **“Parity Certificate”** means a certificate delivered pursuant to Section 18(a)(ii), for
14 purposes of satisfying the Parity Conditions in connection with the issuance of Future Parity
15 Bonds.

16 **“Parity Conditions”** means, (a) for purposes of establishing that a Series of the Bonds
17 may be issued on parity with the Parity Bonds outstanding as of the Issue Date of such Series, the
18 conditions for issuing Future Parity Bonds set forth in the Parity Bond Ordinances relating to those
19 Parity Bonds that are then outstanding; and (b) for purposes of issuing Future Parity Bonds on
20 parity with a Series of the Bonds, the conditions described in the preceding clause (a) together with
21 the conditions set forth in Section 18(a).

22 **“Parity Covenant Date”** means the earlier of (a) the date on which the City has obtained
23 consents of the requisite percentage of Registered Owners of the Parity Bonds then outstanding,

1 in accordance with the provisions of the applicable Outstanding Parity Bond Documents; or (b)
2 the date on which all of the following Outstanding Parity Bonds have been redeemed or defeased:
3 Municipal Light and Power Improvement and Refunding Revenue Bonds, 2008; Municipal Light
4 and Power Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment); Municipal
5 Light and Power Improvement and Refunding Revenue Bonds, 2010B; Municipal Light and Power
6 Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct
7 Payment); Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A;
8 Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable
9 Energy Bonds – Direct Payment); Municipal Light and Power Improvement and Refunding
10 Revenue Bonds, 2012A; Municipal Light and Power Improvement Revenue Bonds, 2012C
11 (Taxable New Clean Renewable Energy Bonds – Direct Payment); Municipal Light and Power
12 Improvement and Refunding Revenue Bonds, 2013; Municipal Light and Power Improvement and
13 Refunding Revenue Bonds, 2014; Municipal Light and Power Revenue Bonds, 2015A; Municipal
14 Light and Power Revenue Bonds, 2015B-1 (SIFMA Index); and Municipal Light and Power
15 Revenue Bonds, 2015B-2 (SIFMA Index).

16 **“Parity Payment Agreement”** means a Payment Agreement which is entered into in
17 compliance with the Parity Conditions and under which the City’s payment obligations are
18 expressly stated to constitute a lien and charge on Net Revenue equal in rank with the lien and
19 charge upon such Net Revenue required to be paid into the Parity Bond Fund and the Reserve Fund
20 to pay and secure the payment of principal of and interest on Parity Bonds in accordance with
21 Section 14. For purposes of determining percentages of ownership of Parity Bonds under this
22 ordinance or under any Bond Documents, Parity Payment Agreements shall be deemed to have no

1 principal amount, and any consent or similar rights (if any) shall be determined only as set forth
2 in the applicable Parity Payment Agreement.

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

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

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

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

20 **“Pricing Certificate”** means a certificate executed by the Director of Finance as of the
21 pricing date confirming the Bond Sale Terms for the sale of a Series of the Bonds to the Purchaser
22 in a competitive sale, in accordance with the parameters set forth in Section 5.

1 **“Professional Utility Consultant”** means the independent person(s) or firm(s) selected by
2 the City having a favorable reputation for skill and experience with electric systems of comparable
3 size and character to the Light System in such areas as are relevant to the purposes for which they
4 were retained.

5 **“Purchaser”** means the entity or entities who have been selected by the Director of
6 Finance in accordance with this ordinance to serve as underwriter, purchaser, or successful bidder
7 in a sale of any Series of the Bonds.

8 **“Qualified Counterparty”** means a party (other than the City or a person related to the
9 City) who is the other party to a Payment Agreement and who is qualified to act as the other party
10 to a Payment Agreement under any applicable laws of the State.

11 **“Qualified Insurance”** means any municipal bond insurance policy, surety bond, or
12 similar credit enhancement device, issued by any insurance company licensed to conduct an
13 insurance business in any state of the United States, by a service corporation acting on behalf of
14 one or more such insurance companies, or by any other financial institution, the provider of which,
15 as of the time of issuance of such credit enhancement device, is rated in one of the two highest
16 rating categories (without regard to gradations within such categories) by at least two nationally
17 recognized rating agencies.

18 **“Qualified Letter of Credit”** means any letter of credit, standby bond purchase
19 agreement, or other liquidity facility issued by a financial institution for the account of the City in
20 connection with the issuance of any Parity Bond or Junior Lien Bond, which institution maintains
21 an office, agency or branch in the United States and, as of the time of issuance of such instrument,
22 is rated in one of the two highest rating categories (without regard to gradations within such
23 categories) by at least two nationally recognized rating agencies.

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

4 **“Rate Stabilization Account”** means the account of that name previously established in
5 the Light Fund pursuant to Ordinance 121637.

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

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

14 **“Refundable Bonds”** means the Refundable Parity Bonds and the Refundable Junior Lien
15 Bonds.

16 **“Refundable Junior Lien Bonds”** means any Outstanding Junior Lien Bonds that have
17 been designated, or may in the future be designated, as refundable under this ordinance.

18 **“Refundable Parity Bonds”** means any Outstanding Parity Bonds that have been
19 designated, or may in the future be designated, as refundable under this ordinance.

20 **“Refunded Bond Documents”** means those Bond Documents applicable to a series of the
21 Refunded Bonds.

22 **“Refunded Bonds”** means those Refundable Bonds identified in a Refunding Plan in
23 accordance with this ordinance.

1 **“Refunding Junior Lien Bonds”** means Future Junior Lien Bonds that satisfy the
2 applicable Junior Lien Additional Bonds Test and are issued pursuant to this ordinance (or another
3 Future Junior Lien Bond Ordinance) for the purpose of refunding any Refundable Junior Lien
4 Bonds.

5 **“Refunding Parity Bonds”** means Future Parity Bonds that satisfy the applicable Parity
6 Conditions and are issued pursuant to this ordinance (or another Future Parity Bond Ordinance)
7 for the purpose of refunding any Refundable Parity Bonds.

8 **“Refunding Plan”** means the plan approved by the Director of Finance pursuant to the
9 delegation set forth herein to accomplish the refunding of Refundable Bonds. Each Refunding Plan
10 must identify the maturities and series of Refundable Bonds to be refunded thereby, and must
11 provide for their defeasance and/or refunding, substantially as follows, with such additional detail
12 and adjustments to be set forth in the Refunding Trust Agreement (including, without limitation,
13 adjustments to permit a crossover refunding) as the Director of Finance may deem necessary or
14 desirable:

15 (a) The City shall issue a Series of the Bonds (which may be combined within the
16 Series with Bonds of the same seniority, authorized hereunder or separately) and, upon receipt,
17 shall deposit the proceeds of the sale of such Series, together with such other money as may be
18 included in the plan by the Director of Finance, into a refunding escrow or trust account held by
19 the Refunding Trustee;

20 (b) Upon receipt of a certification or verification by a certified public accounting firm
21 or other financial advisor that the amounts deposited with it will be sufficient to accomplish the
22 refunding as described in such Refunding Trust Agreement, the Refunding Trustee shall invest
23 such escrow deposits in the Acquired Obligations specified therein (unless directed in the

1 Refunding Trust Agreement to hold such deposits uninvested) and shall establish a beginning cash
2 balance; and

3 (c) As further directed in the Refunding Trust Agreement, the Refunding Trustee shall
4 apply the amounts received as interest on and maturing principal of such Acquired Obligations
5 (together with any cash balance in the refunding trust account) to call, pay, and redeem those
6 Refundable Bonds on the dates and times identified in the plan, and (if so directed) to pay the
7 administrative costs of carrying out the foregoing.

8 If the Director of Finance serves as the Refunding Trustee, the Director of Finance shall
9 approve a written Refunding Plan (which need not be set forth in a Refunding Trust Agreement)
10 providing that the escrow funds are to be held separate and apart from all other funds of the City
11 and are to be applied substantially as set forth above. A Refunding Plan may provide for the
12 issuance of Refunding Parity Bonds or Refunding Junior Lien Bonds to refund any Refundable
13 Bonds, regardless of whether such Refundable Bonds are Parity Bonds or Junior Lien Bonds,
14 provided that the conditions of Section 18 are met as of the Issue Date of such Refunding Bonds.

15 **“Refunding Trust Agreement”** means an escrow or trust agreement between the City and
16 a Refunding Trustee, as described in Section 26(d).

17 **“Refunding Trustee”** means the Director of Finance, or a financial institution selected by
18 the Director of Finance, serving in the capacity of refunding trustee or escrow agent under a
19 Refunding Trust Agreement.

20 **“Registered Owner”** means, with respect to a Bond, the person in whose name that Bond
21 is registered on the Bond Register. For so long as a Series of the Bonds is in Book-Entry Form
22 under a Letter of Representations, the Registered Owner of such Series shall mean the Securities
23 Depository.

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

4 **“Reserve Fund”** means the special fund of the City known as the Municipal Light and
5 Power Bond Reserve Fund established as a separate account within the Light Fund pursuant to
6 Ordinance 71917, as amended, to secure the payment of Parity Bonds.

7 **“Reserve Fund Requirement”** means, for any Series of Bonds designated as Parity
8 Bonds, the Reserve Fund Requirement established in the Bond Sale Terms for that Series and any
9 other Series issued as part of a single “issue” of Parity Bonds, consistent with Section 15. For any
10 Series of Future Parity Bonds, the Reserve Fund Requirement means the requirement specified for
11 that Series in the Bond Sale Terms associated with that issue. The aggregate Reserve Fund
12 Requirement for all Parity Bonds shall be the sum of the Reserve Fund Requirements for each
13 Series of Parity Bonds. For purposes of this definition, “issue” means all Series of Parity Bonds
14 issued and sold pursuant to a common set of Bond Sale Terms. For the purposes of calculating the
15 Reserve Fund Requirement only, the City shall deduct from Annual Debt Service the Tax Credit
16 Subsidy Payments the City is scheduled to claim from the federal government in respect of the
17 interest on a Series of Parity Bonds that are Tax Credit Subsidy Bonds (or with respect to which
18 the federal government is otherwise scheduled to provide direct payments).

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

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

22 **“SIFMA Municipal Swap Index”** means the Securities Industry and Financial Markets
23 Association (SIFMA) Municipal Swap Index, calculated and published by Bloomberg and

1 overseen by SIFMA’s Municipal Swap Index Committee, or a substantially similar recognized
2 market successor index representing a seven-day market index comprised of certain high-grade
3 tax-exempt variable rate demand obligations.

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

8 **“Serial Bond”** means any Parity Bond or Junior Lien Bond maturing in a specified year,
9 for which no Sinking Fund Requirements are mandated.

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

11 **“Sinking Fund Account”** means (a) with respect to Parity Bonds, any account created in
12 the Parity Bond Fund to amortize the principal or make mandatory redemptions of Parity Bonds
13 that are Term Bonds; and (b) with respect to Junior Lien Bonds, any account created in the Junior
14 Lien Debt Service Fund to amortize the principal or make mandatory redemptions of Junior Lien
15 Bonds that are Term Bonds.

16 **“Sinking Fund Requirement”** means, for any calendar year, the principal portion (and
17 required redemption premium, if any) of any Term Bond that is required to be purchased,
18 redeemed, paid at maturity, or paid into any Sinking Fund Account for such calendar year, as
19 established in the applicable Bond Documents.

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

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

1 **“Tax Credit Subsidy Bond”** means any Taxable Bond that is designated by the City as a
2 tax credit bond pursuant to the Code and as a “qualified bond” under Section 6431 or similar
3 provision of the Code, and with respect to which the City is eligible to claim a Tax Credit Subsidy
4 Payment.

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

7 **“Tax-Exempt Bond”** means any Parity Bond or Junior Lien Bond, the interest on which
8 is intended, as of the Issue Date, to be excludable from gross income for federal income tax
9 purposes.

10 **“Taxable Bond”** means any Parity Bond or Junior Lien Bond, the interest on which is not
11 intended, as of the Issue Date, to be excludable from gross income for federal income tax purposes.

12 **“Term Bond”** means any Parity Bond or Junior Lien Bond that is issued subject to
13 mandatory redemption in periodic installments of principal prior to its maturity date.

14 **“Valuation Date”** means, with respect to any Capital Appreciation Bond, the date or dates,
15 determined as set forth in the applicable Bond Documents, on which specific Accreted Values are
16 assigned to that Capital Appreciation Bond.

17 **“Variable Interest Rate”** means any interest rate that fluctuates during the stated term of
18 a bond (or during a stated period during which the bond is designated as a Variable Interest Rate
19 Bond), whether due to a remarketing, a market index reset, or other mechanism set forth in the
20 applicable Bond Documents. The Bond Documents for any Series of the Bonds bearing interest at
21 a Variable Interest Rate shall set forth: (a) the available method(s) of computing interest (the
22 “interest rate modes”); (b) the particular period or periods of time (or manner of determining such
23 period or periods of time) for which each value of such Variable Interest Rate (or each interest rate

1 mode) shall remain in effect; (c) provisions for conversion from one interest rate mode to another
2 and for setting or resetting the interest rates; and (d) the time or times upon which any change in
3 such Variable Interest Rate (or any conversion of interest rate modes) shall become effective.

4 **“Variable Interest Rate Bond”** means, for any period of time, any Parity Bond or Junior
5 Lien Bond that bears interest at a Variable Interest Rate during that period. A bond shall not be
6 treated as a Variable Interest Rate Bond if the net economic effect of (a) interest rates on a
7 particular series of Parity Bonds (or Junior Lien Bonds, as applicable), as set forth in the applicable
8 Bond Documents, and (b) either (i) interest rates on another series of Parity Bonds (or Junior Lien
9 Bonds, as applicable) issued at substantially the same time, or (ii) a Payment Agreement related to
10 that particular series, in either case, is to produce obligations that bear interest at a fixed interest
11 rate. Any Parity Bond or Junior Lien Bond with respect to which a Payment Agreement is in force
12 shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment
13 Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

14 Section 2. **Finding With Respect to Refunding.** The City Council hereby finds that
15 the irrevocable deposit of money and securities with a Refunding Trustee, verified or certified as
16 to sufficiency in accordance with a Refunding Plan approved pursuant to this ordinance, will
17 discharge and satisfy the obligations of the City as to the Refunded Bonds identified therein,
18 including all pledges, charges, trusts, covenants, and agreements under the applicable Refunded
19 Bond Documents. Immediately upon such deposit, the Refunded Bonds identified in such
20 Refunding Plan shall be defeased and shall no longer be deemed to be outstanding under the
21 applicable Refunded Bond Legislation.

1 Section 3. **Authorization of Bonds; Due Regard Finding.**

2 (a) **The Bonds.** The City is authorized to issue municipal light and power revenue
3 bonds payable from the sources described in Section 13 and secured as either Parity Bonds or
4 Junior Lien Bonds, as determined by the Director of Finance in accordance with Section 5. The
5 Bonds may be issued in one or more Series in a maximum aggregate principal amount not to
6 exceed the amount stated in Section 5, for the purposes of: (a) providing funds, from time to time,
7 to carry out the current or advance refunding of all or a portion of the outstanding Refundable
8 Bonds pursuant to an approved Refunding Plan; (b) providing for the Reserve Fund Requirement
9 (if any); (c) capitalizing interest on (if necessary) and paying costs of issuance; and (d) for other
10 Light System purposes approved by ordinance. The Bonds may be issued in multiple Series and
11 may be combined with other municipal light and power revenue bonds authorized separately. The
12 Bonds shall be designated municipal light and power revenue bonds, shall be numbered separately
13 and shall have any name, year, and Series or other label as deemed necessary or appropriate by the
14 Director of Finance. Any Series of the Bonds designated as Junior Lien Bonds shall bear a
15 designation clearly indicating that such Bonds are Junior Lien Bonds.

16 (b) **City Council Finding.** The City Council hereby finds that, in creating the Parity
17 Bond Fund, the Reserve Fund, and the Junior Lien Debt Service Fund (collectively, the “Bond
18 Funds”), and in fixing the amounts to be paid into those funds in accordance with this ordinance
19 and the parameters for the Bond Sale Terms set forth in Section 5, the City Council has exercised
20 due regard for the cost of operation and maintenance of the Light System, and is not setting aside
21 into such Bond Funds a greater amount than in the judgment of the City Council, based on the
22 rates established from time to time consistent with Section 17(a)(ii), will be sufficient, in the
23 judgment of the City Council, to meet all expenses of operation and maintenance of the Light

1 System and to provide the amounts previously pledged for the payment of all outstanding
2 obligations payable out of Gross Revenues and pledged for the payment of the Bonds. Therefore,
3 the City Council hereby finds that the issuance and sale of the Bonds is in the best interest of the
4 City and is in the public interest.

5 Section 4. **Manner of Sale of Bonds.** The Director of Finance may provide for the
6 sale of each Series by competitive sale, negotiated sale, limited offering, or private placement, and
7 may select and enter into agreements with remarketing agents or providers of liquidity with respect
8 to Variable Interest Rate Bonds. The Purchaser of each Series shall be chosen through a selection
9 process acceptable to the Director of Finance. The Director of Finance is authorized to specify a
10 date and time of sale and a date and time for the delivery of each Series; in the case of a competitive
11 sale, to provide an official notice of sale including bid parameters and other bid requirements, and
12 provide for the use of an electronic bidding mechanism; to determine matters relating to a forward
13 or delayed delivery of the Bonds; and to determine such other matters and take such other action
14 as in his or her determination may be necessary, appropriate, or desirable in order to carry out the
15 sale of each Series. Each Series must be sold on Bond Sale Terms consistent with the parameters
16 set forth in Section 5.

17 Section 5. **Appointment of Designated Representative; Bond Sale Terms.**

18 (a) **Designated Representative.** The Director of Finance is appointed to serve as the
19 City's designated representative in connection with the issuance and sale of the Bonds in
20 accordance with RCW 39.46.040(2) and this ordinance.

21 (b) **Parameters for Bond Sale Terms.** The Director of Finance is authorized to
22 approve, on behalf of the City, Bond Sale Terms for the sale of the Bonds in one or more Series,
23 and in connection with each such sale, to execute a Bond Purchase Contract (or, in the case of a

1 competitive sale, a Pricing Certificate) confirming the Bond Sale Terms and such related
2 agreements as may be necessary or desirable, consistent with the following parameters:

3 (i) **Maximum Principal Amount.** The maximum aggregate principal amount
4 of Bonds issued to carry out each Refunding Plan may not exceed 125% of the stated principal
5 amount of those Refundable Bonds selected for refunding in that Refunding Plan.

6 (ii) **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by
7 the Director of Finance.

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

9 (iv) **Interest Rate(s).** Each Bond shall bear interest from its Issue Date or from
10 the most recent date to which interest has been paid or duly provided, whichever is later, unless
11 otherwise provided in the applicable Bond Documents. Each Series of the Bonds shall bear interest
12 at one or more fixed interest rates or Variable Interest Rates. The net interest cost for any fixed
13 rate Series may not exceed a rate of 10% per annum. The Bond Documents for any Series may
14 provide for multiple interest rates and interest rate modes, and may provide conditions and
15 mechanisms for the Director of Finance to effect a conversion from one mode to another. Nothing
16 in this ordinance shall be interpreted to prevent the Bond Documents for any Series from including
17 a provision for adjustments to interest rates during the term of the Series upon the occurrence of
18 certain events specified in the applicable Bond Documents.

19 (v) **Payment Dates.** Interest shall be payable on dates acceptable to the
20 Director of Finance. Principal shall be payable on dates acceptable to the Director of Finance,
21 which shall include payment at the maturity of each Bond; in accordance with any Sinking Fund
22 Requirements applicable to Term Bonds; and otherwise in accordance with any redemption or
23 tender provisions.

1 (vi) **Final Maturity.** The final maturity of any Series of the Bonds shall be
2 determined by the Director of Finance, consistent with chapter 39.53 RCW and other applicable
3 State law, as it may be amended from time to time.

4 (vii) **Redemption Prior to Maturity.** The Bond Sale Terms may include
5 redemption and tender provisions, as determined by the Director of Finance in his discretion,
6 consistent with Section 8 and subject to the following:

7 (A) **Optional Redemption.** The Director of Finance may designate any
8 Bond as subject to optional redemption prior to its maturity. Any Bond that is subject to optional
9 redemption prior to maturity must be callable on at least one or more date(s) occurring not more
10 than 10½ years after the Issue Date, consistent with Section 8(a).

11 (B) **Mandatory Redemption.** The Director of Finance may designate
12 any Bond as a Term Bond, subject to mandatory redemption prior to its maturity on the dates and
13 in principal payment amounts set forth in Sinking Fund Requirements, consistent with Section
14 8(b).

15 (C) **Extraordinary Redemptions.** The Director of Finance may
16 designate any Bond as subject to extraordinary optional redemption or extraordinary mandatory
17 redemption upon the occurrence of an extraordinary event, as such event or events may be set forth
18 in the applicable Bond Documents, consistent with Section 8(c).

19 (D) **Tender Options.** The Director of Finance may designate any
20 Variable Interest Rate Bond as subject to tender options, as set forth in the applicable Bond
21 Documents.

22 (viii) **Price.** The Director of Finance may approve in the Bond Sale Terms an
23 aggregate purchase price for each Series of the Bonds that is, in his or her judgment, the price that

1 produces the most advantageous borrowing cost for the City, consistent with the parameters set
2 forth herein and in any applicable bid documents.

3 (ix) **Other Terms and Conditions.**

4 (A) **Refunding Findings; Approval of Refunding Plan.** As of the
5 Issue Date of each Series, the Director of Finance must approve a Refunding Plan (which may be
6 set forth in a Refunding Trust Agreement) and finds that such Refunding Plan is necessary to
7 accomplish one or more of the purposes set forth in RCW 39.53.020, as it may be amended from
8 time to time and is consistent with the City's debt policies then in effect (including, if applicable,
9 a finding that the Refunding Plan will achieve an acceptable level of debt service savings).

10 (B) **Satisfaction of Parity Conditions or Junior Lien Additional**
11 **Bonds Test.** For each Series of the Bonds, the Director of Finance must designate each Series of
12 the Bonds as a series of either Parity Bonds or Junior Lien Bonds. For each Series to be designated
13 as Parity Bonds, the Director of Finance must find to his or her satisfaction that, as of the Issue
14 Date, the Parity Conditions have been met or satisfied so that such Series is permitted to be issued
15 as Parity Bonds. For each Series to be designated as Junior Lien Bonds, the Director of Finance
16 must find to his or her satisfaction that, as of the Issue Date, the Junior Lien Additional Bonds Test
17 has been met or satisfied so that such Series is permitted to be issued as Junior Lien Bonds.

18 (C) **Additional Terms, Conditions, and Agreements.** The Bond Sale
19 Terms for any Series may provide for Qualified Insurance, a Qualified Letter of Credit or other
20 liquidity facility, Intermediate Lien Reimbursement Obligation, Junior Lien Reimbursement
21 Obligation, or for any other Payment Agreement as the Director of Finance may find necessary or
22 desirable, and may include such additional terms, conditions, and covenants, as may be necessary
23 or desirable, including but not limited to: restrictions on investment of Bond proceeds and pledged

1 funds (including any escrow established for the defeasance of any of the Bonds), provisions for
2 the conversion of interest rate modes, provisions for the reimbursement of a credit enhancement
3 provider or Qualified Counterparty, and requirements to give notice to or obtain the consent of a
4 credit enhancement provider or a Qualified Counterparty. The Director of Finance is authorized to
5 execute, on behalf of the City, such additional certificates and agreements as may be necessary or
6 desirable to reflect such terms, conditions, and covenants.

7 (D) **Parity Bond Reserve Fund Requirement.** The Bond Sale Terms
8 for any Series of Parity Bonds must establish the Reserve Fund Requirement for such Series and
9 must set forth the method for satisfying any such requirement, consistent with Section 15 and the
10 Parity Conditions. The Reserve Fund Requirement for any such Series may not be set at a level
11 that would cause the aggregate Reserve Fund Requirement to exceed the least of (1) 125% of
12 Average Annual Debt Service on all Parity Bonds outstanding, (2) Maximum Annual Debt Service
13 on all Parity Bonds outstanding, or (3) 10% of the proceeds of the outstanding Parity Bonds.

14 (E) **Tax Status of the Bonds.** The Director of Finance may determine
15 that any Series of the Bonds is to be designated or qualified as Tax-Exempt Bonds, Taxable Bonds,
16 or Tax Credit Subsidy Bonds, consistent with Section 21.

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

18 (a) **Registration of Bonds; Bond Registrar.** The Bonds shall be issued only in
19 registered form as to both principal and interest and shall be recorded on the Bond Register. The
20 Fiscal Agent is appointed to act as Bond Registrar for each Series of the Bonds, unless otherwise
21 determined by the Director of Finance.

22 (b) **Transfer and Exchange of Bonds.** The Bond Registrar shall keep, or cause to be
23 kept, sufficient books for the registration and transfer of the Bonds, which shall be open to

1 inspection by the City at all times. The Bond Register shall contain the name and mailing address
2 of the Registered Owner of each Bond and the principal amount and number of each of the Bonds
3 held by each Registered Owner.

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

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

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

21 (c) **Securities Depository; Book-Entry Form.** Unless otherwise determined by the
22 Director of Finance, the Bonds initially shall be issued in Book-Entry Form and registered in the
23 name of the Securities Depository. The Bonds so registered shall be held fully immobilized in

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

12 Upon the resignation of the Securities Depository from its functions as depository, or upon
13 a determination by the Director of Finance to discontinue utilizing the then-current Securities
14 Depository, the Director of Finance may appoint a substitute Securities Depository. If the
15 Securities Depository resigns from its functions as depository and no substitute Securities
16 Depository can be obtained, or if the Director of Finance determines not to utilize a Securities
17 Depository, then the Bonds shall no longer be held in Book-Entry Form and ownership may be
18 transferred only as provided herein.

19 Nothing herein shall prevent the Bond Sale Terms from providing that a Series of the Bonds
20 shall be issued in certificated form without utilizing a Securities Depository, and that the Bonds of
21 such Series shall be registered as of their Issue Date in the names of the Owners thereof, in which
22 case ownership may be transferred only as provided herein.

1 (d) **Lost or Stolen Bonds.** In case any Bond shall be lost, stolen or destroyed, the
2 Bond Registrar may authenticate and deliver a new bond or bonds of like amount, date, tenor, and
3 effect to the Registered Owner(s) thereof upon the Registered Owner(s)' paying the expenses and
4 charges of the City in connection therewith and upon filing with the Bond Registrar evidence
5 satisfactory to the Bond Registrar that such bond or bonds were actually lost, stolen or destroyed
6 and of Registered Ownership thereof, and upon furnishing the City with indemnity satisfactory to
7 both.

8 Section 7. **Payment of Bonds.**

9 (a) **Payment.** Each Bond shall be payable in lawful money of the United States of
10 America on the dates and in the amounts as provided in the Bond Documents for that Series.
11 Principal of and interest on each Bond designated as a Parity Bond shall be payable solely out of
12 the Parity Bond Fund. Principal of and interest on each Bond designated as a Junior Lien Bond
13 shall be payable solely out of the Junior Lien Debt Service Fund. The Bonds shall not be general
14 obligations of the City. No Bonds of any Series shall be subject to acceleration under any
15 circumstances.

16 (b) **Bonds Held In Book-Entry Form.** Principal of and interest on each Bond held in
17 Book-Entry Form shall be payable in the manner set forth in the Letter of Representations.

18 (c) **Bonds Not Held In Book-Entry Form.** Interest on each Bond not held in Book-
19 Entry Form shall be payable by electronic transfer on the interest payment date, or by check or
20 draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the
21 address appearing on the Bond Register on the Record Date. The City, however, is not required to
22 make electronic transfers except pursuant to a request by a Registered Owner in writing received
23 at least ten days prior to the Record Date and at the sole expense of the Registered Owner. Principal

1 of each Bond not held in Book-Entry Form shall be payable upon presentation and surrender of
2 the Bond by the Registered Owner to the Bond Registrar.

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

4 (a) **Optional Redemption.** All or some of the Bonds may be subject to redemption
5 prior to their stated maturity dates at the option of the City at the times and on the terms set forth
6 in the applicable Bond Documents.

7 (b) **Mandatory Redemption.** All or some of the Bonds of any Series may be
8 designated as Term Bonds, subject to mandatory redemption in Sinking Fund Requirements, as set
9 forth in the applicable Bond Documents. If not redeemed or purchased at the City's option prior
10 to maturity, Term Bonds (if any) must be redeemed, at a price equal to one hundred percent of the
11 principal amount to be redeemed, plus accrued interest, on the dates and in the years and Sinking
12 Fund Requirements as set forth in the applicable Bond Documents. If the City optionally redeems
13 or purchases a Term Bond prior to maturity, the principal amount of that Term Bond that is so
14 redeemed or purchased (irrespective of its redemption or purchase price) shall be credited against
15 the remaining Sinking Fund Requirements for that Term Bond in the manner as directed by the
16 Director of Finance. In the absence of direction by the Director of Finance, credit shall be allocated
17 to the remaining Sinking Fund Requirements for that Term Bond on a *pro rata* basis.

18 (c) **Extraordinary Redemption Provisions.** All or some of the Bonds of any Series
19 may be subject to extraordinary optional or extraordinary mandatory redemption prior to maturity
20 upon the occurrence of an extraordinary event at the prices, in the principal amounts, and on the
21 dates, all as set forth in the applicable Bond Documents.

22 (d) **Selection of Bonds for Redemption; Partial Redemption.** If fewer than all of
23 the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance shall

1 select the Series and maturity or maturities to be redeemed. If less than all of the principal amount
2 of a maturity of the selected Series is to be redeemed, if such Series is held in Book-Entry Form,
3 the portion of such maturity to be redeemed shall be selected for redemption by the Securities
4 Depository in accordance with the Letter of Representations, and if the Series is not then held in
5 Book-Entry Form, the portion of such maturity to be redeemed shall be selected by the Bond
6 Registrar using such method of random selection as the Bond Registrar shall determine. All or a
7 portion of the principal amount of any Bond that is to be redeemed may be redeemed in any
8 applicable Authorized Denomination. If less than all of the outstanding principal amount of any
9 Bond is redeemed, upon surrender of that Bond to the Bond Registrar there shall be issued to the
10 Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner)
11 of the same Series, seniority, maturity, and interest rate in any Authorized Denomination in the
12 aggregate principal amount to remain outstanding.

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

15 Section 9. **Notice of Redemption; Rescission of Notice.** Unless otherwise set forth
16 in the applicable Bond Documents, the City must cause notice of any intended redemption of
17 Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by
18 first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the
19 address appearing on the Bond Register on the Record Date, and the requirements of this sentence
20 shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not
21 it is actually received by the Owner of any Bond. Interest on Bonds called for redemption shall
22 cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed
23 when presented pursuant to the call.

1 In the case of an optional or extraordinary optional redemption, the notice may state that
2 the City retains the right to rescind the redemption notice and the related optional redemption of
3 Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior
4 to the scheduled optional redemption date. Any notice of optional redemption that is rescinded by
5 the Director of Finance shall be of no effect, and the Bonds for which the notice of optional
6 redemption has been rescinded shall remain outstanding.

7 Section 10. **Failure to Pay Bonds**. If any Bond is not paid when properly presented at
8 its maturity or redemption date, the City shall be obligated to pay, solely from the sources pledged
9 to that Bond in this ordinance, interest on that Bond at the same rate provided on that Bond from
10 and after its maturity or redemption date until that Bond, principal, premium, if any, and interest,
11 is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund
12 (if such Bond is a Parity Bond) or the Junior Lien Debt Service Fund (if such Bond is a Junior Lien
13 Bond) and that Bond has been called for payment by giving notice of that call to the Registered
14 Owner of that Bond. The exercise of remedies of Owners of the Bonds are limited as set forth in
15 Section 24.

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

21 Only Bonds bearing a certificate of authentication in substantially the following form (with
22 the designation, year, seniority, and Series adjusted consistent with this ordinance), manually
23 signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits

1 of this ordinance: “This Bond is one of the fully registered The City of Seattle, Washington,
2 Municipal Light and Power [Refunding] Revenue Bonds, [Year], [Series] [Seniority], described
3 in [this ordinance].” Junior Lien Bonds shall also bear the words “Junior Lien” in their name in
4 the foregoing certificate of authentication. The authorized signing of a certificate of authentication
5 shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated,
6 and delivered and is entitled to the benefits of this ordinance.

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

16 Section 12. **Deposit and Use of Proceeds.** Unless otherwise provided in the applicable
17 Bond Documents, the principal proceeds and net premium, if any, received from the sale and
18 delivery of each Series of the Bonds, in the amount necessary to carry out the applicable Refunding
19 Plan, shall be deposited with the Refunding Trustee and used in accordance with the provisions of
20 this section to discharge the obligations of the City relating to the Refunded Bonds identified
21 therein.

22 The Director of Finance may use the principal proceeds and any net premium to pay for
23 costs of issuance of the Bonds, and the Director of Finance also may incur and account for costs

1 of issuance that are not included as part of the bond proceeds and net premium, including but not
2 limited to any underwriter's discount. Net premium and accrued interest received from the sale
3 and delivery of a Series of the Bonds, if any, that is not necessary to carry out the Refunding Plan,
4 shall be paid or allocated into the Parity Bond Fund (or Junior Lien Bond Fund, as applicable) and
5 used to pay interest on that Series.

6 Until needed to carry out the applicable Refunding Plan and to pay the costs described
7 herein, the principal proceeds of each Series of the Bonds shall be held or invested (and the
8 investment earning shall be applied) in accordance with the Refunding Trust Agreement, and the
9 money deposited with the Refunding Trustee, including the Acquired Obligations and any
10 investment earnings, shall be held irrevocably, invested and applied in accordance with the
11 provisions of the respective Refunded Bond Legislation, this ordinance, the Refunding Trust
12 Agreement, chapter 39.53 RCW, and other applicable State law. Earnings subject to a federal tax
13 or rebate requirement may be withdrawn from any such fund or account and used for those tax or
14 rebate purposes.

15 The Director of Finance may pay principal of and interest on a Series of the Bonds with
16 any proceeds of that Series (including interest earnings thereon) remaining after applying such
17 proceeds to carry out the Refunding Plan, or after the City Council has determined that the
18 expenditure of such Bond proceeds for those purposes is no longer necessary or appropriate.

19 Section 13. **Security for the Bonds; Designation as Parity Bonds or Junior Lien**
20 **Bonds.** The Bonds shall not constitute general obligations of the City, the State or any political
21 subdivision of the State or a charge upon any general fund or upon any money or other property
22 of the City, the State, or any political subdivision of the State not specifically pledged by this
23 ordinance.

1 (a) **Parity Bonds.** Each Series of the Bonds that is designated as Parity Bonds shall
2 be a special limited obligation of the City payable from and secured solely by Gross Revenue
3 available after payment of Operating and Maintenance Expense (“Net Revenue”) and by money
4 in the Parity Bond Fund and the Reserve Fund. The Net Revenue is pledged to make the payments
5 into the Parity Bond Fund and the Reserve Fund required by Sections 14 and 15, which pledge
6 shall constitute a lien and charge upon such Net Revenue prior and superior to all other charges
7 whatsoever. Each Series of the Bonds designated as Parity Bonds shall be issued on parity with
8 the Outstanding Parity Bonds and all Future Parity Bonds, without regard to date of issuance or
9 authorization and without preference or priority of right or lien.

10 (b) **Junior Lien Bonds.** Each Series of the Bonds that is designated as Junior Lien
11 Bonds shall be a special limited obligation of the City payable from and secured solely by Net
12 Revenue and by money in the Junior Lien Debt Service Fund. The Net Revenue is pledged to make
13 the payments into the Junior Lien Debt Service Fund required by Sections 14 and 16, which pledge
14 shall constitute a lien and charge upon such Net Revenue (i) subordinate only to the payments to
15 be made (A) into the Parity Bond Fund in respect of the principal of and interest on the Outstanding
16 Parity Bonds and Parity Payment Agreements, (B) in respect of reimbursement obligations arising
17 under Alternate Reserve Securities, and (C) in respect of obligations arising under Intermediate
18 Lien Reimbursement Obligations, and (ii) prior and superior to all other charges whatsoever. Each
19 Series of the Bonds designated as Junior Lien Bonds shall be issued on parity with the lien and
20 charge of any then outstanding Junior Lien Bonds and all Future Junior Lien Bonds, without regard
21 to date of issuance or authorization and without preference or priority of right or lien. Nothing in
22 this ordinance prevents the City from issuing revenue bonds or other obligations which are a charge
23 or lien upon Net Revenues subordinate to the payments required to be made into the Junior Lien

1 Debt Service Fund and the Reserve Fund, and any subfund, account, or subaccount within the
2 foregoing funds.

3 Section 14. **Priority Expenditure of Gross Revenue; Flow of Funds.** Gross Revenue
4 shall be deposited as received in the Light Fund and used for the following purposes only, in the
5 following order of priority:

6 (a) To pay the Operating and Maintenance Expense of the Light System;

7 (b) To make all payments into the Parity Bond Fund required to be made in order to
8 pay the interest on and principal of all Parity Bonds, including all Parity Bond Sinking Fund
9 Requirements and all net payments under Parity Payment Agreements, when due;

10 (c) To make all payments required to be made (if any) into the Reserve Fund necessary
11 to satisfy the Reserve Fund Requirement, and to make all payments (if any) required to be made
12 under Section 15(c)(i)(B) into a special account within the Light Fund for the replacement of an
13 Alternate Reserve Security as to which the City has received a notice of cancellation;

14 (d) To make all payments required to be made (if any) in respect of Intermediate Lien
15 Reimbursement Obligations;

16 (e) To make all payments into the Junior Lien Debt Service Fund required to be made
17 in order to pay the interest on and principal of all Junior Lien Bonds, including all net payments
18 under Junior Lien Payment Agreements and all Junior Lien Reimbursement Obligations, when
19 due;

20 (f) To make all required payments into any revenue bond redemption fund created to
21 pay and secure the payment of the principal of and interest on any revenue bonds or short-term
22 obligations of the City having a charge and lien upon Net Revenue subordinate to the lien thereon

1 for the payment of the principal of and interest on the Parity Bonds and the Junior Lien Bonds;
2 and

3 (g) Without priority, for any of the following purposes: to retire by redemption or
4 purchase any outstanding revenue bonds or revenue obligations of the Light System; to make
5 necessary additions, betterments, repairs, extensions, and replacements of the Light System; to pay
6 City taxes or other payments in lieu of taxes payable from Gross Revenue; to make deposits to the
7 Rate Stabilization Account; or for any other lawful Light System purpose.

8 Section 15. **Parity Bond Fund; Reserve Fund.** The special funds of the City known
9 as the Parity Bond Fund and the Reserve Fund have been previously created and shall be
10 maintained as special funds for the sole purpose of paying the principal of (including redemption
11 premium, if any) and interest on the Parity Bonds as the same shall become due. The Director of
12 Finance may create subfunds, accounts, or subaccounts in the Parity Bond Fund and the Reserve
13 Fund to pay or secure the payment of Parity Bonds as long as the maintenance of such subfunds,
14 accounts, or subaccounts does not conflict with the rights of the owners of the Parity Bonds.
15 Principal of, premium (if any) and interest on the Parity Bonds shall be payable solely out of the
16 Parity Bond Fund.

17 (a) **Required Payments Into the Parity Bond Fund and Reserve Fund.** So long as
18 any Parity Bonds (including any Parity Payment Agreements) are outstanding, the City shall set
19 aside and pay out of Net Revenue certain fixed amounts, without regard to any fixed proportion,
20 namely:

21 (i) Into the Parity Bond Fund, on or prior to the respective dates on which such
22 payments shall become due and payable, an amount sufficient, together with other money on
23 deposit therein, to pay the interest on (including net payments due on Parity Payment Agreement

1 Payments) and principal of (including any Sinking Fund Requirements) the Parity Bonds as the
2 same shall become due; and

3 (ii) Into the Reserve Fund, an amount necessary to provide for the Reserve Fund
4 Requirement within the time and manner required by this ordinance and the Bond Sale Terms.

5 To meet the required payments to be made into the Parity Bond Fund and the Reserve
6 Fund, the Director of Finance may transfer any money from any funds or accounts of the City
7 legally available therefor, except bond redemption funds, refunding escrow funds, or defeasance
8 funds. The Director of Finance may provide for the purchase, redemption, or defeasance of any
9 Parity Bonds by the use of money on deposit in any subfund, account, or subaccount in the Parity
10 Bond Fund or Reserve Fund, so long as the money remaining in those subfunds, accounts, or
11 subaccounts is sufficient to satisfy the required deposits with respect to the remaining Parity
12 Bonds.

13 (b) **Parity Bond Fund.** The Parity Bond Fund has been previously created for the sole
14 purpose of paying the principal of and interest on the Parity Bonds as the same shall become due.
15 Each Series of the Bonds designated as Parity Bonds shall be payable (including principal, Sinking
16 Fund Requirements, redemption premium (if any), and interest) out of the Parity Bond Fund.
17 Money in the Parity Bond Fund shall, to the fullest extent practicable and reasonable, be invested
18 and reinvested at the direction of the Director of Finance solely in, and obligations deposited in
19 such accounts shall consist of, Permitted Investments. Earnings on money and investments in the
20 Parity Bond Fund shall be deposited in and used for the purposes of that fund.

21 (c) **Reserve Fund.** The Reserve Fund has been previously created for the purpose of
22 securing the payment of the principal of and interest on all Parity Bonds (including all net payments
23 due under any Parity Payment Agreements, if any). Money held in the Reserve Fund shall, to the

1 fullest extent practicable and reasonable, be invested and reinvested at the direction of the Director
2 of Finance solely in, and obligations deposited in such accounts shall consist of, Permitted
3 Investments. Earnings on money and investments in the Reserve Fund shall be deposited in that
4 fund and credited against amounts required to be deposited therein until the Reserve Fund is fully
5 funded, and thereafter such earnings shall be deposited in the Parity Bond Fund.

6 (i) **Reserve Fund Requirement.** The Bond Sale Terms for each Series of the
7 Bonds shall establish the amount to be added to the aggregate Reserve Fund Requirement (if any)
8 for such Series, and the method for providing for such incremental addition to the Reserve Fund
9 deposit, subject to the following:

10 (A) In connection with the issuance of Future Parity Bonds, the City
11 shall provide the amounts required for deposit into the Reserve Fund (1) at one time on the Issue
12 Date, or (2) in periodic deposits of Net Revenue (or any other legally available source of funds),
13 so that by five years from the date of such Future Parity Bonds there will have been paid into the
14 Reserve Fund an amount which, together with the money already on deposit therein, will be at
15 least equal to the Reserve Fund Requirement for the Parity Bonds scheduled to be outstanding at
16 the end of that five-year period.

17 (B) The City may obtain one or more Alternate Reserve Securities for
18 specific amounts required to be paid into the Reserve Fund. The amount available to be drawn
19 upon under each such Alternate Reserve Security shall be credited against the amounts needed to
20 satisfy the Reserve Fund Requirement. In the event of receipt of any notice of cancellation of an
21 Alternate Reserve Security the City shall (and, in preparation for the expiration of any such
22 Alternate Reserve Security in accordance with its terms, the City may) either: (1) obtain a
23 substitute an Alternate Reserve Security in the amount necessary to satisfy the Reserve Fund

1 Requirement on the date any such cancellation (or expiration) becomes effective, or (2) create a
2 special account in the Light Fund and deposit therein amounts necessary to replace the Alternate
3 Reserve Security upon its expiration or cancellation. In the case of receipt of a notice of
4 cancellation, such periodic deposits are to be made on or before the 25th day of each of the
5 60 calendar months succeeding receipt of such notice, in an amount equal to 1/60th of the amount
6 necessary (together with other money and investments then on deposit in the Reserve Fund) to
7 satisfy the expected Reserve Fund Requirement on the date such cancellation shall become
8 effective, taking into account scheduled redemptions of Parity Bonds and disregarding any
9 incremental additional amounts that may become necessary due the issuance of Future Parity
10 Bonds subsequent to the date of such notice of cancellation. Such amounts shall be transferred
11 from Net Revenue available in the Light Fund after making provision for payment of Operating
12 and Maintenance Expense and for the required payments into the Parity Bond Fund, in accordance
13 with Section 14. Amounts on deposit in such special account are preliminarily earmarked for the
14 replacement of such Alternate Reserve Security and shall not be available to pay debt service on
15 Parity Bonds or for any other purpose of the City, and shall be transferred to the Reserve Fund on
16 the effective date of any cancellation or expiration of the Alternate Reserve Security to make up
17 the deficiency caused thereby. In the event that the Reserve Fund is completely depleted and all
18 Alternate Reserve Securities have been fully drawn, the amounts in that special account may be
19 withdrawn and treated as Gross Revenues available to be used in accordance with the flow of funds
20 set forth in Section 14. If and when a substitute Alternate Reserve Security having a sufficient
21 value or policy limit is obtained, amounts held in that special account may be transferred back to
22 the Light Fund and treated as Gross Revenues available to be used in accordance with the flow of
23 funds set forth in Section 14.

1 (C) If the amount on deposit in the Reserve Fund is less than the Reserve
2 Fund Requirement (taking into account the five-year period referred to in paragraph (A) of this
3 subsection), the City shall transfer to the Reserve Fund money in an amount sufficient to restore
4 the Reserve Fund to the Reserve Fund Requirement within 12 months after the date of such
5 deficiency. The City shall transfer such amounts first from Net Revenue available in accordance
6 with the priority of payment in Section 14, and only thereafter from money in any construction
7 fund or account established with respect to any issue of Parity Bonds, first taking money from the
8 unrestricted portion thereof, then taking money from the restricted portion thereof. If the amount
9 in the Reserve Fund is greater than the Reserve Fund Requirement, then and only then may the
10 City withdraw such excess from the Reserve Fund and deposit such excess in the Light Fund.

11 (ii) **Use of Reserve Fund to Refund Parity Bonds.** If any Parity Bonds are to
12 be refunded, the money set aside in the Reserve Fund to secure the payment of such Parity Bonds
13 may be used to retire such Parity Bonds, or may be transferred to any reserve fund or account
14 which may be created to secure the payment of any bonds issued to refund such Parity Bonds, as
15 long as the money left remaining in the Reserve Fund is at least equal, together with all Alternate
16 Reserve Securities, to the Reserve Fund Requirement.

17 (iii) **Use of Reserve Fund to Pay Debt Service.** If the money in the Parity Bond
18 Fund is insufficient to meet maturing installments of either interest on or principal of and interest
19 on the Parity Bonds (including net amounts payable under any Parity Payment Agreements), such
20 deficiency shall be made up from the Reserve Fund by the withdrawal of money or proceeds of
21 Alternate Reserve Securities, as the case may be. Any deficiency created in the Reserve Fund by
22 reason of any such withdrawal or claim against an Alternate Reserve Security shall then be made
23 up out of Net Revenue or out of any other legally available funds of the City.

1 (iv) **Withdrawals From Reserve Fund.** Money in the Reserve Fund may be
2 withdrawn by the City for any lawful purpose as long as the aggregate of any money and Alternate
3 Reserve Securities remaining on deposit in the Reserve Fund is at least equal to the Reserve Fund
4 Requirement for the Parity Bonds then outstanding. The City reserves the right to substitute one
5 or more Alternate Reserve Securities for money previously deposited in the Reserve Fund and to
6 withdraw such excess to the extent described in the preceding sentence. Any withdrawals from
7 subaccounts within the Reserve Fund shall be made on a *pro rata* basis, except when the terms of
8 an Alternate Reserve Security require all cash and investments in the Reserve Fund to be
9 withdrawn before any draw or claim is made on the Alternate Reserve Security, or unless the City
10 receives an opinion of Bond Counsel to the effect that such *pro rata* withdrawal is not required to
11 maintain the federal tax benefits (if any) of any then outstanding Parity Bonds issued as Tax-
12 Exempt Bonds or Tax Credit Subsidy Bonds. If multiple Alternate Reserve Securities are on
13 deposit in the Reserve Fund, draws on such Alternate Reserve Securities shall be made on a *pro*
14 *rata* basis.

15 Section 16. **Junior Lien Debt Service Fund.**

16 (a) **Creation of Junior Lien Debt Service Fund; Use of Fund.** The Director of
17 Finance is hereby authorized and directed to create and maintain a special fund of the City known
18 as the Junior Lien Debt Service Fund for the sole purpose of paying the principal of (including
19 redemption premium, if any) and interest on the Junior Lien Bonds as the same shall become due.
20 The Junior Lien Debt Service Fund shall consist of a Principal and Interest Account and such
21 additional subfunds, accounts, or subaccounts as the Director of Finance may find it necessary or
22 convenient to create in order to pay or secure the payment of Junior Lien Bonds, as long as the

1 maintenance of such subfunds, accounts, or subaccounts does not conflict with the rights of the
2 owners of the Junior Lien Bonds or the Parity Bonds.

3 Each Series of the Bonds designated as Junior Lien Bonds shall be payable (including
4 principal, Sinking Fund Requirements, redemption premium (if any), and interest) out of the Junior
5 Lien Debt Service Fund. Money in the Junior Lien Debt Service Fund shall, to the fullest extent
6 practicable and reasonable, be invested and reinvested at the direction of the Director of Finance
7 solely in, and obligations deposited in such accounts shall consist of, Permitted Investments.
8 Earnings on money and investments in the Junior Lien Debt Service Fund shall be deposited in
9 and used for the purposes of that fund.

10 (b) **Required Payments Into the Junior Lien Debt Service Fund.** So long as any
11 Junior Lien Bonds (including any Junior Lien Payment Agreements) are outstanding, the City shall
12 set aside and pay out of Net Revenue certain fixed amounts, without regard to any fixed proportion,
13 namely, into the Principal and Interest Account of the Junior Lien Debt Service Fund, on or prior
14 to the respective dates on which such payments shall become due and payable, an amount
15 sufficient, together with other money on deposit therein, to pay the interest on and the principal of
16 the Junior Lien Bonds, including net payments due on Junior Lien Payment Agreement Payments
17 and all payments under Junior Lien Reimbursement Obligations, as the same shall become due.
18 To meet the required payments to be made into the Junior Lien Debt Service Fund, the Director of
19 Finance may transfer any money from any funds or accounts of the City legally available therefor,
20 except the Parity Bond Fund, the Reserve Fund, other bond redemption funds, refunding escrow
21 funds, or defeasance funds. The Director of Finance may provide for the purchase, redemption, or
22 defeasance of any Junior Lien Bonds by the use of money on deposit in any subfund, account, or
23 subaccount in the Junior Lien Debt Service Fund, so long as the money remaining in those

1 subfunds, accounts, or subaccounts is sufficient to satisfy the required deposits with respect to the
2 remaining Junior Lien Bonds.

3 Section 17. **Bond Covenants.**

4 (a) **Parity Bond Covenants.** The City covenants with the Owner of each Bond that is
5 designated as a Parity Bond, for so long as such Bond remains outstanding, as follows:

6 (i) **Sale or Disposition of the Light System.**

7 (A) The City may dispose of all or substantially all of the Light System
8 only if the City simultaneously causes all of the Parity Bonds to be, or be deemed to be, no longer
9 outstanding.

10 (B) Except as provided below, the City will not dispose of any part of
11 the Light System in excess of 5% of the value of the net utility plant of the Light System in service
12 unless prior to such disposition: (1) there has been filed with the Director of Finance a certificate
13 of a Professional Utility Consultant stating that such disposition will not impair the ability of the
14 City to comply with the rate covenant set forth in Section 17(a)(ii), in which the Professional
15 Utility Consultant may make those assumptions permitted in delivering a Parity Certificate under
16 Section 18(a); or (2) provision is made for the payment, redemption or other retirement of a
17 principal amount of Parity Bonds equal to the greater of the following amounts: (I) an amount
18 which will be in the same proportion to the net principal amount of Parity Bonds then outstanding
19 (defined as the total principal amount of Parity Bonds then outstanding less the amount of cash
20 and investments in the Parity Bond Fund) that Gross Revenues for the twelve preceding months
21 attributable to the part of the Light System sold or disposed of bears to the total Gross Revenues
22 for such period; or (II) an amount which will be in the same proportion to the net principal amount
23 of Parity Bonds then outstanding that the book value of the part of the Light System sold or

1 disposed of bears to the book value of the entire Light System immediately prior to such sale or
2 disposition.

3 (C) Notwithstanding the foregoing, the City may dispose of any portion
4 of the Light System that has become unserviceable, inadequate, obsolete, worn out or unfit to be
5 used, or no longer necessary for, material to, or useful in the operation of the Light System.

6 (D) If the ownership of all or part of the Light System is transferred from
7 the City through the operation of law, the City shall reconstruct or replace the transferred portion
8 using any proceeds of the transfer unless the City Council determines that such reconstruction or
9 replacement is not in the best interests of the City and the Owners of the Parity Bonds, in which
10 case any proceeds shall be used to purchase, defease, or redeem Parity Bonds prior to maturity.

11 (ii) **Rates and Charges.** The City will establish from time to time and maintain
12 such rates for electric energy as will maintain the Light System in sound financial condition and
13 provide sufficient revenues to pay all Operating and Maintenance Expense, to pay into the Parity
14 Bond Fund the amounts that are required by this ordinance to be applied to the payment of the
15 principal of and interest on the Parity Bonds until the Parity Bonds shall have been paid in full,
16 and to pay all bonds, warrants, and indebtedness for which any revenues of the Light System shall
17 have been pledged.

18 (iii) **Operation and Maintenance of the Light System.** The City will operate
19 the properties of the Light System in an efficient manner and at a reasonable cost; will maintain,
20 preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light
21 System and every part and parcel thereof in good repair, working order and condition; and from
22 time to time will make or cause to be made all necessary and proper repairs, renewals and

1 replacements thereto so that at all times the business carried on in connection therewith will be
2 properly and advantageously conducted.

3 (iv) **Books and Financial Statements.** The City will keep and maintain proper
4 books of account for the Light System in accordance with generally accepted accounting principles
5 applicable to governmental utilities; will generally adhere to the uniform system of accounts
6 prescribed by the State Auditor's Office and the Federal Energy Regulatory Commission (if any);
7 and will prepare, on or before 120 days after the end of each calendar year, *and, upon the*
8 *redemption or defeasance of the Outstanding Parity Bonds identified in Exhibit A, on or before*
9 *180 days after the end of each calendar year*, annual financial statements showing reasonable
10 detail, including a balance sheet, an income statement, and a statement of cash flows or other such
11 statement. Copies of such financial statements shall be placed on file in the office of the Director
12 of Finance and shall be open to inspection at any reasonable time by any owner of any Parity
13 Bonds. A copy of such financial statements shall be sent to any owner of Parity Bonds upon request
14 in writing setting forth the name and address to which such financial statements may be sent.

15 (b) **Junior Lien Bond Covenants.** The City covenants with the Owner of each Bond
16 that is designated as a Junior Lien Bond, for so long as such Bond remains outstanding, as follows:

17 (i) **Sale or Disposition of the Light System.** The City may dispose of all or
18 substantially all of the Light System only if the City simultaneously causes all of the Junior Lien
19 Bonds to be, or be deemed to be, no longer outstanding. The City will not dispose of any part of
20 the Light System in excess of 5% of the value of the net utility plant of the Light System in service
21 except upon compliance with the covenant set forth in Section 17(a)(i)(B), above. Notwithstanding
22 the foregoing, the City may dispose of any portion of the Light System that has become

1 unserviceable, inadequate, obsolete, worn out or unfit to be used, or no longer necessary, material
2 to, or useful in the operation of the Light System.

3 (ii) **Rates and Charges.** The City will establish from time to time and maintain
4 such rates for electric energy as will maintain the Light System in sound financial condition and
5 provide sufficient revenues to pay all Operating and Maintenance Expense; to pay into the Parity
6 Bond Fund the amounts that are required by this ordinance to be applied to the payment of the
7 principal of and interest on the Parity Bonds until the Parity Bonds shall have been paid in full; to
8 pay into the Junior Lien Debt Service Fund the amounts that are required by this ordinance to be
9 paid into such fund, in accordance with the priority of payment set forth in Section 14, until the
10 Junior Lien Bonds (including Junior Lien Payment Agreements and Junior Lien Reimbursement
11 Obligations) shall have been paid in full; and to pay all other bonds, warrants, and indebtedness
12 for which any revenues of the Light System shall have been pledged.

13 (iii) **Operation and Maintenance of the Light System.** The City will operate
14 the properties of the Light System in an efficient manner and at a reasonable cost; will maintain,
15 preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light
16 System and every part and parcel thereof in good repair, working order, and condition; and from
17 time to time will make or cause to be made all necessary and proper repairs, renewals, and
18 replacements thereto so that at all times the business carried on in connection therewith will be
19 properly and advantageously conducted.

20 (iv) **Books and Financial Statements.** The City will keep and maintain proper
21 books of account for the Light System in accordance with generally accepted accounting principles
22 applicable to governmental utilities; will generally adhere to the uniform system of accounts
23 prescribed by the State Auditor's Office and the Federal Energy Regulatory Commission (if any);

1 and will prepare, on or before 180 days after the end of each calendar year, annual financial
2 statements showing reasonable detail, including a balance sheet, an income statement, and a
3 statement of cash flows or other such statement. Copies of such financial statements shall be placed
4 on file in the office of the Director of Finance and shall be open to inspection at any reasonable
5 time by any owner of any Junior Lien Bonds. A copy of such financial statements shall be sent to
6 any owner of Junior Lien Bonds upon request in writing setting forth the name and address to
7 which such financial statements may be sent.

8 Section 18. **Additional Bonds.**

9 (a) **Future Parity Bonds.** The City reserves the right to issue Future Parity Bonds
10 (which term includes Parity Payment Agreements) for any lawful purpose of the City's Light
11 System if the Parity Conditions are met and complied with as of the Issue Date of such Future
12 Parity Bonds, or as of the effective date of the Parity Payment Agreement, as appropriate.

13 If the Parity Conditions are met and complied with, then payments into the Parity Bond
14 Fund with respect to such Future Parity Bonds shall rank equally with the payments out of the Net
15 Revenue required to be made into the Parity Bond Fund by this ordinance. Nothing set forth herein
16 shall prevent the City from (i) issuing revenue bonds or other obligations that are a charge upon
17 the Net Revenue junior and inferior to the payments required to be made therefrom into the Parity
18 Bond Fund for the payment of the Parity Bonds, provided that such subordinate bonds may not be
19 subject to acceleration under any circumstances; or (ii) issuing Refunding Parity Bonds to refund
20 maturing Parity Bonds of the City for the payment of which money is not otherwise available.

21 (i) **Parity Conditions.** The Parity Conditions are as follows:

22 (A) No deficiency may then exist in the Parity Bond Fund or in any of
23 the accounts therein; and

1 (B) Provision must be made to satisfy the Reserve Fund Requirement
2 for all Parity Bonds then outstanding plus any additional amount required in connection with
3 issuance and sale of the proposed Future Parity Bonds (if any) in accordance with Section 15(c);
4 and

5 (C) There must be on file with the City a Parity Certificate as described
6 in subsection (a)(ii), below. If the proposed Future Parity Bonds (or any portion thereof) are to be
7 issued for the purpose of refunding outstanding Parity Bonds and the Annual Debt Service on the
8 refunding portion of the proposed Future Parity Bonds is not more than \$5,000 greater than the
9 Annual Debt Service on the Parity Bonds to be refunded thereby, then no Parity Certificate shall
10 be required as to that portion issued for refunding purposes. If the requirements of the preceding
11 sentence are not satisfied, Refunding Parity Bonds may alternatively be issued upon delivery of a
12 Parity Certificate.

13 (ii) **Parity Certificate.** A Parity Certificate required by subsection (a)(i) may
14 be provided by either the Director of Finance or by a Professional Utility Consultant, as follows:

15 (A) A Parity Certificate may be prepared by the Director of Finance,
16 demonstrating that the amount of Adjusted Net Revenue in any 12 consecutive months out of the
17 most recent 24 months preceding the delivery of the proposed series of Future Parity Bonds (the
18 “Base Period”) was not less than 125% of Maximum Annual Debt Service in any future calendar
19 year on all Parity Bonds then outstanding and the proposed series of Future Parity Bonds. For the
20 purposes of a Parity Certificate delivered under this subsection (A), the Director of Finance shall
21 reflect in his or her certificate any adjustment in the rates, fees, and charges for the services of the
22 Light System that will become effective at any time prior to or within six months after the delivery
23 of the proposed Future Parity Bonds, by including in the amount of Adjusted Net Revenue the

1 amount that he or she estimates would have been collected in the Base Period if such new rates,
2 fees, and charges had been in effect for the entire Base Period.

3 (B) A Parity Certificate may be prepared by a Professional Utility
4 Consultant, demonstrating that the amount of the Adjusted Net Revenue (which may be further
5 adjusted as provided in paragraphs (1) through (6) below) in any 12 consecutive months out of the
6 most recent 24 months preceding the delivery of the proposed Series of Future Parity Bonds (the
7 “Base Period”) is not less than 125% of the amount of Maximum Annual Debt Service on all Parity
8 Bonds and the proposed Future Parity Bonds in any future calendar year on all Parity Bonds then
9 outstanding and the proposed series of Parity Bonds. For the purposes of a certificate delivered
10 under this subsection (a)(ii), Adjusted Net Revenue may be further adjusted by the Professional
11 Utility Consultant using any or all of the following methods reflecting the conditions and
12 requirements as may be appropriate to the circumstances:

13 (1) If the purpose for which the proposed Future Parity Bonds
14 are being issued is to acquire operating electric utility properties having an earnings record, the
15 Professional Utility Consultant shall estimate the effect on the Adjusted Net Revenue for the Base
16 Period of the acquisition of such electric utility properties and the integration thereof into the Light
17 System, and shall further adjust the Adjusted Net Revenue for the Base Period to give effect to
18 such estimate. Any such estimate shall be based upon the operating experience and records of the
19 City and upon any available financial statements and records relating to the earnings of such
20 electric utility properties to be acquired.

21 (2) If any changes to rates, fees, or charges imposed by the City
22 on sales of power, energy, or other services furnished by the Light System, which were not in
23 effect during the entire Base Period, have been adopted by the City Council and are in effect on

1 the date of sale of the proposed Future Parity Bonds (or effective date of the proposed Parity
2 Payment Agreement) or are to go into effect not later than 12 months after such date, the
3 Professional Utility Consultant may, if such changes resulted in increases in such rates, fees, or
4 charges, and shall, if such changes resulted in reductions in such rates, fees, or charges, further
5 adjust the Adjusted Net Revenue for the Base Period to reflect any change in such Adjusted Net
6 Revenue that would have occurred if the changed rates, fees, or charges had been in effect during
7 the entire Base Period.

8 (3) If the purpose for which the proposed Future Parity Bonds
9 are being issued is to acquire or construct generation or transmission facilities required to furnish
10 or make available to the Light System additional power and energy, or transmission facilities
11 required to enable the City to sell additional power and energy, the Professional Utility Consultant
12 may further adjust Adjusted Net Revenue for the Base Period by (I) deducting the amount of the
13 estimated increase in Operating and Maintenance Expense resulting from the acquisition or
14 construction of such facilities in their first year of full operation, (II) adding any additional
15 revenues to be derived from the sale or transmission of such additional power and energy pursuant
16 to executed power sales contracts, and (III) adding an amount equal to the estimated cost of the
17 power and energy which would have been replaced or displaced by such facilities had such
18 additional power and energy in excess of the power and energy to be sold pursuant to paragraph (2)
19 above been used in the Light System during the Base Period.

20 (4) If there were any customers added to the Light System
21 during the Base Period or thereafter (and prior to the date of the Professional Utility Consultant's
22 certificate), Adjusted Net Revenue may be further adjusted on the basis that such added customers
23 were customers of the Light System during the entire Base Period.

1 (5) If extensions of or additions to the Light System (not
2 described in paragraph (3) above) are in the process of construction on the date of the Professional
3 Utility Consultant's certificate, or if the proceeds of the proposed Future Parity Bonds are to be
4 used to acquire or construct extensions of or additions to the Light System (not described in
5 paragraph (3) above), the Adjusted Net Revenue for the Base Period may be further adjusted by
6 adding any additional revenues not included in the preceding paragraphs that will be derived from
7 such additions and extensions, and deducting the estimated increase in Operating and Maintenance
8 Expense resulting from such additions and extensions.

9 In rendering any Parity Certificate under this subsection (a)(ii)(B), the Professional Utility
10 Consultant may rely upon the following documents, which shall be attached to the Parity
11 Certificate: financial statements of the Light System, certified by the Director of Finance, showing
12 income and expenses for the period upon which the same are based and a balance sheet as of the
13 end of such period; financial statements certified by the Office of the State Auditor of the State (or
14 any successor thereto); or financial statements certified by a Certified Public Accountant for as
15 much of such period as any examination by them has been made and completed. If two or more of
16 such statements are inconsistent with each other, the Professional Utility Consultant shall rely on
17 the statements certified by the Director of Finance.

18 (b) **Future Junior Lien Bonds.** The City reserves the right to issue Future Junior Lien
19 Bonds (which term includes Junior Lien Payment Agreements and Junior Lien Reimbursement
20 Obligations) for any lawful purpose of the City's Light System if the Junior Lien Additional Bonds
21 Test is met and complied with as of the Issue Date of such Future Junior Lien Bonds, or as of the
22 effective date of the Junior Lien Payment Agreement or Junior Lien Reimbursement Obligation,
23 as appropriate.

1 If the Junior Lien Additional Bonds Test is met and complied with, then payments into the
2 Junior Lien Debt Service Fund with respect to such Future Junior Lien Bonds shall rank equally
3 with the payments out of the Net Revenue required to be made into the Junior Lien Debt Service
4 Fund by this ordinance. Nothing set forth herein shall prevent the City from (i) issuing revenue
5 bonds or other obligations that are a charge upon the Net Revenue junior and inferior to the
6 payments required to be made therefrom into the Junior Lien Debt Service Fund for the payment
7 of the Junior Lien Bonds, provided that such subordinate bonds may not be subject to acceleration
8 under any circumstances; or (ii) issuing Refunding Junior Lien Bonds for the purpose of refunding
9 Outstanding Junior Lien Bonds to fund or refund maturing Junior Lien Bonds of the City for the
10 payment of which money is not otherwise available.

11 (i) **Junior Lien Additional Bonds Test.** The Junior Lien Additional Bonds
12 Test is as follows:

13 (A) No deficiency may then exist in the Junior Lien Debt Service Fund
14 or in any of the accounts therein; and

15 (B) No default may have occurred that is then continuing with respect
16 to any then outstanding Parity Bonds or Junior Lien Bonds; and

17 (C) There must be on file with the City a Junior Lien Coverage
18 Certificate as described in subsection (b)(ii), below. If the proposed Future Junior Lien Bonds (or
19 any portion thereof) are to be issued for the purpose of refunding outstanding Junior Lien Bonds
20 and the Annual Debt Service on the refunding portion of the proposed Future Junior Lien Bonds
21 is not more than \$5,000 greater than the Annual Debt Service on the Junior Lien Bonds to be
22 refunded thereby, then no Junior Lien Coverage Certificate shall be required as to that portion
23 issued for refunding purposes. If the requirements of the preceding sentence are not satisfied,

1 Refunding Junior Lien Bonds may alternatively be issued upon delivery of a Junior Lien Coverage
2 Certificate.

3 (ii) **Junior Lien Coverage Certificate.** A Junior Lien Coverage Certificate
4 required by subsection (b)(i) may be provided by either the Director of Finance or by a Professional
5 Utility Consultant, as follows:

6 (A) A Junior Lien Coverage Certificate may be prepared by the Director
7 of Finance, demonstrating that the amount of Adjusted Net Revenue in any 12 consecutive months
8 out of the most recent 24 months preceding the delivery of the proposed Series of Future Junior
9 Lien Bonds (the “Base Period”) was not less than 115% of Maximum Annual Debt Service in any
10 future calendar year on all Parity Bonds, Intermediate Lien Reimbursement Obligations (if any),
11 and Junior Lien Bonds then outstanding plus the proposed Series of Future Junior Lien Bonds. For
12 the purposes of a Junior Lien Coverage Certificate delivered under this subsection (A), the Director
13 of Finance shall reflect in his or her certificate any adjustment in the rates, fees, and charges for
14 the services of the Light System that will become effective at any time prior to or within six months
15 after the delivery of the proposed Future Junior Lien Bonds, by including in the amount of
16 Adjusted Net Revenue the amount that he or she estimates would have been collected in the Base
17 Period if such new rates, fees, and charges had been in effect for the entire Base Period.

18 (B) A Junior Lien Coverage Certificate may be prepared by a
19 Professional Utility Consultant, demonstrating that the amount of the Adjusted Net Revenue
20 (which may be further adjusted as provided in subsection (a)(ii)(B)(1) through (6), above) in any
21 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed
22 Series of Future Junior Lien Bonds (the “Base Period”) not less than 115% of Maximum Annual

1 Debt Service in any future calendar year on all Parity Bonds and Junior Lien Bonds then
2 outstanding plus the proposed Series of Future Junior Lien Bonds.

3 Section 19. **Rate Stabilization Account.** The City may at any time deposit in the Rate
4 Stabilization Account Net Revenue and any other money received by the Light System and
5 available to be used therefor. Thereafter, the City may withdraw any or all of the money from the
6 Rate Stabilization Account for inclusion in Adjusted Net Revenue for any applicable year of the
7 City. Such deposits or withdrawals may be made up to and including the date 90 days after the end
8 of the applicable year for which the deposit or withdrawal will be included as Adjusted Net
9 Revenue.

10 Section 20. **Refunding or Defeasance of Bonds.**

11 (a) **Bonds Designated as Refundable.** Each Series of the Bonds issued hereunder is
12 designated a Series of “Refundable Bonds” and is eligible to be refunded under this ordinance in
13 the future.

14 (b) **Refunding; Defeasance.** The City may issue refunding bonds pursuant to the laws
15 of the State or use money available from any other lawful source (i) to pay when due the principal
16 of (including premium, if any) and interest on any Bond, or any portion thereof, included in a
17 refunding or defeasance plan (the “Defeased Bonds”); (ii) to redeem and retire, release, refund, or
18 defease the Defeased Bonds; and (iii) to pay the costs of such refunding or defeasance. If money
19 and/or Government Obligations maturing at a time or times and in an amount sufficient (together
20 with known earned income from the investment thereof) to redeem and retire, release, refund or
21 defease the Defeased Bonds in accordance with their terms, is set aside in a special trust fund or
22 escrow account irrevocably pledged to such redemption, retirement, or defeasance (the “Trust
23 Account”), then all right and interest of the Owners of the Defeased Bonds in the covenants of this

1 ordinance and in Net Revenue and the funds and accounts pledged to the payment of such Defeased
2 Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and
3 become void. Such Owners thereafter shall have the right to receive payment of the principal of
4 and interest or redemption price on the Defeased Bonds from the Trust Account. After establishing
5 and fully funding such a Trust Account, the Defeased Bonds shall be deemed to be no longer
6 outstanding and the Director of Finance may then apply any money in any other fund or account
7 established for the payment or redemption of the Defeased Bonds to any lawful purpose.

8 (c) **Notice of Defeasance or Refunding.** Unless otherwise specified in the applicable
9 Bond Documents, notice of refunding or defeasance shall be given, and selection of Bonds for any
10 partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for the
11 redemption of Bonds.

12 (d) **Annual Debt Service Calculation Adjustments for Defeased Bonds.** If the
13 refunding or defeasance plan provides (i) that the Defeased Bonds (or the Refunding Bonds issued
14 to redeem those Defeased Bonds) are to be secured by money and/or Government Obligations
15 pending the redemption of the Defeased Bonds, and (ii) that certain money and/or Government
16 Obligations are pledged irrevocably for the redemption of the Defeased Bonds, then only the debt
17 service on such Bonds as are not Defeased Bonds (and any Refunding Bonds, the payment of
18 which is not so secured by the refunding plan) shall be included in the calculation of Annual Debt
19 Service.

20 Section 21. **Federal Tax Matters.** The Bond Documents may include such additional
21 terms and covenants relating to federal tax matters as the Director of Finance deems necessary or
22 appropriate, including the following:

1 (a) **Tax-Exempt Bonds.** For each Series of the Bonds issued as Tax-Exempt Bonds,
2 the City covenants that it will take all actions, consistent with the terms of such Series as set forth
3 in the applicable Bond Documents, that are reasonably within its power and necessary to prevent
4 interest on that Series from being included in gross income for federal income tax purposes. The
5 City further covenants that it will neither take any action nor make or permit any use of gross
6 proceeds of that Series (or other funds of the City treated as gross proceeds of that Series at any
7 time during the term of such Series) that will cause interest on such Series to be included in gross
8 income for federal income tax purposes. The City also covenants that, to the extent the arbitrage
9 rebate requirement of Section 148 of the Code is applicable to any Series issued as Tax-Exempt
10 Bonds, it will take all actions necessary to comply (or to be treated as having complied) with that
11 requirement in connection with that Series (including the calculation and payment of any penalties
12 that the City may elect to pay as an alternative to calculating rebatable arbitrage and the payment
13 of any other penalties if required under Section 148 of the Code) to prevent interest on such Series
14 from being included in gross income for federal income tax purposes.

15 (b) **Taxable Bonds; Tax Credit Subsidy Bonds.** For each Series of the Bonds issued
16 as Taxable Bonds or as Tax Credit Subsidy Bonds, the Director of Finance is authorized to make
17 provision in the Bonds and other Bond Documents, to execute additional written agreements, and
18 to make additional covenants on behalf of the City, all as he or she may deem necessary or
19 appropriate in order to obtain, maintain, and administer such tax status. In the case of Tax Credit
20 Subsidy Bonds, such additional covenants and agreement may include (without limiting the
21 generality of the foregoing) those necessary in order for the City (i) to receive from the United
22 States Treasury the applicable Tax Credit Subsidy Payments in respect of such Tax Credit Subsidy

1 Bonds, and (ii) to ensure that such Series otherwise become and remain eligible for tax benefits
2 under the Code.

3 Section 22. **Official Statement; Continuing Disclosure.**

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

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

18 (c) **Undertaking to Provide Continuing Disclosure.** To meet the requirements of
19 paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for a Series of the
20 Bonds, the Director of Finance is authorized to execute a written Continuing Disclosure
21 Agreement with respect to that Series, in substantially the form attached as Exhibit B.

1 Section 23. **Supplemental or Amendatory Bond Documents.** This ordinance and the
2 other applicable Bond Documents for any Series of the Bonds may not be supplemented or
3 amended in any respect subsequent to the Issue Date of such Series, except in accordance with and
4 subject to the provisions of this section.

5 (a) **Amendments Without Bond Owners' Consent.** From time to time and at any
6 time, without the consent of or notice to the owners of any Parity Bonds or Junior Lien Bonds, the
7 City may supplement or amend the Bond Documents applicable to any Series of the Bonds for any
8 of the purposes set forth in this subsection (a). Any such supplement or amendment may be passed,
9 adopted, or otherwise approved in writing by the City, without requiring the consent of the
10 registered owners of any Parity Bonds or Junior Lien Bonds, but may become effective only upon
11 receipt by the City of an opinion of Bond Counsel to the effect that such supplement or amendment
12 is permitted by the terms of this ordinance. The City shall deliver a copy of any such supplement
13 or amendment to each Rating Agency prior to its passage, adoption, or approval (as applicable) by
14 the City. The types of supplements and amendments permitted under this subsection (a) are as
15 follows:

16 (i) To add to any Parity Bond Documents (or to any Junior Lien Bond
17 Documents, as applicable) additional covenants and agreements that do not adversely affect the
18 interests of the owners of any Parity Bonds (or, as to Junior Lien Bond Documents, the interests
19 of the owners of any Junior Lien Bonds) then outstanding, or to surrender any right or power
20 reserved to or conferred upon the City in any Bond Documents.

21 (ii) To cure any ambiguities or to cure, correct, or supplement any defective
22 provision in any Bond Documents, in regard to matters or questions arising under such Bond
23 Documents, as the City may deem necessary or desirable and not inconsistent with this ordinance,

1 and which do not materially adversely affect the interests of the owners of any Parity Bonds or
2 Junior Lien Bonds then outstanding.

3 (iii) To make such changes as may be necessary to permit the Bonds to be held
4 in registered certificate form or in Book-Entry Form, as the case may be, and to make similar
5 amendments or modifications of a technical nature.

6 (b) **Amendments Permitted Upon Bond Owners' Consent.**

7 (i) **Parity Bond Documents.** With the consent of the registered owners
8 representing not less than 60% in aggregate principal amount of the Parity Bonds then outstanding,
9 the City may pass, adopt, or otherwise provide its written approval of any supplement or
10 amendment to add to, change, or eliminate any provision of the Bond Documents applicable to a
11 Series of the Bonds designated as Parity Bonds in any manner other than a supplement or
12 amendment effecting a change described in subsection (c)(i).

13 (ii) **Junior Lien Bond Documents.** With the consent of the registered owners
14 representing not less than 60% in aggregate principal amount of the Junior Lien Bonds then
15 outstanding, the City may pass, adopt, or otherwise approve in writing any supplement or
16 amendment to add to, change, or eliminate any provision of the Bond Documents applicable to a
17 Series of the Bonds designated as Junior Lien Bonds in any manner other than a supplement or
18 amendment effecting a change described in subsection (c)(ii).

19 (c) **Amendments Prohibited Except Upon Unanimous Consent.**

20 (i) **Amendments to Parity Bond Documents.** Nothing contained in this
21 section shall permit or be construed as permitting an amendment or supplement that would:

22 (A) Except upon consent from the registered owners of or on behalf of
23 all Parity Bonds so affected, extend the fixed maturity of any Parity Bond, reduce the rate of

1 interest on any Parity Bond (other than a change in interest rate permitted under the applicable
2 Parity Bond Documents as then in effect), extend the times of payment of interest from their
3 respective due dates, reduce the principal amount of any Parity Bond, or reduce any redemption
4 premium; or

5 (B) Except upon consent from the registered owners of or on behalf of
6 all of the Parity Bonds then outstanding, reduce the percentage of ownership required under
7 subsection (b)(i), above, to approve any supplement or amendment.

8 (ii) **Amendments to Junior Lien Bond Documents.** Nothing contained in this
9 section shall permit or be construed as permitting an amendment or supplement that would:

10 (A) Except upon consent from the registered owners of or on behalf of
11 all Junior Lien Bonds so affected, extend the fixed maturity of any Junior Lien Bond, reduce the
12 rate of interest on any Junior Lien Bond (other than a change in interest rate permitted under the
13 applicable Junior Lien Bond Documents as then in effect), extend the times of payment of interest
14 from their respective due dates, reduce the principal amount of any Junior Lien Bond, or reduce
15 any redemption premium; or

16 (B) Except upon consent from the registered owners of or on behalf of
17 all of the Junior Lien Bonds then outstanding, reduce the percentage of ownership required under
18 subsection (b)(ii), above, to approve any supplement or amendment.

19 (d) **Notice and Consents.** If at any time the City passes, adopts, or otherwise approves
20 in writing a supplement or amendment for any of the purposes requiring consent under subsection
21 (b) or (c) of this section, it shall provide a notice, briefly summarizing the nature of the proposed
22 supplement or amendment and stating that a copy of such supplement or amendment is on file at
23 the office of the City Clerk, to each registered owner and to each Rating Agency. It shall not be

1 necessary to obtain consent to or approval of the particular form of any proposed supplement or
2 amendment, but it shall be sufficient if the consent shall approve the substance thereof. For
3 purposes of determining whether consents representing the requisite percentage of principal
4 amount of Parity Bonds or Junior Lien Bonds have been obtained, the Accreted Value of Capital
5 Appreciation Bonds shall be deemed to be the principal amount.

6 (e) **Effect of Amendment or Supplement.** Upon the effective date of any amendment
7 or supplement to any Bond Documents, such Bond Documents shall be deemed to be amended
8 and modified in accordance with such amendment or supplement. Thereafter, the respective rights,
9 duties, and obligations of the City under the applicable Bond Documents shall be determined,
10 exercised, and enforced subject in all respects to such supplement or amendments, and all the terms
11 and conditions of any such supplement or amendment shall be deemed to be a part of the terms
12 and conditions of those Bond Documents for any and all purposes. The effective dates of such
13 amendments and supplements shall be as follows:

14 (i) An amendment and supplement permitted under subsection (a) shall
15 become effective immediately upon (A) the passage, adoption, or other approval of such
16 amendment or supplement (or upon the effective date of such document as stated therein, if any),
17 and (B) the delivery of the required opinion of Bond Counsel stating that such amendment or
18 supplement is permitted under this ordinance.

19 (ii) A supplement or amendment permitted under subsection (b) or (c) shall
20 become effective on the date on which the City has received the written consents of the requisite
21 percentage of registered owners. If the requisite percentage of registered owners of Parity Bonds
22 or Junior Lien Bonds, as applicable, have given their consent to any such amendment or
23 supplement, no owner of any Bond shall have any right (i) to object to the passage, adoption, or

1 approval of such supplement or amendment, (ii) to object to any of the terms and provisions
2 contained therein or the operation thereof, (iii) in any manner to question the propriety of the
3 passage, adoption, or approval thereof, (iv) to enjoin or restrain the City, or any authorized official
4 thereof, from passing, adopting, or otherwise approving the same, or (v) to enjoin or restrain the
5 City, any authorized official thereof, or the Bond Registrar from taking any action pursuant to the
6 provisions thereof.

7 (f) **Notation on Bonds.** Any Bonds executed and delivered after the effective date of
8 any amendment or supplement that is passed, adopted, or otherwise approved in writing pursuant
9 to this section may include a notation as to any matter provided for in such amendment or
10 supplement. The City may, in its discretion, prepare and deliver replacement bonds, modified to
11 reflect any such amendment or supplement, to the registered owner(s) thereof upon surrender of
12 the original bonds for cancellation.

13 (g) **Special Amendments.** If and to the extent that it is determined that the written
14 consent of Registered Owners of the Bonds is required under subsection (b) or (c) of this section,
15 the Registered Owners from time to time of the Bonds, by taking and holding the same, are hereby
16 deemed to have consented to any supplement or amendment to any Bond Documents effecting any
17 one or more of the following changes:

18 (i) Permitting the reimbursement obligations of the City under any Qualified
19 Insurance or Qualified Letter of Credit obtained for the benefit of the holders of the Parity Bonds
20 (other than Qualified Insurance or a Qualified Letter of Credit obtained to satisfy all or a part of
21 the Reserve Fund Requirement) to be secured by a charge and lien on Net Revenue of the Light
22 System equal in rank with the charge and lien upon such Net Revenue required to be paid into the
23 Parity Bond Fund to pay and secure the payment of the principal of and interest on Parity Bonds.

1 (ii) Permitting the reimbursement obligations of the City under any Alternate
2 Reserve Security to be made by transfers from money in the Light Fund on parity with the transfers
3 to be made upon receipt of any notice of cancellation of an Alternate Reserve Security.

4 Section 24. **Defaults and Remedies.**

5 (a) **Parity Bond Events of Default.** Each of the following shall constitute an Event
6 of Default with respect to the Bonds designated as Parity Bonds, except as set forth in subsection
7 (c) of this section:

8 (i) If a default is made in the payment of the principal of (including Sinking
9 Fund Requirements and any redemption premium thereon, if any) or interest on any Parity Bond
10 when the same shall become due and payable; or

11 (ii) If the City defaults in the observance and performance of any other of the
12 Parity Bond covenants, conditions, or agreements on the part of the City set forth in this ordinance
13 or the applicable Parity Bond Documents (except as otherwise provided herein or in such Parity
14 Bond Documents) and such default or defaults shall have continued for a period of six months (the
15 “cure period”) after the City shall have received from the registered owners of not less than 25%
16 in principal amount of the Parity Bonds then outstanding (or from a Bond Owners’ Trustee duly
17 appointed as set forth in subsection (d), below) a written notice specifying and demanding the cure
18 of such default. However, if such default is one which cannot be completely remedied within the
19 cure period, it shall not be an Event of Default with respect to the Parity Bonds, so long as the City
20 has taken active steps within the cure period to remedy the default and is diligently pursuing such
21 remedy.

1 (b) **Junior Lien Bond Events of Default.** Each of the following shall constitute an
2 Event of Default with respect to the Bonds designated as Junior Lien Bonds, except as set forth in
3 subsection (c) of this section:

4 (i) If a default is made in the payment of the principal of (including Sinking
5 Fund Requirements and any redemption premium thereon, if any) or interest on any Junior Lien
6 Bond when the same shall become due and payable; or

7 (ii) If the City defaults in the observance and performance of any other of the
8 Junior Lien Bond covenants, conditions, or agreements on the part of the City set forth in this
9 ordinance or the applicable Junior Lien Bond Documents (except as otherwise provided herein or
10 in such Junior Lien Bond Documents) and such default or defaults shall have continued for a period
11 of six months (the “cure period”) after the City shall have received from the registered owners of
12 not less than 25% in principal amount of the Junior Lien Bonds then outstanding (or from a Bond
13 Owners’ Trustee duly appointed as set forth in subsection (d), below) a written notice specifying
14 and demanding the cure of such default. However, if such default is one which cannot be
15 completely remedied within the cure period, it shall not be an Event of Default with respect to the
16 Bonds as long as the City has taken active steps within the cure period to remedy the default and
17 is diligently pursuing such remedy.

18 (c) **Exceptions.** Notwithstanding anything in this section to the contrary, the failure
19 of the City or any obligated person to comply with a Continuing Disclosure Agreement shall not
20 constitute an Event of Default, and the sole remedy of any holder of any Parity Bond or Junior
21 Lien Bond, as applicable, shall be to seek an order of specific performance from an appropriate
22 court to compel the City to comply with the Continuing Disclosure Agreement. For purposes of
23 determining whether an Event of Default has occurred and is continuing with respect to the rate

1 covenant set forth in Section 17(a)(ii) or (b)(ii), if such covenant is met for any fiscal year, it shall
2 be deemed to have been met for all prior fiscal years.

3 (d) **Remedies; No Acceleration.** In the case of a Parity Bond Event of Default, an
4 owner of a Parity Bond shall have the remedies set forth in Section 10 and in the applicable Parity
5 Bond Documents. *Upon the redemption or defeasance of all of the Outstanding Parity Bonds*
6 *described in Exhibit A to this ordinance, the rights and remedies of the owners from time to time*
7 *of Parity Bonds shall be limited by subsection (e), below.* In the case of a Junior Lien Bond Event
8 of Default, the owner of a Junior Lien Bond shall have the remedies set forth in Section 10 and in
9 the applicable Junior Lien Bond Documents, as limited by subsection (e), below. Nothing
10 contained in this ordinance shall, in any event or under any circumstance, be deemed to authorize
11 the acceleration of the maturity of principal on the Bonds, and the remedy of acceleration is
12 expressly denied to the registered owners of the Bonds under any circumstances including, without
13 limitation, upon the occurrence and continuance of an Event of Default.

14 (e) **Bond Owners' Trustee.** *The provisions of this subsection shall become effective*
15 *with respect to Parity Bonds only upon the redemption or defeasance of all of the Outstanding*
16 *Parity Bonds described in Exhibit A to this ordinance.* The provisions of this subsection shall
17 become effective immediately with respect to Bonds issued as Junior Lien Bonds. A Bond Owners'
18 Trustee appointed in the manner provided in this section, and each successor thereto, is declared
19 to be a trustee for all of the owners of the Parity Bonds (in the case of a Parity Bond Event of
20 Default) or the owners of the Junior Lien Bonds (in the case of a Junior Lien Event of Default), as
21 applicable, and is empowered to exercise all the rights and powers herein conferred on the Bond
22 Owners' Trustee.

1 (i) **Appointment of Bond Owners' Trustee; Removal.** Upon the occurrence
2 and continuance of an Event of Default described in subsection (a) of this section, the registered
3 owners of 25% in principal amount of the then outstanding Parity Bonds (or upon the occurrence
4 and continuance of an Event of Default described in subsection (b) of this section, the registered
5 owners of 25% in principal amount of the then outstanding Junior Lien Bonds, if such default is
6 one described in subsection (b) of this section) may appoint a Bond Owners' Trustee by an
7 instrument or concurrent instruments in writing signed by such registered owners (or by their duly
8 authorized attorneys-in-fact) and delivered to such Bond Owners' Trustee, with notification of
9 such appointment given to the City. That appointment shall become effective immediately upon
10 acceptance thereof by the Bond Owners' Trustee. The entity acting as Bond Owners' Trustee may
11 be removed at any time, and a successor Bond Owners' Trustee may be appointed, by the registered
12 owners of more than 50% in principal amount of the Parity Bonds (in the case of a Parity Bond
13 Event of Default) or 50% in principal amount of the Junior Lien Bonds (in the case of a Junior
14 Lien Event of Default), as applicable, by an instrument or concurrent instruments in writing signed
15 and acknowledged by such registered owners or by their duly authorized attorneys-in-fact.

16 (ii) **Cure of Event of Default.** If the Bond Owners' Trustee furnishes to the
17 City a certificate stating that, in its sole judgment, an Event of Default that has occurred has been
18 cured, such Event of Default shall be conclusively deemed to be cured, and the City, the Bond
19 Owners' Trustee, and the registered owners of the Parity Bonds or Junior Lien Bonds, as
20 applicable, shall be restored to the same rights and position which they would have held if no Event
21 of Default had occurred.

22 (iii) **Suits at Law or in Equity.** Upon the occurrence of an Event of Default
23 and during the continuance thereof, the Bond Owners' Trustee in its discretion may (and, upon the

1 written request of the registered owners of not less than 25% in principal amount of the Parity
2 Bonds (or Junior Lien Bonds, as applicable) then outstanding, shall) take such steps and institute
3 such suits, actions, or other proceedings, all as it may deem appropriate for the protection and
4 enforcement of the rights of the registered owners of the Parity Bonds (or Junior Lien Bonds, as
5 applicable), to collect any amounts due and owing to or from the City, or to obtain other
6 appropriate relief, and may enforce the specific performance of any covenant, agreement or
7 condition contained in this ordinance or set forth in any of the applicable Bond Documents.

8 Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder
9 shall be brought in its name as the Bond Owners' Trustee and all such rights of action upon or
10 under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bond
11 Owners' Trustee without the possession of any of those Parity Bonds and without the production
12 of the same at any trial or proceedings relative thereto except where otherwise required by law.

13 (iv) **Effect of Appointment of Bond Owners' Trustee.** Any suit, action, or
14 proceeding instituted by the Bond Owners' Trustee shall be brought for the ratable benefit of all
15 of the owners of the Parity Bonds (or Junior Lien Bonds, as applicable), subject to the provisions
16 of this ordinance. The respective owners, by taking and holding the same, shall be conclusively
17 deemed irrevocably to appoint the Bond Owners' Trustee the true and lawful trustee of the
18 respective owners, with authority to institute any such action, suit or proceeding; to receive as
19 trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to
20 execute any paper or documents for the receipt of money; and to do all acts with respect thereto
21 that the owner himself or herself might have done in person. Nothing herein shall be deemed to
22 authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any
23 owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or

1 any right of any registered owner thereof, or to authorize or empower the Bond Owners' Trustee
2 to vote the claims of the registered owners thereof in any receivership, insolvency, liquidation,
3 bankruptcy, reorganization, or other proceeding to which the City is a party.

4 (v) **Bond Owners' Direction of Proceedings.** By an instrument or concurrent
5 instruments in writing executed and delivered to the Bond Owners' Trustee, the owners of more
6 than 50% in aggregate principal amount of the Parity Bonds (or Junior Lien Bonds, as applicable)
7 then outstanding, shall be entitled to control and direct the enforcement of all rights and remedies
8 granted to the owners (or the Bond Owners' Trustee for the benefit of the owners) under the
9 applicable Parity Bond Documents. Notwithstanding the foregoing, the Bond Owners' Trustee
10 shall have the right to decline to follow any such direction which in the opinion of the Bond
11 Owners' Trustee, in reasonable reliance on advice of counsel, would be unjustly prejudicial to
12 owners not parties to such direction.

13 (vi) **Limitation on Remedies; Limitations on Individual Actions.** It is
14 understood and intended that no owner of a Parity Bond, in the case of a Parity Bond Event of
15 Default (or owner of a Junior Lien Bond, in the case of Junior Lien Event of Default) shall have
16 any right in any manner whatever by its action to affect, disturb, or prejudice the security pledged
17 in this ordinance or the rights of any other owners, or to enforce any right under the applicable
18 Bond Documents or applicable law except in the manner provided in this section, and that all
19 proceedings at law or in equity to enforce any such right shall be instituted, had, and maintained
20 in the manner herein provided and for the equal and ratable benefit and protection of all owners of
21 the Parity Bonds (or Junior Lien Bonds, as applicable), subject to the provisions of this ordinance.

22 (vii) **Limitations on Individual Actions.** No owner of a Parity Bond (or Junior
23 Lien Bond, as applicable) shall have any right to institute any action, suit or proceeding at law or

1 in equity for the enforcement of same unless (A) such owner previously shall have given to the
2 Bond Owners' Trustee written notice of the occurrence of an Event of Default; (B) the owners of
3 more than 50% in aggregate principal amount of the then Outstanding Parity Bonds (in the case of
4 a Parity Bond Event of Default) or 50% in aggregate principal amount of the then Outstanding
5 Junior Lien Bonds, as applicable, shall have made a written request upon the Bond Owners'
6 Trustee to exercise the powers granted above or to institute such suit, action, or proceeding in its
7 own name; (C) such owners shall have tendered to the Bond Owners' Trustee reasonable
8 indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
9 and (D) the Bond Owners' Trustee shall have refused or omitted to comply with such request for
10 a period of 60 days after such written request shall have been received by, and said tender of
11 indemnity shall have been made to, the Bond Owners' Trustee. The conditions set forth in (A)
12 through (D) in the preceding sentence are hereby declared to be conditions precedent to the
13 exercise by any owner of a Parity Bond (in the case of a Parity Bond Event of Default) or owner
14 of a Junior Lien Bond (in the case of Junior Lien Event of Default) of any remedy under the
15 applicable Bond Documents or under applicable law.

16 (viii) **Duties and Obligations of Bond Owners' Trustee.** The Bond Owners'
17 Trustee shall not be liable except for the performance of such duties as are specifically set forth
18 herein. During any period in which an Event of Default has occurred and is continuing as to the
19 Parity Bonds or the Junior Lien Bonds, as applicable, the Bond Owners' Trustee shall exercise
20 such of the rights and powers vested in it hereby, and shall use the same degree of care and skill
21 in its exercise, as a prudent person would exercise or use under the circumstances in the conduct
22 of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission
23 to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent

1 failure to act or its own willful misconduct. The duties and obligations of the Bond Owners'
2 Trustee shall be determined solely by the express provisions of this ordinance, and no implied
3 powers, duties or obligations of the Bond Owners' Trustee shall be read into this ordinance. The
4 Bond Owners' Trustee shall not be required to expend or risk its own funds or otherwise incur
5 individual liability in the performance of any of its duties or in the exercise of any of its rights or
6 powers as the Bond Owners' Trustee, except as may result from its own negligent action, its own
7 negligent failure to act or its own willful misconduct. The fees and expenses of the Bond Owners'
8 Trustee shall be borne by the owners of the Parity Bonds or Junior Lien Bonds, as applicable, and
9 not by the City. A Bond Owners' Trustee may require such security and indemnity as may be
10 reasonable against the costs, expenses and liabilities that may be incurred in the performance of
11 its duties. The Bond Owners' Trustee shall not be bound to recognize any person as a registered
12 owner of any Parity Bond (or Junior Lien Bond, as applicable) until his or her title thereto, if
13 disputed, has been established to its reasonable satisfaction. The Bond Owners' Trustee may
14 consult with counsel and the opinion of such counsel shall be full and complete authorization and
15 protection in respect of any action taken or suffered by it hereunder in good faith and in accordance
16 with the opinion of such counsel. The Bond Owners' Trustee shall not be answerable for any
17 neglect or default of any person, firm or corporation employed and selected by it with reasonable
18 care.

19 Section 25. **The Refunding Plan.**

20 (a) **Approval of Refunding Plan; Appointment of Refunding Trustee.** The Director
21 of Finance is authorized and directed to select a Refunding Trustee and execute a Refunding Trust
22 Agreement setting forth a Refunding Plan for each series of Refundable Bonds (or portion thereof)
23 to be refunded pursuant to this ordinance, in accordance with subsection (d) of this section.

1 Multiple Refunding Plans may be combined in a single Refunding Trust Agreement. The
2 Refunding Plan shall be carried out, and proceeds of the Bonds shall be applied, in accordance
3 with this ordinance, the respective Refunded Bond Documents, the Refunding Trust Agreement,
4 and the laws of the State. Nothing herein shall prevent the issuance of Refunding Parity Bonds for
5 the purpose of refunding Refundable Junior Lien Bonds, or the issuance of Refunding Junior Lien
6 Bonds for the purpose of refunding Refundable Parity Bonds, provided that the requirements of
7 Section 18 and the Parity Conditions (if the Refunding Bonds are designated as Parity Bonds) or
8 Junior Lien Additional Bonds Test (if the Refunding Bonds are designated as Junior Lien Bonds)
9 are met as of the Issue Date of such Series of Refunding Bonds.

10 (b) **Acquisition of Acquired Obligations.** To the extent practicable and desirable, the
11 Refunding Plan shall provide for the Refunding Trustee's purchase of Acquired Obligations
12 bearing such interest and maturing as to principal and interest in such amounts and at such times
13 so as to provide, together with a beginning cash balance, if necessary, for the timely payment of
14 the amounts required to be paid by the Refunding Plan. The Acquired Obligations shall be listed
15 and more particularly described in a schedule attached to the Refunding Trust Agreement, but are
16 subject to substitution as set forth in subsection (c) below.

17 (c) **Substitution of Acquired Obligations.** The City reserves the right at any time to
18 substitute cash or other Government Obligations (as defined in the applicable Refunded Bond
19 Documents) for the Acquired Obligations if the City obtains a verification by a nationally
20 recognized independent certified public accounting firm reasonably acceptable to the Refunding
21 Trustee confirming that the payments of principal of and interest on the substitute obligations, if
22 paid when due, together with the cash to be held by the Refunding Trustee, will be sufficient to
23 carry out the Refunding Plan. If the applicable Series of the Bonds (or the applicable Refunded

1 Bonds) were issued as Tax-Exempt Bonds, then prior to such substitution, the City must also obtain
2 an opinion from Bond Counsel to the effect that the disposition and substitution or purchase of
3 such securities will not cause the interest on the applicable Series of the Bonds (or of the applicable
4 Refunded Bonds) issued as Tax-Exempt Bonds to be included in gross income for federal income
5 tax purposes and that such disposition and substitution or purchase is in compliance with the
6 statutes and regulations applicable to the Series of the Bonds. Any surplus money resulting from
7 the sale, transfer, other disposition, or redemption of the Acquired Obligations and the
8 substitutions therefor shall be released from the trust estate and may be used for any lawful City
9 purpose.

10 (d) **Refunding Trust Agreement.** In connection with each Series of the Bonds, the
11 Director of Finance is authorized to execute one or more Refunding Trust Agreements with one or
12 more Refunding Trustees, setting forth the duties, obligations, and responsibilities of the
13 Refunding Trustee in connection with carrying out the applicable Refunding Plan. Each Refunding
14 Trust Agreement and Refunding Plan must, among other things: (1) identify the Refundable Bonds
15 to be refunded thereby; (2) contain the elements set forth in the definition of Refunding Plan set
16 forth in this ordinance, including provide for the issuance of the Series of the Bonds and describing
17 the method for carrying out the refunding of the Refunded Bonds (including authorizing and
18 directing the Refunding Trustee to use the money deposited with it to purchase the Acquired
19 Obligations (or substitute obligations) and to apply such money along with the maturing principal
20 of and interest on such obligations to make the payments required to be made by the Refunding
21 Plan); and (3) shall provide for the giving of notices of defeasance and redemption, as required
22 under the Refunded Bond Documents. The Refunding Trust Agreement may additionally provide
23 for the payment of the costs of issuance of the Series and the costs of administering the Refunding

1 Plan (including without limitation, all necessary and proper fees, compensation, and expenses of
2 the Refunding Trustee and all other costs incidental to the setting up of the escrow to accomplish
3 the Refunding Plan), and for such other related matters as the Director of Finance may deem
4 necessary or expedient.

5 Section 26. **Redemption of the Refunded Bonds.** The Director of Finance is
6 authorized on behalf of the City to take such actions as may be necessary or convenient to call the
7 Refunded Bonds for redemption. Such call for redemption of the Refunded Bonds shall identify
8 the Refunded Bonds, redemption dates and redemption prices (expressed as a percentage of the
9 stated principal amount), and shall be irrevocable after the Issue Date of the applicable Series of
10 the Bonds. The dates on which the Refunded Bonds are to be called for redemption shall be, in the
11 judgment of the Director of Finance, the earliest practical dates on which those Refunded Bonds
12 may be called for redemption. The proper City officials are authorized and directed to give or cause
13 to be given such notices as required, at the times and in the manner required pursuant to the
14 Refunded Bond Documents, in order to carry out the Refunding Plan.

1 Section 27. **Effect on Prior Omnibus Refunding Ordinance; Outstanding Parity**

2 **Bonds Declared Refundable.** As of the effective date of this ordinance, no additional Refunding
3 Parity Bonds may be issued under Ordinance 121941, as amended by Ordinance 122838, as
4 amended and restated by Ordinance 124335, and as further amended by Ordinance 124916
5 (collectively and as amended, the “Prior Omnibus Refunding Ordinance”). Passage of this
6 ordinance shall have no effect on any outstanding bonds previously issued under the authority of
7 the Prior Omnibus Refunding Ordinances and such previously issued bonds shall remain
8 outstanding in accordance with their terms. All outstanding Parity Bonds previously designated as
9 “Refundable Bonds” under the Prior Omnibus Refunding Ordinances are declared to be
10 Refundable Bonds under this ordinance.

11 Section 28. **General Authorization.** In addition to the specific authorizations in this
12 ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of the
13 City are each authorized and directed to do everything as in his or her judgment may be necessary,
14 appropriate, or desirable in order to carry out the terms and provisions of, and complete the
15 transactions contemplated by, this ordinance. In particular and without limiting the foregoing:

16 (a) The Director of Finance, in his or her discretion and without further action by the
17 City Council, (i) may issue requests for proposals to provide underwriting services or financing
18 facilities (including, without limitation, Qualified Insurance, a Qualified Letter of Credit, or other
19 credit support or liquidity facility) and may execute engagement letters and other agreements with
20 underwriters and other financial institutions (including providers of liquidity or credit support)
21 based on responses to such requests; (ii) may select and make decisions regarding the Bond
22 Registrar, fiscal or paying agents, and any Securities Depository for each Series of the Bonds; (iii)
23 may take any and all actions necessary or convenient to provide for the conversion of interest rate

1 modes for any Series in accordance with the applicable Bond Documents; and (iv) may take such
2 actions on behalf of the City as are necessary or appropriate for the City to designate, qualify, or
3 maintain the tax-exempt treatment with respect to any Series issued as Tax-Exempt Bonds, to
4 receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of
5 any Series issued as Tax Credit Subsidy Bonds, and to otherwise receive any other federal tax
6 benefits relating to any Series of the Bonds that are available to the City; and

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

17 Section 29. **Severability**. The provisions of this ordinance are declared to be separate
18 and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal
19 periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any
20 person or circumstance, such offending provision shall, if feasible, be deemed to be modified to
21 be within the limits of enforceability or validity. However, if the offending provision cannot be so
22 modified, it shall be null and void with respect to the particular person or circumstance, and all

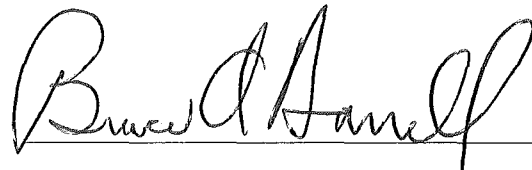
1 other provisions of this ordinance in all other respects, and the offending provision with respect to
2 all other persons and all other circumstances, shall remain valid and enforceable.

3 Section 30. **Ratification of Prior Acts.** Any action taken consistent with the authority
4 of this ordinance after its passage but prior to its effective date, is ratified, approved, and
5 confirmed.


6 Section 31. **Section Headings.** Section headings in this ordinance are used for
7 convenience only and shall not constitute a substantive portion of this ordinance.

1 Section 32. **Effective Date.** This ordinance shall take effect and be in force 30 days
2 after its approval by the Mayor, but if not approved and returned by the Mayor within ten days
3 after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.


4 Passed by the City Council the 20th day of NOVEMBER, 2017,
5 and signed by me in open session in authentication of its passage this 20th day of
6 NOVEMBER, 2017.

7 
8 President _____ of the City Council

9 Approved by me this 22nd day of November, 2017.

10 
11 Tim Burgess, Mayor

12 Filed by me this 28th day of NOVEMBER, 2017.

13 
14 Monica Martinez Simmons, City Clerk

15 (Seal)

- 16 Exhibits:
17 Exhibit A – Outstanding City Light Parity Bonds
18 Exhibit B – Form of Undertaking to Provide Continuing Disclosure
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EXHIBIT A

OUTSTANDING CITY LIGHT PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2008	12/30/2008	\$257,375,000	Ord. 122807	Ord. 121941 (as amended by Ord. 122838)	Res. 31105
Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment)	5/26/2010	\$181,625,000	Ord. 123169	--	Res. 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B	5/26/2010	\$596,870,000	Ord. 123169	Ord. 121941 (as amended by Ord. 122838)	Res. 31213
Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct Payment)	5/26/2010	\$13,275,000	Ord. 123169	--	Res. 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A	2/8/2011	\$296,315,000	Ord. 123483	Ord. 121941 (as amended by Ord. 122838)	Res. 31263
Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment)	2/8/2011	\$10,000,000	Ord. 123483	Ord. 121941 (as amended by Ord. 122838)	Res. 31263
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A	7/17/2012	\$293,280,000	Ord. 123752	Ord. 121941 (as amended by Ord. 122838)	Res. 31390
Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds – Direct Payment)	7/17/2012	\$43,000,000	Ord. 123752	--	Res. 31390

Ex A - Outstanding Parity Bonds
V1

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2013	7/9/2013	\$190,755,000	Ord. 124045	Ord. 121941 (as amended by Ord. 122838)	Res. 31456
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2014	11/05/2014	\$265,210,000	Ord. 124336	Ord. 124335 (amending and restating Ord. 121941)	Res. 31552
Municipal Light and Power Revenue Bonds, 2015A	7/9/2015	\$171,850,000	Ord. 124633	--	Res. 31592
Municipal Light and Power Revenue Bonds, 2015B-1 (SIFMA Index)	7/23/2015	\$50,000,000	Ord. 124633	--	Res. 31593
Municipal Light and Power Revenue Bonds, 2015B-2 (SIFMA Index)	7/23/2015	\$50,000,000	Ord. 124633	--	Res. 31593
Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds – Direct Payment)	01/28/2016	\$31,870,000	Ord. 124916	--	Res. 31646
Municipal Light and Power Refunding Revenue Bonds, 2016B	01/28/2016	\$116,875,000	Ord. 124916	Ord. 124335 (amending and restating Ord. 121941) as amended by Ord. 124916	Res. 31646
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2016C	09/28/2016	\$160,815,000	Ord. 124916	Ord. 124335 (amending and restating Ord. 121941) as amended by Ord. 124916	Res. 31707
Municipal Light and Power Revenue Bonds, 2017A (Multimodal)	01/27/2017	\$50,000,000	Ord. 124916	--	Res. 31728
Municipal Light and Power Revenue Bonds, 2017B (Multimodal)	01/27/2017	\$50,000,000	Ord. 124916	--	Res. 31728

Ex A - Outstanding Parity Bonds
VI

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2017C	09/28/2017	[To be issued on or about September 28, 2017]	Ord. 125298	Ord. 124335 (amending and restating Ord. 121941) as amended by Ord. 124916	Res. 31771

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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 [Municipal Light and Power Refunding Revenue Bonds,] [Year/Series Designation] (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 Ordinance _____]([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 Municipal Securities Rulemaking Board (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 Municipal Light and Power System (the “Light System”) of the type included in the final official statement for the Bonds and described in subsection (b) of this section (“annual financial information”). The timely filing of unaudited financial statements shall satisfy the requirements and filing deadlines pertaining to the filing of annual financial statements under subsection (b), provided that audited financial statements are to be filed if and when they are otherwise prepared and available to the City.

(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

1 enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or
2 their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of
3 proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB)
4 or other material notices or determinations with respect to the tax status of the Bonds, or other
5 material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the
6 Bonds, if material; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds),
7 if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property
8 securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency,
9 receivership or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-
10 12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale
11 of all or substantially all of the assets of the City other than in the ordinary course of business, the
12 entry into a definitive agreement to undertake such an action or the termination of a definitive
13 agreement relating to any such actions, other than pursuant to its terms, if material; and (14)
14 appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

20 (i) Shall consist of (1) annual financial statements of the Light System
21 prepared in accordance with applicable generally accepted accounting principles applicable to
22 governmental units (except as otherwise noted therein), as such principles may be changed from
23 time to time and as permitted by applicable state law; (2) a statement of outstanding bonded debt

1 secured by Gross Revenues of the Light System; (3) debt service coverage ratios for the bond debt
2 secured by Gross Revenues of the Light System; (4) sources of Light System power and the MWh
3 produced by those sources; and (5) the average number of customers, revenues, and energy sales
4 by customer class;

5 (ii) Shall be provided not later than the last day of the ninth month after the end
6 of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year
7 may be changed as required or permitted by state law, commencing with the City's fiscal year
8 ending December 31, 20__; and

9 (iii) May be provided in a single document or multiple documents, and may be
10 incorporated by specific reference to documents available to the public on the Internet website of
11 the MSRB or filed with the Securities and Exchange Commission.

12 (c) Amendment of Undertaking. This Undertaking is subject to amendment after the
13 primary offering of the Bonds without the consent of any Owner or holder of any Bond, or of any
14 broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB,
15 under the circumstances and in the manner permitted by Rule 15c2-12, including:

16 (i) The amendment may only be made in connection with a change in
17 circumstances that arises from a change in legal requirements, change in law, or change in the
18 identity, nature, or status of the City, or type of business conducted;

19 (ii) The undertaking, as amended, would have complied with the requirements
20 of the rule at the time of the primary offering, after taking into account any amendments or
21 interpretations of the rule, as well as any change in circumstances; and

22 (iii) The amendment does not materially impair the interests of holders, as
23 determined either by parties unaffiliated with the City (e.g., bond counsel or other counsel familiar

1 with federal securities laws), or by approving vote of bondholders pursuant to the terms of the
2 Bond Legislation at the time of the amendment.

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

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

11 (e) Termination of Undertaking. The City's obligations under this Undertaking shall
12 terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. In
13 addition, the City's obligations under this Undertaking shall terminate if those provisions of
14 Rule 15c2-12 which require the City to comply with this Undertaking become legally inapplicable
15 in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond
16 counsel or other counsel familiar with federal securities laws delivered to the City, and the City
17 provides timely notice of such termination to the MSRB.

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

1 including seeking an order of specific performance from an appropriate court, to compel the City
2 or other obligated person to comply with the Undertaking.

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

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

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

13 (iii) Determining whether any person other than the City is an “obligated
14 person” within the meaning of Rule 15c2-12 with respect to the Bonds, and obtaining from such
15 person an undertaking to provide any annual financial information and notice of listed events for
16 that person in accordance with Rule 15c2-12;

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

20 (v) Effecting any necessary amendment of the Undertaking.

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APPENDIX B

**FORM OF ADDENDUM TO THE PAYING AGENCY AGREEMENT REGARDING
DETERMINATION OF INTEREST AND RELATED PROVISIONS**

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EXHIBIT D

[FORM OF]

**ADDENDUM TO
PAYING AGENCY AGREEMENT
regarding
DETERMINATION OF INTEREST AND RELATED PROVISIONS**

This **Addendum to the Paying Agency Agreement** (the “Agreement”) is entered into as of _____, 2018, by and between The City of Seattle, Washington (the “Issuer”) and U.S. Bank National Association, as Bond Registrar/Paying Agent (the “Bond Registrar/Paying Agent”), in connection with the Issuer’s Bonds (defined herein), issued pursuant to Ordinance 125460 of the Issuer (the “Bond Ordinance”).

Section 1. Definitions. The meanings of capitalized terms used and not otherwise defined in this Addendum shall be as set forth in the Bond Ordinance. In addition, the following terms as used in this Addendum shall have the following meanings:

“**Addendum**” means this Addendum to the Paying Agency Agreement regarding Interest Rate Modes and Related Provisions.

“**Adjusted SIFMA Rate**” means a per annum rate of interest established on each Interest Determination Date that is (a) during any Index Floating Rate Period other than a Direct Purchase Period, equal to the sum of (1) the SIFMA Index floating rate issued on Wednesday of each week, or if any Wednesday is not a Business Day, the succeeding Business Day multiplied by the Index Floating Rate Percentage (which may be equal to 100%), and (2) the Index Floating Rate Spread; and (b) during any Direct Purchase Period, as determined pursuant to the applicable Direct Purchase Agreement.

“**Alternate Credit Facility**” means a letter of credit, insurance policy, line of credit, surety bond or security, or other liquidity facility issued as a replacement or substitute for any Credit Facility then in effect.

“**Authorized Denomination**” means (a) during any Daily Interest Rate Period or Weekly Interest Rate Period, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000; (b) during any Long-Term Interest Rate Period, \$5,000 or any integral multiple thereof; (c) during any Index Floating Rate Period that is not a Direct Purchase Period, \$5,000 or any integral multiple thereof; and (d) during any Direct Purchase Period, \$250,000, or any integral multiple of \$5,000 in excess of \$250,000 or such other minimum denomination as may be set forth in the applicable Direct Purchase Agreement.

“**Bank Bond**” means a Bond (or portion thereof in any Authorized Denomination) that is purchased by the Bond Registrar/Paying Agent using amounts paid or provided by a Credit Provider under a Credit Facility.

“**Bank Rate**” means that rate of interest borne by a Bank Bond, as specified or determined in accordance with a Credit Facility.

“**Bond Documents**” means, together, the Bond Ordinance, the Bond Purchase Agreement and the Paying Agency Agreement (including, without limitation, this Addendum).

“**Bond Ordinance**” means Ordinance 125460 of the City, approved by the City Council on November 20, 2017 and signed by the Mayor on November 22, 2017.

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“Bond Purchase Agreement” means that certain agreement by and between the City and RBC Capital Markets, LLC, dated as of _____, 2018, regarding the issuance, sale and delivery of the Bonds. The Bond Purchase Agreement is not a Direct Purchase Agreement.

“Bond Purchase Fund” means the fund established with the Bond Registrar/Paying Agent pursuant to the Paying Agency Agreement, including without limitation, this Addendum.

“Bonds” means the \$[AGGPARAMT] aggregate principal amount of Municipal Light and Power Refunding Revenue Bonds, 2018B-1, 2018B-2, 2018C-1 and 2018C-2, issued pursuant to the Bond Ordinance with such series and additional or alternative naming conventions as may be convenient to indicate a series designation.

“Business Day” means any day other than a Saturday or Sunday that (a) is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in Seattle, Washington, or the city or cities in which the principal office of the Remarketing Agent or the Calculation Agent is located nor a day on which the New York Stock Exchange is closed or the payment system of the Federal Reserve Bank is not operational; and (b) during any Index Floating Rate Period in which the Index is One-Month LIBOR or Three-Month LIBOR, is a London Business Day.

“Calculation Agent” means the Bond Registrar/Paying Agent. However, during a Direct Purchase Period, the City may appoint the Index Floating Rate Holder to act as Calculation Agent during such period pursuant to a Direct Purchase Agreement.

“Conversion” means a conversion of an entire Series of the Bonds from one Interest Rate Period to another Interest Rate Period (including the establishment of a new Long-Term Interest Rate Period or Index Floating Rate Period). The following events shall not be deemed Conversions for purposes of the Bond Documents: (a) the continuation of a Daily Interest Rate at the end of a Daily Interest Rate Period, (b) the continuation of a Weekly Interest Rate at the end of a Weekly Interest Rate Period, (c) the imposition of a Delayed Remarketing Period as described in Section 8(f) of this Addendum, (d) during a Direct Purchase Period, a renewal or extension of the term of such Direct Purchase Period then in effect or a conversion from one Direct Purchase Period to another Direct Purchase Period whether or not the holder of the Bonds is the same Index Floating Rate Holder, and (e) an Extraordinary Mandatory Redemption of a Series pursuant to a Term-Out Provision.

“Conversion Date” means the effective date of a Conversion.

“Credit Facility” means any letter of credit, insurance policy, line of credit, surety bond, or other security or other liquidity facility, if any, to be issued by the Credit Provider in connection with a Conversion to a Daily Interest Rate, a Weekly Interest Rate, or other interest rate mode, that secures or supports the payment when due of the principal and Purchase Price of and interest on a Bond, including any Alternate Credit Facility, or any extensions, amendments or replacements thereof pursuant to its terms.

“Credit Facility Purchase Account” means each account with that name established within the Bond Purchase Fund pursuant to Section 12 of this Addendum.

“Credit Provider” means any bank, insurance company, pension fund or other financial institution that provides a Credit Facility or Alternate Credit Facility for a Series of the Bonds.

“Daily Interest Rate” means a variable interest rate established in accordance with Section 4(a)(1) of this Addendum.

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“**Daily Interest Rate Period**” means, with respect to a Series of the Bonds, each period during which a Daily Interest Rate is in effect.

“**Default Rate**” as used in connection with any Direct Purchase Period, has the meaning set forth in the applicable Direct Purchase Agreement.

“**Delayed Remarketing Period**” means the period as set forth in Section 8(f) of this Addendum applicable to Unremarketed Bonds.

“**Designated Representative**” means the Director of Finance.

“**Direct Purchase Agreement**” means, for any Series of the Bonds, a written agreement (including a continuing covenant agreement or other similar agreement) between the City and the direct purchaser for the purchase of all of such Series of the Bonds bearing interest at an Index Floating Rate during a Direct Purchase Period. The Bond Purchase Agreement is not a Direct Purchase Agreement.

“**Direct Purchase Period**” means each Index Floating Rate Period during which the applicable Series of the Bonds is purchased and held pursuant to a Direct Purchase Agreement, including any Term-Out Period or other period during which Unremarketed Bonds continue to be outstanding while a Direct Purchase Agreement is in effect.

“**Elect**” or “**Election**” means the election by the Designated Representative of a new Interest Rate Period.

“**Event of Default**” as used in connection with any Direct Purchase Period, has the meaning set forth in the applicable Direct Purchase Agreement.

“**Extraordinary Event**” means, during any Interest Rate Period in which a Direct Purchase Agreement or a Credit Facility is in effect, the occurrence of an extraordinary event identified under the applicable provisions of the Direct Purchase Agreement, Reimbursement Agreement or similar agreement with the Index Floating Rate Holder or provider of the Credit Facility.

“**Extraordinary Mandatory Redemption**” means the periodic redemption of principal of Unremarketed Bonds or Bank Bonds in the amounts and on the dates set forth in a Term-Out Provision of a Direct Purchase Agreement or agreement relating to a Credit Facility.

“**Favorable Opinion of Bond Counsel**” means a written legal opinion of Bond Counsel addressed to the City, the Bond Registrar/Paying Agent, the Credit Provider (if any), the Index Floating Rate Holder (if any), and the Remarketing Agent (if any), to the effect that a specified action is permitted under the Bond Documents and will not impair the exclusion of interest on the affected Bonds from gross income for purposes of federal income taxation (subject to customary exceptions).

“**Index**” means any of (a) One-Month LIBOR, (b) Three-Month LIBOR, (c) the SIFMA Index, or (d) any alternate index selected by the Designated Representative, conditioned upon the delivery to the Bond Registrar/Paying Agent on or prior to the applicable Conversion Date of a Favorable Opinion of Bond Counsel.

“**Index Floating Rate**” means a per annum rate of interest, established in accordance with Section 4(a)(4) of this Addendum on each Interest Determination Date during an Index Floating Rate Period, equal to the sum of (A) the Index Floating Rate Spread and (B) the product of Index and the Index Floating Rate Percentage.

“**Index Floating Rate Holder**” means, during any Direct Purchase Period for a Series of the Bonds, (a) during which such Series is not held in Book-Entry Form, (1) if there is a single Registered Owner of all Bonds of such Series, the Registered Owner of such Series, or (2) if there is more than

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one Registered Owner of Bonds within a Series, Registered Owners owning a majority of the aggregate principal amount of the then outstanding Bonds of such Series; and (b) during which such Series is held in Book-Entry Form, (1) if there is a single Beneficial Owner of all Bonds of such Series, the Beneficial Owner, or (2) if there is more than one Beneficial Owner of the Bonds of such Series, Beneficial Owners of a majority of the aggregate principal amount of the then outstanding Bonds of such Series.

“Index Floating Rate Percentage” means (a) during the Initial Index Floating Rate Period, the percentage set forth in the Bond Purchase Agreement; and (b) during any other Index Floating Rate Period, the percentage of the Index Floating Rate selected by the Designated Representative pursuant to Section 5(a)(4) or (5) of this Addendum, as applicable.

“Index Floating Rate Period” means, with respect to any Series of the Bonds, each period during which an Index Floating Rate is in effect (including, without limitation, any Direct Purchase Period).

“Index Floating Rate Spread” means (a) during the Initial Index Floating Rate Period, the spread identified in the Bond Purchase Agreement; and (b) during any subsequent Index Floating Rate Period, the spread determined on or prior to the Conversion Date that marks the beginning of such period, pursuant to Section 5(a)(4) of this Addendum, as applicable.

“Initial Index Floating Rate Period” means, for any Series of the Bonds, a period commencing on the Initial Issue Date and ending on the Scheduled Mandatory Tender Date set forth in the Bond Purchase Agreement, unless such Series is earlier purchased or redeemed in connection with a mandatory tender for purchase of such Series of the Bonds pursuant to Section 8 of this Addendum. In the event that a Bond becomes an Unremarketed Bond, the Initial Index Floating Rate Period shall include any immediately succeeding Delayed Remarketing Period.

“Initial Issue Date” means the date on which the Bonds are delivered to the Underwriter pursuant to the Bond Purchase Agreement.

“Interest Accrual Date” with respect to a Series of the Bonds means (a) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each calendar month during such Daily Interest Rate Period; (b) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period; (c) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long-Term Interest Rate Period, other than the last such Interest Payment Date; and (d) for each Index Floating Rate Period, the first day thereof and, thereafter, the first Business Day of each calendar month during such Index Floating Rate Period, unless otherwise specified in a Direct Purchase Agreement in effect for such period.

“Interest Determination Date” means, for each Index Floating Rate Period, (a) if the Index is the SIFMA Index, the first day of such Index Floating Rate Period and, thereafter, each Wednesday (or, if any such Wednesday is not a Business Day, the succeeding Business Day); (b) if the Index is One-Month LIBOR or Three-Month LIBOR, the second London Business Day preceding the first day of such Index Floating Rate Period and, thereafter, the second London Business Day preceding each Interest Reset Date during such Index Floating Rate Period; and (c) if any other Index has been selected by the Designated Representative, the date(s) selected by the Designated Representative in connection with the selection of such Index. Notwithstanding the foregoing, a Direct Purchase Agreement may provide for alternate Interest Determination Dates to be in effect during a Direct Purchase Period.

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“Interest Payment Date” means (a) for interest accrued in (1) any Daily Interest Rate Period, the fifth Business Day of the next succeeding calendar month; (2) any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day; (3) any Long-Term Interest Rate Period, each May 1 and November 1, or if any May 1 or November 1 is not a Business Day, the next succeeding Business Day; or (4) any Index Floating Rate Period, (i) the first Business Day of each calendar month, (ii) each Purchase Date, and (iii) each date on which all or a portion of the Bonds are redeemed, unless otherwise specified in a Direct Purchase Agreement in effect for such period; (b) without duplication, the first Business Day succeeding the last day of each Interest Rate Period; and (c) with respect to any Bonds during a Term-Out Period, the dates set forth in the Term-Out Provision of the applicable Direct Purchase Agreement or Credit Facility for the payment of interest on such Bonds.

“Interest Rate Period” means each Daily Interest Rate Period, Weekly Interest Rate Period, Long Term Interest Rate Period or Index Floating Rate Period (including, without limitation, any Direct Purchase Period).

“Interest Reset Date” means (a) for each Index Floating Rate Period that is not a Direct Purchase Period (1) if the Index is One-Month LIBOR or Three-Month LIBOR, the first Business Day of each calendar month; (2) if the Index is the SIFMA Index, Thursday of each week, or if not a Business Day, the next succeeding Business Day; and (3) if any other Index has been selected by the Designated Representative, the date(s) selected by the Designated Representative in connection with selecting the Index; and (b) for each Direct Purchase Period, either (1) the Interest Reset Dates set forth in the Direct Purchase Agreement or (2) if none are specified, the dates set forth in subsection (a) of this definition.

“LIBOR” means “ICE LIBOR,” which, as of any Interest Reset Date and for the applicable LIBOR Period, is the rate for deposits in U.S. Dollars for a period equal to such LIBOR Period which appears on the Reuters Screen LIBOR01 as of 11:00 a.m. London time, on such date. If such rate does not appear on the Reuters Screen LIBOR01, the rate for that Reset Date will be determined on the basis of the rates at which deposits in U.S. Dollars are offered by four major banks in the London interbank market selected by the Calculation Agent at approximately 11:00 a.m. London time, on that day to prime banks in the London interbank market for a period equal to the applicable LIBOR Period. The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, the rate for that Interest Reset Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the rate for that Interest Reset Date will be the arithmetic mean of the rates quoted by major banks in New York, selected by the Calculation Agent, at approximately 11:00 a.m. New York time, on that day for loans in U.S. Dollars to leading European banks for a period equal to the applicable LIBOR Period. Notwithstanding the foregoing, on and after a Substitute Index Effective Date, if any, “LIBOR” shall mean the Substitute Index. For purposes of the foregoing, “Substitute Index” means, for securities referencing LIBOR as the benchmark rate, an interest rate index or benchmark rate established as a replacement for LIBOR pursuant to the supervisory authority of the UK Financial Conduct Authority or other regulatory authority with jurisdiction over the supervision of LIBOR rates, or the administrative authority of ICE Benchmark Administration Limited or other independent LIBOR administrator, and “Substitute Index Effective Date” means the date on which a Substitute Index, if any, is to become effective for securities referencing LIBOR as the benchmark rate, as published or otherwise stated in an official announcement by the applicable regulator or supervisory authority.”

“LIBOR Period” means either a one-month period (One-Month LIBOR) or a three-month period (Three-Month LIBOR).

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“**London Business Day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and United States Dollar deposits) in the London interbank market.

“**Long-Term Interest Rate**” means a term, fixed (non-variable) interest rate established in accordance with Section 4(a)(3) of this Addendum.

“**Long-Term Interest Rate Period**” means, with respect to a Series of the Bonds, each period during which a Long-Term Interest Rate is in effect.

“**Mandatory Tender Date**” means each Purchase Date on which a Series of the Bonds is required to be tendered for purchase as set forth in Section 8(b) of this Addendum.

“**Maturity Date**” means the final date on which the principal of a Bond is stated on its face to become due and payable as provided in this Addendum, regardless of any Sinking Fund Requirement or optional or mandatory redemption prior to maturity.

“**Maximum Interest Rate**” means 12% per annum, calculated in the same manner as interest is calculated for the interest rate then in effect on the affected Series of the Bonds. In no event shall the maximum interest rate exceed the maximum rate permitted by applicable law from time to time.

“**One-Month LIBOR**” means LIBOR for a LIBOR Period of one month.

“**Par Call Date**” means (a) with respect to the Initial Index Floating Rate Period, the Par Call Date identified in the Bond Purchase Agreement; and (b) with respect to any subsequent Index Floating Rate Period, the date established by the Designated Representative and set forth in the applicable Direct Purchase Agreement or Remarketing Agreement, and if none is established, the first Business Day after the end of the Index Floating Rate Period. Notwithstanding the foregoing, during any Delayed Remarketing Period, the Par Call Date for any Unremarketed Bond shall mean the first Business Day on which the Bond is subject to call for optional redemption at a price of 100% of the principal amount thereof plus interest accrued to the date fixed for redemption.

“**Participant**” means, with respect to the Securities Depository, a member of or participant in the Securities Depository.

“**Paying Agency Agreement**” means that certain agreement entered into by the City, as Issuer, and US Bank National Association, as Bond Registrar/Paying Agent, dated _____, 2018, providing for certain additional duties of the Bond Registrar/Paying Agent relating to the Bonds, into which this Addendum is incorporated.

“**Purchase Date**” means each date on which a Series of the Bonds is required to be purchased pursuant to Section 8 of this Addendum.

“**Purchase Price**” means the purchase price to be paid to the Registered Owner(s) of Bonds purchased pursuant to Section 8 of this Addendum, which shall be equal to the principal amount of the Bonds so tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if such date is not an Interest Payment Date), plus any other accrued and unpaid interest. However, in the case of a Conversion from a Long-Term Interest Rate Period on a date on which the Bonds being converted would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur, the Purchase Price shall also include the optional redemption premium, if any, provided for such date under Section 7(a)(2) of this Addendum.

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“Record Date” means (a) with respect to any Interest Payment Date in a Daily Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date in a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (b) with respect to any Interest Payment Date in any Long-Term Interest Rate Period, the 15th day immediately preceding that Interest Payment Date, (c) with respect to any Interest Payment Date in any Weekly Interest Rate Period, the Business Day preceding the Interest Payment Date, and (d) with respect to any Interest Payment Date in any Index Floating Rate Period, the 15th day immediately preceding that Interest Payment Date, unless otherwise provided in a Direct Purchase Agreement then in effect.

“Reference Bank” means any of the four largest U.S. banks with an office in London, based upon consolidated total asset size, as listed by the Federal Reserve in its most current statistical release on its website with respect thereto.

“Reimbursement Agreement” means any agreement between the City and a Credit Provider, pursuant to which a Credit Facility or Alternate Credit Facility is issued by the Credit Provider, as the same may be amended or supplemented.

“Remarketing Account” means each account with that name established within the Bond Purchase Fund pursuant to Section 12 of this Addendum.

“Remarketing Agent” means each remarketing firm qualified under Section 10 of this Addendum to act as Remarketing Agent for the Bonds and appointed by the Designated Representative on behalf of the City.

“Remarketing Agreement” means any remarketing agreement between the City and the Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of the Remarketing Agent as provided in this Addendum.

“SIFMA” means the Securities Industry and Financial Markets Association (formerly the Bond Market Association).

“SIFMA Index” means the seven-day high-grade market index of tax-exempt variable rate demand obligations produced by Municipal Market Data and published or made available by SIFMA or any person acting in cooperation with or under the sponsorship of SIFMA. If such index is no longer published or otherwise not available, the SIFMA Index for any day will mean the level of the “S&P Weekly High Grade Index” (formerly the J.J. Kenny Index) maintained by Standard & Poor’s Securities Evaluations Inc. for a 7-day maturity as published on the Interest Reset Date or most recently published prior to the Interest Reset Date. If at any time neither such index is available, the Calculation Agent shall use instead an index that the Calculation Agent, after consultation with the Remarketing Agent (if any) and the Designated Representative, determines most closely approximates the SIFMA Index.

“Scheduled Mandatory Tender Date” for the Initial Index Floating Rate Period, shall be the date specified in the Bond Purchase Contract. For any subsequent Index Floating Rate Period, the Scheduled Mandatory Tender Date shall mean the date scheduled to be the last day of the Index Floating Rate Period, selected by the Designated Representative pursuant to Section 5(a)(4), as applicable.

“Series” as used in this Addendum refers to the Series 2018B-1, Series 2018B-2, Series 2018C-1 or Series 2018C-2 of the Bonds, issued pursuant to the Bond Ordinance and subject to the terms set forth in this Addendum.

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“Stepped Interest Rate” means (a) for the Initial Index Floating Rate Period, the per annum rate identified as such in the Bond Purchase Contract; (b) for any subsequent Index Floating Rate Period other than a Direct Purchase Period, a per annum interest rate or rates as determined by the Remarketing Agent prior to the first Interest Determination Date for such period pursuant to Section 4(a)(4)(E) of this Addendum; and (c) for any Direct Purchase Period, the per annum interest rate or rates identified in the Direct Purchase Agreement.

“Term-Out Period” means a period, as determined in accordance with a Direct Purchase Agreement or Credit Facility then in effect, during which Unremarketed Bonds become subject to Extraordinary Mandatory Redemption in periodic, approximately equal installments of principal.

“Term-Out Provision” means a provision in a Direct Purchase Agreement or in a Reimbursement Agreement (or similar agreement related to a Credit Facility) that requires the Extraordinary Mandatory Redemption of principal of Unremarketed Bonds in installments payable in accordance with a scheduled amortization of such principal over a Term-Out Period, to be determined as set forth in the applicable Direct Purchase Agreement or Reimbursement Agreement (or other similar agreement related to a Credit Facility).

“Three-Month LIBOR” means LIBOR for a LIBOR Period of three months.

“Undelivered Bond” means any Bond which constitutes an Undelivered Bond under the provisions of Section 8(d) of this Addendum.

“Underwriter” means the initial purchaser identified in the Bond Purchase Agreement.

“Unremarketed Bond” means any Bond (or principal portion of a Bond) that is not purchased when tendered for purchase and which becomes an Unremarketed Bond pursuant to Section 6(f) of this Addendum.

“Weekly Interest Rate” means a variable interest rate for a Bond established in accordance with Section 4(a)(2) of this Addendum.

“Weekly Interest Rate Period” means, with respect to a Series of the Bonds, each period during which a Weekly Interest Rate is in effect.

Section 2. Reserve Fund Requirement.

(a) **Amount of the Reserve Fund Requirement for the Bonds.** With respect to the Bonds, the Reserve Fund Requirement shall mean (1) for so long as the 2005 Reserve Surety remains in effect, the additional amount necessary, if any, to provide an overall level of funding in the Reserve Fund equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund,” calculated as of the Initial Issue Date based on the debt service requirements for all Parity Bonds then outstanding; and (2) from and after the expiration or termination of the 2005 Reserve Surety, the Reserve Fund Requirement for the Bonds shall be zero and the debt service requirements for the Bonds will thereafter be excluded from calculation of the Reserve Fund Requirement other than for Outstanding Parity Bonds. For purposes of this paragraph, the “2005 Reserve Surety” means the Alternate Reserve Security (FSA Policy No. 205674-S) purchased pursuant to Ordinance 121812, passed on May 16, 2005.

(b) **Method of Funding the Reserve Fund Requirement.** Prior to the Initial Issue Date, the City shall deposit into the Reserve Fund an amount sufficient to satisfy the Reserve Fund Requirement for the Bonds from amounts already on deposit in the Reserve Fund or from Net Revenue or other funds of the City available from sources other than proceeds of the Bonds.

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Section 3. Accrual and Payment of Interest.

(a) **Accrual Dates.** Each Bond shall bear interest from its date of issuance, including the Interest Accrual Date preceding the date of authentication thereof or, if such date of authentication is an Interest Accrual Date to which interest on such Bond has been paid in full or duly provided for, from such date of authentication, as further set forth in subsection (c) of this section. However, a Bond issued in exchange for a Bond that is surrendered for transfer or exchange shall bear interest from the date to which interest on such surrendered Bond had been paid or duly provided for (or, if no interest has been paid on such surrendered Bond, from the date of authentication of such surrendered Bond). All dollar amounts are to be rounded to the nearest cent, with one-half cent being rounded upward.

(b) **Payment of Interest.** Interest shall be payable on each Interest Payment Date, on each redemption date, on each Purchase Date and on the Maturity Date, and shall be payable for the final Interest Rate Period to the date on which that Series of the Bonds is paid in full, all in accordance with the following:

(1) Interest on each Bond held in Book-Entry Form will be payable in the manner set forth in the Letter of Representations.

(2) Interest on each Bond not held in Book-Entry Form will be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar/Paying Agent mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date, as defined herein. The City, however, is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received by the Bond Registrar/Paying Agent at least ten days prior to the Record Date and at the sole expense of the Registered Owner.

(c) Provisions Specific to Each Interest Rate Period.

(1) **Daily Interest Rate Period.** Interest on a Series of the Bonds during any Daily Interest Rate Period shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year) and shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date and ending on the last day of the month in which such Interest Accrual Date occurs.

(2) **Weekly Interest Rate Period.** Interest on a Series of the Bonds during any Weekly Interest Rate Period shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year) and shall be payable on each Interest Payment Date for the period commencing on the preceding Interest Accrual Date (or, if any such Interest Payment Date is not a Wednesday, commencing on the second preceding Interest Accrual Date) and ending on and including the Tuesday preceding such Interest Payment Date (or, if sooner, the last day of such Weekly Interest Rate Period).

(3) **Long-Term Interest Rate Period.** Interest on a Series of the Bonds during any Long-Term Interest Rate Period shall accrue on the basis of a 360-day year composed of twelve 30-day months and shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date of the preceding month and ending on the day preceding the next Interest Accrual Date.

(4) **Index Floating Rate Period.** Unless otherwise specified in a Direct Purchase Agreement then in effect, during an Index Floating Rate Period:

(A) If the applicable Index is (i) the SIFMA Index, interest shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year); (ii) One-Month LIBOR or Three-Month LIBOR, interest shall accrue on

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the basis of the actual number of days elapsed in a 360-day year, or (iii) another index selected by the Designated Representative, interest shall accrue as determined by the Designated Representative in connection with the selection of such other index in consultation with the Remarketing Agent; and

(B) Interest shall be payable on each Interest Payment Date for the period commencing on the preceding Interest Accrual Date and ending on the day preceding the next Interest Accrual Date.

Section 4. Determination of Interest Rates.

(a) **Determination of Interest Rates.** Each Series of the Bonds shall bear interest in one of the following interest rate modes: Daily Interest Rate, Weekly Interest Rate, Long-Term Interest Rate or Index Floating Rate. The interest rate shall be periodically reset as follows:

(1) **Determination of Daily Interest Rate.** Each Series of the Bonds for which a Daily Interest Rate Period has been selected shall bear interest at the Daily Interest Rate, which shall be determined by the Remarketing Agent by 9:30 a.m., New York time, on each Business Day. The Daily Interest Rate for any day that is not a Business Day shall be the same as the Daily Interest Rate for the preceding Business Day. Each Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to such Series of the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate that, if borne by such Series of the Bonds, would enable the Remarketing Agent to sell all of that Series of the Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. If no Daily Interest Rate is established by the Remarketing Agent, then the Daily Interest Rate for such Business Day shall be the same as the preceding Daily Interest Rate, and such Daily Interest Rate shall continue to be in effect until the earlier of (A) the date on which the Remarketing Agent determines a new Daily Interest Rate or (B) the seventh day succeeding the first day on which the Daily Interest Rate was not determined by the Remarketing Agent. If the Daily Interest Rate is held to be invalid or unenforceable by a court of law, or if the Remarketing Agent fails to determine the Daily Interest Rate for a period of seven days as described in clause (B) of the preceding sentence, then the Daily Interest Rate, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the Business Day such Daily Interest Rate would otherwise have been determined, until the Daily Interest Rate is again validly determined by the Remarketing Agent.

(2) **Determination of Weekly Interest Rate.** Each Series of the Bonds for which a Weekly Interest Rate Period has been selected shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by 5:00 p.m., New York time, on Tuesday of each week, or if such day is not a Business Day, then on the succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall be in effect for the period commencing on and including the first day of such Weekly Interest Rate Period and ending on and including the succeeding Tuesday. Thereafter, each Weekly Interest Rate shall be in effect for the period commencing on and including Wednesday and ending on and including the succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall be in effect for the period commencing on and including the Wednesday preceding

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the last day of such Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period. Each Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the applicable Series of the Bonds, would enable the Remarketing Agent to sell all of that Series of the Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof. If no Weekly Interest Rate is established by the Remarketing Agent, then the Weekly Interest Rate shall be the same as the preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day such Weekly Interest Rate would otherwise have been determined, until the Weekly Interest Rate is again validly determined by the Remarketing Agent.

(3) Determination of Long-Term Interest Rate. Each Series of the Bonds for which a Long-Term Interest Rate Period has been selected shall bear interest at the Long-Term Interest Rate, which shall be determined by the Remarketing Agent on a Business Day no later than the first day of such Long-Term Interest Rate Period. The Long-Term Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to such Series of the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate at which the Remarketing Agent will agree to purchase such Series of the Bonds on the effective date of that rate for resale at a price (without regard to accrued interest) equal to the principal amount thereof. If, by the second Business Day preceding the 29th day prior to the last day of any Long-Term Interest Rate Period, the Bond Registrar/Paying Agent has not received notice from the City pursuant to Section 5 of this Addendum of an Election by the Designated Representative to effect a Conversion, the succeeding Interest Rate Period shall be a Weekly Interest Rate Period until Conversion to another Interest Rate Period, and such Series of the Bonds shall be subject to mandatory tender for purchase as provided in Section 8(b) of this Addendum on the first day of such Weekly Interest Rate Period.

(4) Determination of Index Floating Rate. Each Series of the Bonds for which an Index Floating Rate Period has been selected shall bear interest at the Index Floating Rate, determined as follows:

(A) *Initial Index Floating Rate Period.* The initial Interest Rate Period for each Series of the Bonds shall be an Index Floating Rate Period (the “Initial Index Floating Rate Period”) and the applicable Index Floating Rate shall be equal to the Adjusted SIFMA Rate. The Index Floating Rate Percentage and Index Floating Rate Spread applicable to each Series shall be set forth in the Bond Purchase Agreement.

(B) *Direct Purchase Period.* In the case of an Index Floating Rate Period subject to a Direct Purchase Agreement, the Index Floating Rate, Index Floating Rate Percentage and Index Floating Rate Spread and other adjustment factors shall be set forth in the applicable Direct Purchase Agreement.

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(C) *Subsequent Index Floating Rate Periods (Other than a Direct Purchase Period).* The Index Floating Rate for any subsequent Index Floating Rate Period shall be determined by the Remarketing Agent after consultation with and approval by the Designated Representative on the first Interest Determination Date for such Index Floating Rate Period, in accordance with the following:

- (i) If the Index selected by the Designated Representative is the SIFMA Index, the Index Floating Rate shall be the Adjusted SIFMA Rate.
- (ii) If the Index selected by the Designated Representative is One-Month LIBOR, Three-Month LIBOR, or an alternate index, the Index Floating Rate shall be the sum of (i) the Index multiplied by the Index Floating Rate Percentage, plus (ii) the Index Floating Rate Spread.
- (iii) The Index Floating Rate Percentage shall be selected by the Designated Representative in connection with the Conversion to each Index Floating Rate Period (and if not so selected, shall be equal to 100%) and shall remain in effect throughout such period.
- (iv) The Index Floating Rate Spread shall be determined on the first Interest Determination Date with respect to an Index Floating Rate Period and shall remain in effect throughout such period. The Index Floating Rate Spread shall be the spread determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to such Series of the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum spread which, when added to the Index (multiplied by the Index Floating Rate Percentage), equals the interest rate which, if borne by such Series of the Bonds, would enable the Remarketing Agent to sell all of such Series of the Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

(D) *Calculation of Index Floating Rate Reset on Interest Determination Dates.* The first Index Floating Rate for any Index Floating Rate Period shall be in effect for the period commencing on the first day of such Index Floating Rate Period to but excluding the first Interest Reset Date of such Index Floating Rate Period. With respect to each Interest Reset Date, the Index Floating Rate shall be calculated by the Calculation Agent on each Interest Determination Date, and such Index Floating Rate shall be in effect for the period commencing on each Interest Reset Date to but excluding the following Interest Reset Date.

(E) *Delayed Remarketing Period; Stepped Interest Rate.* The Stepped Interest Rate applicable during the initial Index Floating Rate Period shall be set forth in the Bond Purchase Contract. For any subsequent Index Floating Rate Period, the Stepped Interest Rate to be in effect during a Delayed Remarketing Period shall be determined by the Remarketing Agent, after consultation with and approval by the Designated Representative. For any Index Floating Rate Period, the Stepped Interest Rate shall be determined on or prior to the first Interest Determination Date for such Index Floating Rate Period and shall remain in effect throughout such period.

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(b) **Determinations of Calculation Agent and Remarketing Agent Binding.** The Calculation Agent (or the Remarketing Agent, as applicable) shall provide prompt notice of each determination of the interest rate for each Series of the Bonds to the City, Bond Registrar/Paying Agent, Remarketing Agent (if any) and Credit Provider (if any). The Bond Registrar/Paying Agent shall provide notice of such interest rate determination to the Registered Owner of any Bond upon request. Absent manifest error, each such determination shall be conclusive and binding upon the City, the Bond Registrar/Paying Agent, the Remarketing Agent (if any), the Credit Provider (if any) and the Owner of each Bond.

(c) **Rounding Convention.** All percentages resulting from any calculation of any interest rate for any Series of the Bonds shall be rounded upward to the second decimal place, unless otherwise provided during a Direct Purchase Period.

(d) **Maximum Interest Rate; Excess Interest.** Notwithstanding any provision in this Addendum to the contrary, at no time shall any Series of the Bonds bear interest at a rate higher than the Maximum Interest Rate.

Section 5. Election of Interest Rate Periods. The Interest Rate Period for any Series of the Bonds may be adjusted pursuant to an Election by the Designated Representative, pursuant to this section, to effect a Conversion in accordance with Section 6 of this Addendum. The Interest Rate Period for a Series of the Bonds may not be adjusted prior to a Purchase Date, except for a Conversion of all outstanding Bonds of such Series.

(a) **Available Interest Rate Modes.** Each Series of the Bonds shall bear interest in one of the following interest rate modes: Daily Interest Rate, Weekly Interest Rate, Long-Term Interest Rate or Index Floating Rate. All Bonds of a single Series must be in the same interest rate mode.

(1) **Election of Daily Interest Rate Period.** The Designated Representative, on behalf of the City may, from time to time, by written notice to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any) and Remarketing Agent (if any), Elect that any Series of the Bonds bear interest at a Daily Interest Rate. The notice of Election given by the Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Bond Registrar/Paying Agent of such notice; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or on or after a Par Call Date; and (B) state whether a Credit Facility is to be in effect on the Conversion Date.

(2) **Election of Weekly Interest Rate Period.** The Designated Representative, on behalf of the City, may, from time to time, by written notice to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any), and Remarketing Agent (if any), Elect that any Series of the Bonds bear interest at a Weekly Interest Rate. The notice of Election given by the Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Bond Registrar/Paying Agent of such notice; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on which that Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate

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Period, the day following the last day of such Index Floating Rate Period or on or after a Par Call Date; and (B) state whether a Credit Facility is to be in effect on the Conversion Date.

(3) Election of Long-Term Interest Rate Period. The Designated Representative, on behalf of the City may, from time to time, by written notice to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any) and Remarketing Agent (if any), Elect that any Series of the Bonds bear, or continue to bear, interest at the Long-Term Interest Rate. The notice of Election given by the Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Bond Registrar/Paying Agent of such notice; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or on or after a Par Call Date; and (B) the last day of the Long-Term Interest Rate Period, which shall be either the day prior to the Maturity Date or a day that both immediately precedes a Business Day and is at least 181 days after the proposed Conversion Date.

(4) Election of Index Floating Rate Period. The Designated Representative, on behalf of the City may, from time to time, by written notice to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any) and Remarketing Agent (if any), Elect that any Series of the Bonds bear, or continue to bear, interest at an Index Floating Rate. The notice of Election given by the Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Bond Registrar/Paying Agent of such notice; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or on or after a Par Call Date (or, if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect); (B) the date on which the Index Floating Rate Period is to end (which date shall be a Scheduled Mandatory Tender Date) or, if applicable, a statement that the Index Floating Rate Period is to end on the day prior to the Maturity Date; (C) the Index that is to be in effect, the Index Floating Rate Percentage (if other than 100%); and (D) the Par Call Date for such Index Floating Rate Period.

(b) **Rescission of Election to Effect a Conversion.** The Designated Representative may rescind any Election to effect a Conversion by delivering to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any) and Remarketing Agent (if any), on or prior to 10:00 a.m., New York time, on the second Business Day preceding a proposed Conversion Date, a notice to the effect that the City has determined to rescind its Election to effect such Conversion. If the City rescinds its Election to effect a Conversion of a Series of the Bonds, then such Series shall bear interest as follows: (1) if a Daily Interest Rate Period is in effect immediately prior to the proposed Conversion, such Series shall continue to bear interest at the Daily Interest Rate; (2) if a Weekly Interest Rate Period or a Long-Term Interest Rate Period is in effect immediately prior to the proposed Conversion, such Series shall bear interest at a Weekly Interest Rate commencing on the proposed Conversion Date; (3) if an Index Floating Rate Period (A) other than a Direct Purchase Period is in effect immediately prior to the proposed Conversion, such Series shall continue to bear interest at the applicable Index Floating Rate, or (B) that is a Direct Purchase Period is in effect immediately prior to the proposed Conversion, the effect of a rescission shall be that the Bonds remain outstanding under and subject to the terms of

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such Direct Purchase Agreement. Unless otherwise provided in a Direct Purchase Agreement then in effect, if notice of a Conversion of a Series of the Bonds to an Index Floating Rate Period has been mailed to the Registered Owner(s) of such Series of the Bonds as provided in Section 6(d), and the City subsequently rescinds its Election to effect such Conversion, such Series of the Bonds shall nevertheless be subject to mandatory tender for purchase on the proposed Conversion Date.

(c) **Provisions Applicable to Index Floating Rate Periods.**

(1) End of Index Floating Rate Period Other than Direct Purchase Period. If, by the second Business Day preceding the 29th day prior to the last day of any Index Floating Rate Period (other than a Direct Purchase Period) for a Series, the Bond Registrar/Paying Agent has not received notice of the City's Election to effect a Conversion of such Series, then (A) the next Interest Rate Period applicable to such Series shall be an Index Floating Rate Period, which shall begin on the Business Day following the last day of the prior Index Floating Rate Period, (B) the Index, Index Floating Rate Percentage and Index Floating Rate Spread shall remain unchanged, (C) the term of such Index Floating Rate Period shall be the same as the preceding Index Floating Rate Period (but shall not extend beyond the day prior to the Maturity Date), and (D) the Par Call Date shall be (i) if the Index Floating Rate Period is two years or longer in duration, the first Business Day that is on or after the date that is six months prior to the end of such Index Floating Rate Period (or another date established by the Designated Representative with a Favorable Opinion of Bond Counsel); and (ii) during an Index Floating Rate Period of any shorter duration, the first Business Day after the end of such Index Floating Rate Period. The first day of such new Index Floating Rate Period shall be a Conversion Date on which the Bonds of such a Series shall be subject to mandatory tender on in accordance with Section 8(b)(1) of this Addendum, and the Bond Registrar/Paying Agent shall provide notice of such mandatory tender in accordance with Section 8(c) of this Addendum.

(2) Amendment, Renewal or Extension of (or Conversion from) Direct Purchase Period. In connection with any Election to effect a Conversion of a Series to a Direct Purchase Period or to amend, extend or renew a Direct Purchase Agreement then in effect, the Designated Representative, on behalf of the City may negotiate, execute and deliver a Direct Purchase Agreement (or an agreement amending, renewing, extending, restating or otherwise modifying a Direct Purchase Agreement then in effect) on behalf of the City, consistent with the Bond Documents, in such form as shall be approved by the Designated Representative, which approval shall be evidenced by such execution and delivery, and a copy of which shall be provided to the Bond Registrar/Paying Agent no later than __ business days prior to the effective date of such amended and/or restated Direct Purchase Agreement.

Section 6. Conversion of Interest Rate Periods. The Bond Registrar/Paying Agent shall provide notice of the City's Election to effect a conversion of a Series of the Bonds to a new interest rate mode, not less than 20 days prior to the proposed Conversion Date. At the Designated Representative's direction and in his sole discretion, the notice of Conversion may be combined with the notice of mandatory tender by inclusion of the information required under Section 8(c) of this Addendum. The notice to be provided by the Registered Owner(s) of the affected Series of the Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) must state that the Beneficial Owners may not elect to retain ownership of the Bonds and must provide the following information:

(a) **Notice of Conversion to Daily Interest Rate Period.** In connection with a Conversion to a Daily Interest Rate Period pursuant to Section 5(a)(1) of this Addendum, the notice of the Bond Registrar/Paying Agent must state: (1) that the interest rate will be converted to a Daily Interest Rate unless the City rescinds its Election pursuant to Section 5(b) of this Addendum; (2) the proposed

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Conversion Date; (3) that such Series shall be subject to mandatory tender for purchase on the proposed Conversion Date after the giving of a notice of mandatory tender pursuant to Section 8(c) of this Addendum; (4) the Purchase Price; and (5) the place of delivery for purchase of such Series of the Bonds.

(b) **Notice of Conversion to Weekly Interest Rate Period.** In connection with a Conversion to a Weekly Interest Rate Period pursuant to Section 5(a)(2) of this Addendum, the notice of the Bond Registrar/Paying Agent must state: (1) that the interest rate will be converted to a Weekly Interest Rate unless the City rescinds its Election pursuant to Section 5(b) of this Addendum; (2) the proposed Conversion Date; (3) that such Series shall be subject to mandatory tender for purchase on the proposed Conversion Date; (4) the Purchase Price; and (5) the place of delivery for purchase of such Series of the Bonds.

(c) **Notice of Conversion to Long-Term Interest Rate Period.** In connection with a Conversion to a Long-Term Interest Rate Period pursuant to Section 5(a)(3) of this Addendum, the notice of the Bond Registrar/Paying Agent must state: (1) that the interest rate will be converted to, or continue to be, the Long-Term Interest Rate unless either (A) the City rescinds its Election pursuant to Section 5(b) of this Addendum, or (B) all of such Series of the Bonds is not remarketed on the proposed Conversion Date; (2) the proposed Conversion Date; (3) the last day of the new Long-Term Interest Rate Period (or, if applicable, that the Long-Term Interest Rate Period is to end on the day prior to the Maturity Date); (4) that such Series shall be subject to mandatory tender for purchase on the proposed Conversion Date; (5) the Purchase Price; and (6) the place of delivery for purchase of such Series of the Bonds.

(d) **Notice of Conversion to Index Floating Rate Period.** In connection with a Conversion to an Index Floating Rate Period pursuant to Section 5(a)(4) of this Addendum, the notice of the Bond Registrar/Paying Agent must state: (1) that the interest rate will be converted to, or continue to be, an Index Floating Rate, unless the City rescinds its Election pursuant to Section 5(b) of this Addendum; (2) the proposed Conversion Date; (3) the last day of the new Index Floating Rate Period (or, if applicable, that the Index Floating Rate Period is to end on the day prior to the Maturity Date); (4) that such Series of the Bonds shall be subject to mandatory tender for purchase on the proposed Conversion Date; (5) the Purchase Price; and (6) the place of delivery for purchase of such Series of the Bonds.

(e) **Certain Additional Conditions.** No Conversion shall take effect unless each of the following conditions, to the extent applicable, has been satisfied and the Bond Registrar/Paying Agent may conclusively assume, without inquiry, investigation or notice to any other party, that each such condition has been satisfied in connection with any notice of Conversion it is instructed to provide under this Section 6:

(1) If the notice of the Designated Representative's Election to convert indicates that a Credit Facility will be in effect during the subsequent Interest Rate Period, such Credit Facility must be in effect on the Conversion Date;

(2) If a Direct Purchase Agreement or an agreement entered into in connection with a Credit Facility is in effect prior to the Conversion and requires consent of the Index Floating Rate Holder or Credit Provider, such consent must have been obtained or waived as of the Conversion Date;

(3) The City must obtain a Favorable Opinion of Bond Counsel with respect to such Conversion dated as of the Conversion Date; and

(4) Except as provided in subsection (f) of this section with respect to Unremarketed Bonds, the Bond Registrar/Paying Agent must have sufficient funds on hand from remarketing or

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refunding proceeds, proceeds of a draw on the Credit Facility or other funds made available by the City, to pay the Purchase Price of such Series of the Bonds on the Conversion Date.

(f) **Unremarketed Bonds; Delayed Remarketing Period.** Bonds in an Index Floating Rate mode that are subject to a Delayed Remarketing Period as set forth in Section 8(f) of this Addendum shall be deemed to be Unremarketed Bonds. Unless otherwise provided in a Direct Purchase Agreement applicable to such Bonds, each Unremarketed Bond shall bear interest at the Stepped Interest Rate until such Bond ceases to be an Unremarketed Bond. A Bond shall cease to be an Unremarketed Bond only if such Unremarketed Bond is remarketed and transferred, or such Unremarketed Bond is redeemed in full. Unremarketed Bonds may become subject to Extraordinary Mandatory Redemption in accordance with a Direct Purchase Agreement then in effect.

(g) **Bank Bonds.** Bonds (or any principal portion thereof) that become Bank Bonds as set forth in Section 9(d) shall bear interest at the Bank Rate until such Bonds are no longer Bank Bonds. Bank Bonds may become subject to Extraordinary Mandatory Redemption in accordance with a Reimbursement Agreement or other agreement relating to the applicable Credit Facility.

Section 7. Redemption and Payment of Bonds.

(a) Optional Redemption.

(1) **Weekly or Daily Interest Rate Period.** During a Daily Interest Rate Period or a Weekly Interest Rate Period, each Series of the Bonds then in a Daily Interest Rate or Weekly Interest Rate Period shall be subject to optional redemption at the written direction of the Designated Representative on any Business Day, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

(2) **Long-Term Interest Rate Period.** During a Long-Term Interest Rate Period, each Series of the Bonds then in a Long-Term Interest Rate Period shall be subject to optional redemption at the written direction of the Designated Representative, (A) on the first day of such Long-Term Interest Rate Period, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest accrued to the date fixed for redemption, and (B) thereafter, on any day during the periods specified below in whole or in part, at the redemption prices (expressed as a percentage of principal amount) specified in the schedule of redemption prices set forth below (plus interest, if any, accrued to the date fixed for redemption):

Length of Long-Term Interest Rate Period (years)	Redemption Prices
Greater than 15	after 10 years at 101%, declining by 0.5% every year to 100%
Less than or equal to 15 and greater than 10	after 7 years at 101%, declining by 0.5% every year to 100%
Less than or equal to 10 and greater than 7	after 5 years at 101%, declining by 0.5% every year to 100%
Less than or equal to 7 and greater than 4	after 3 years at 100.5%, declining by 0.5% after one year to 100%
Less than or equal to 4	after 2 years at 100%

The Designated Representative may select an alternate schedule of redemption prices by delivery to the Bond Registrar/Paying Agent, prior to the Conversion Date of (A) a certificate of the Designated Representative or other agreement setting forth the alternate schedule of redemption prices to apply during such Long-Term Interest Rate Period, and (B) a Favorable Opinion of Bond Counsel.

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If the Conversion Date for a Series of the Bonds converted to a Long-Term Interest Rate Period is other than a day that would be an Interest Payment Date during such Long-Term Interest Rate Period, then the date on which such Series is first subject to redemption pursuant to the foregoing table (after the first day of such Long-Term Interest Rate Period) shall be the first Interest Payment Date succeeding the date on which such Series otherwise would be subject to redemption, and the redemption price shall be adjusted on each anniversary of that Interest Payment Date as provided in such table.

(3) Index Floating Rate Period. During an Index Floating Rate Period, each Series of the Bonds then in an Index Floating Rate Period shall be subject to optional redemption at the written direction of the Designated Representative on any Interest Accrual Date on or after any Par Call Date, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

(4) During Delayed Remarketing Period. Unremarketed Bonds in a Delayed Remarketing Period shall remain subject to optional redemption upon the written direction of the Designated Representative, on any Business Day, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

(b) **Mandatory Sinking Fund Redemption.** Each Series of the Bonds shall be designated as Term Bonds and, if not redeemed or purchased at the City's option prior to the Maturity Date, such Bonds shall be redeemed, at a price equal to the principal amount thereof to be redeemed plus accrued interest, on the dates in each of the years and the Sinking Fund Requirements set forth in **Exhibit A** to the Paying Agency Agreement.

(c) **Extraordinary Mandatory Sinking Fund Redemption.** In the case of a Series that is subject to a Direct Purchase Agreement or Credit Facility with a Term-Out Provision, Unremarketed Bonds may be subject to Extraordinary Mandatory Redemption during the Term-Out Period in the amounts, on the dates and in the manner as set forth in the Term-Out Provision of the applicable Direct Purchase Agreement or Credit Facility.

Section 8. Optional and Mandatory Tender and Purchase.

(a) **Optional Tender for Purchase.** During any Weekly Interest Rate Period or Daily Interest Rate Period, the Bonds shall be subject to tender for purchase at the option of the Registered Owner (or Beneficial Owner, if such Series of the Bonds is held in Book Entry Form) as set forth below, and if tendered in accordance with this subsection (a), shall be payable as set forth in subsection (e).

(1) Daily Interest Rate Period. Bonds of a Series that is in a Daily Interest Rate Period may be tendered for purchase in any Authorized Denomination (provided that the amount of such Series that is not tendered for purchase must also be in an Authorized Denomination) upon delivery by a Registered Owner of such Bonds to the Bond Registrar/Paying Agent and Remarketing Agent by no later than 11:00 a.m., New York time, on any Business Day, of an irrevocable written notice (or an irrevocable telephonic notice, promptly confirmed by email or other written notice), which states (A) the principal amount of such Bonds to be purchased and (B) the Purchase Date, which may be any succeeding Business Day. Any such notice delivered to the Bond Registrar/Paying Agent or the Remarketing Agent after 11:00 a.m., New York time, shall be deemed to have been received on the succeeding Business Day. If the Bonds so tendered for purchase are not registered in the name of the Securities Depository, the Registered Owner must deliver the Bonds to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds at or prior to 12:00 noon, New York time, on the

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Purchase Date, accompanied by an instrument of transfer in form satisfactory to the Bond Registrar/Paying Agent.

(2) Weekly Interest Rate Period. Bonds of a Series that is in a Weekly Interest Rate Period may be tendered for purchase in any Authorized Denomination (provided that the amount of such Series that is not tendered for purchase must also be in an Authorized Denomination) upon delivery by the Registered Owner to the Bond Registrar/Paying Agent and to the Remarketing Agent of an irrevocable written notice which states (A) the principal amount of such Bonds to be purchased and (B) the Purchase Date, which may be any Business Day not prior to the seventh day after the date of the delivery of such notice to the Bond Registrar/Paying Agent and the Remarketing Agent. Any such notice delivered to the Bond Registrar/Paying Agent or the Remarketing Agent after 4:00 p.m., New York time, shall be deemed to have been received on the succeeding Business Day. If the Bonds so tendered for purchase are not registered in the name of the Securities Depository, the Registered Owner shall deliver the Bonds to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds at or prior to 10:00 a.m., New York time, on the Purchase Date, accompanied by an instrument of transfer in form satisfactory to the Bond Registrar/Paying Agent.

(3) Irrevocable Notice Deemed to be Tender of Bonds. The giving of notice of optional tender for purchase by a Registered Owner or Participant as provided in this subsection (a) shall constitute the irrevocable tender for purchase of those Bonds with respect to which such notice is given regardless of whether such Bonds are delivered to the Bond Registrar/Paying Agent for purchase on the applicable Purchase Date. If Bonds tendered for purchase are registered in the name of the Securities Depository, such tender is subject to confirmation by the Securities Depository to the Bond Registrar/Paying Agent that the Participant has the required Ownership interest in those Bonds.

(b) Mandatory Tender for Purchase.

(1) Bonds Subject to Mandatory Tender. Each Series of the Bonds shall be subject to mandatory tender for purchase at the Purchase Price on the following Purchase Dates (without duplication):

- (A) on any Scheduled Mandatory Tender Date for a Series of the Bonds;
- (B) on the first day of each Interest Rate Period (except if such new Interest Rate Period is the result of an extension or renewal of a Direct Purchase Agreement in connection with a Direct Purchase Period);
- (C) on each proposed Conversion Date for which notice of mandatory tender has been given to the Registered Owner(s) pursuant to subsection (c) of this section;
- (D) on each proposed redemption date on or after the Par Call Date for which notice of mandatory tender has been given to the Registered Owner(s) pursuant to subsection (c) of this section;
- (E) during any Interest Rate Period in which the Series is subject to a Credit Facility, in the event that such Series ceases to be subject to that Credit Facility, as set forth in subsection(b)(2) of this section;
- (F) at any time during a Delayed Remarketing Period, upon notice given by the Remarketing Agent to the Bond Registrar/Paying Agent in accordance with Section 11 of this Addendum of a successful remarketing and the availability of funds sufficient to pay the Purchase Price for all or any portion of such Bonds (in Authorized

EXHIBIT D

Denominations), without regard to any notice requirements set forth in subsection (c) of this section; and

(G) during any Direct Purchase Period, as specified in a Direct Purchase Agreement then in effect.

(2) Mandatory Tender of Bonds Upon Expiration or Termination of Credit Facility. In addition, each Series of the Bonds with respect to which a Credit Facility is then in effect shall be subject to mandatory tender for purchase if at any time the Bond Registrar/Paying Agent receives notice that such Series will cease to be subject to purchase pursuant to such Credit Facility as a result of (A) the termination, replacement or expiration of such Credit Facility (including termination at the option of the City in accordance with the terms of any Reimbursement Agreement or upon an event of default under the Reimbursement Agreement), or (B) a Conversion. The Purchase Date for such mandatory tender shall be (A) the fifth Business Day preceding any such expiration or termination of such Credit Facility (if no Alternate Credit Facility is to be delivered to the Bond Registrar/Paying Agent), (B) the Business Day on which such Alternate Credit Facility is delivered to the Bond Registrar/Paying Agent, or (C) the Conversion Date.

(c) **Notice of Mandatory Tender for Purchase.** In connection with any mandatory tender for purchase of a Series of the Bonds pursuant to subsection (b) of this section, the Bond Registrar/Paying Agent shall give notice to the Registered Owner(s) of the affected Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) not less than 20 days prior to the Purchase Date. A notice of mandatory tender must contain the following information (and may, at the direction of the Designated Representative and in his sole discretion, be combined with a notice of Conversion delivered to the Registered Owner(s) under Section 6):

(1) Each notice shall state that if the Purchase Price is provided to the Bond Registrar/Paying Agent from remarketing or refunding proceeds, proceeds of a draw on the Credit Facility or other funds made available by the City, such Series will be purchased on the Purchase Date, and, in the case of an Index Floating Rate Period only, any Bond (or portion thereof) that is not purchased will be subject to a Delayed Remarketing Period and will bear interest at the Stepped Interest Rate as set forth in subsection (f) of this section; and

(2) In the case of a mandatory tender for purchase pursuant to subsection (b)(1), the notice shall state (A) the Purchase Date, and (B) if in conjunction with a Conversion, the type of Interest Rate Period to which such Series will be converted on the Purchase Date;

(3) In the case of a mandatory tender for purchase pursuant to subsection (b)(2), the notice shall state (A) that the Credit Facility will expire, terminate or be replaced, (B) that after the Purchase Date, such Series will no longer be purchased pursuant to the Credit Facility then in effect, and (C) that the short-term ratings applicable to such Series may be lowered or withdrawn; and

(4) In the case of a Series that is not in Book-Entry Form, the notice shall state that (A) the Purchase Price will be payable only upon surrender of such Bonds to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Bond Registrar/Paying Agent, executed in blank by the Registered Owner or its duly authorized representative, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, and (B) if the Registered Owner of any such Bond does not surrender that Bond to the Bond Registrar/Paying Agent for purchase on the Purchase Date, then that Bond shall be deemed to be an Undelivered Bond, no interest shall accrue on such Bond on and after the Purchase Date and the Registered Owner shall have no rights under the Bond Documents other than to receive payment of the Purchase Price for such Undelivered Bond.

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(d) **Delivery of Bonds Subject to Mandatory Tender; Undelivered Bonds.** Payment of the Purchase Price of a Series subject to mandatory tender for which a notice has been given in accordance with subsection (c) shall be as set forth in subsection (e), below. Bonds to be so purchased that are not registered in the name of the Securities Depository must be delivered at or prior to 10:00 a.m., New York time, on the Purchase Date to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds, accompanied by an instrument of transfer in form satisfactory to the Bond Registrar/Paying Agent and satisfying the conditions set forth in the notice of mandatory tender. If the Registered Owner of a Bond subject to mandatory tender for purchase that is not registered in the name of the Securities Depository fails to deliver its Bond to the Bond Registrar/Paying Agent at the place and on the Purchase Date and by the time specified, or fails to deliver its Bond properly endorsed, such Bond shall constitute an Undelivered Bond. If funds in the amount of the Purchase Price of an Undelivered Bond are available for payment to the Registered Owner thereof on the Purchase Date at the time specified, then from and after the Purchase Date and time of that required delivery (1) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be outstanding under the Bond Documents; (2) interest shall no longer accrue on the Undelivered Bond; and (3) funds in the amount of the Purchase Price of the Undelivered Bond shall be held uninvested and without liability for interest by the Bond Registrar/Paying Agent for the benefit of the Registered Owner thereof, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds.

(e) **Payment of Purchase Price.** Bonds tendered for purchase under subsection (a) or (b) of this section shall be purchased on the Purchase Date specified in the applicable notice by payment of the Purchase Price made by the Bond Registrar/Paying Agent, from the sources specified in this subsection, payable in immediately available funds to the Registered Owner (and not to any Participant), by 3:00 p.m., New York time, on the Purchase Date, or as soon as practicable thereafter upon the receipt by the Bond Registrar/Paying Agent of the Purchase Price in the Bond Purchase Fund as set forth in Section 12. The Purchase Price of any Bonds to be purchased on any Purchase Date shall be made from the following sources in the following order of priority: (1) proceeds of the remarketing of such Bonds; (2) proceeds of refunding bonds issued by the City; (3) proceeds of a draw on the Credit Facility; and (4) other funds made available by the City (which may include Net Revenues, to the extent legally available for such purpose consistent with the Bond Documents).

(f) **Failure to Pay Purchase Price of Bonds in Index Floating Rate Period; Unremarketed Bonds.** During any Index Floating Rate Period, if the entire Purchase Price for any Series of the Bonds subject to mandatory tender for purchase under subsection (b)(1) of this section cannot be paid on the applicable Purchase Date, then only a portion of such Series in an amount equal to the funds available to pay the full Purchase Price thereof will be purchased on such Purchase Date. Those Bonds to be purchased shall be selected in Authorized Denominations, as provided for partial redemption in Section 8(d) of the Bond Ordinance, unless otherwise provided in a Direct Purchase Agreement then in effect. The remainder of the Bonds of such Series shall not be purchased and shall become Unremarketed Bonds, subject to the following:

(1) **Delayed Remarketing Period – No Direct Purchase Agreement in Effect.** With respect to Unremarketed Bonds for which no Direct Purchase Agreement is in effect, a Delayed Remarketing Period will commence on the Purchase Date with respect to the Bonds (or portion thereof) for which funds were insufficient to pay the entire Purchase Price. During a Delayed Remarketing Period, the following will apply: (A) the Unremarketed Bonds will bear interest at the Stepped Interest Rate; (B) interest shall continue to be due and payable on each Interest Payment Date and also shall be payable on the last day of the Delayed Remarketing Period and the Unremarketed Bonds; (C) the Remarketing Agent (if any) will continue to be obligated to remarket the applicable Bonds; (D) the Unremarketed

EXHIBIT D

Bonds will continue to be subject to optional redemption by the City as described in Section 7(a); (E) the Designated Representative on behalf of the City, by notice to the Bond Registrar/Paying Agent and the Remarketing Agent, may Elect to effect a Conversion of the Unremarketed Bonds as described in Sections 5 and 6; and (F) if and when the Unremarketed Bonds are successfully remarketed as described in Section 11, the Registered Owner(s) of the Unremarketed Bonds will be obligated to tender their Bonds to the Bond Registrar/Paying Agent for purchase.

(2) Delayed Remarketing Period When Direct Purchase Agreement in Effect. If a Direct Purchase Agreement is then in effect for such Series, then the Unremarketed Bonds shall remain subject to the provisions of the Direct Purchase Agreement then in effect, which may include Extraordinary Mandatory Redemption of such Unremarketed Bonds in the amounts and on the dates as set forth in a Term-Out Provision (if any) if the failure to purchase the Unremarketed Bonds occurred on a Mandatory Tender Date. To the extent not inconsistent with the Direct Purchase Agreement then in effect, Unremarketed Bonds shall otherwise be subject to subsection (f)(1), above, provided that Unremarketed Bonds will continue to be subject to optional redemption by the City pursuant to Section 7(a) of this Addendum and the Designated Representative may Elect to effect a Conversion pursuant to Sections 5 and 6 of this Addendum.

Section 9. Credit Facility; Bank Bonds.

(a) **Draws on a Credit Facility.** If any portion of the principal, Purchase Price or interest on the Bonds shall become due for payment but shall be unpaid by reason of the Issuer's failure to timely deposit sufficient funds with the Bond Registrar/Paying Agent, the City hereby requests the Bond Registrar/Paying Agent to process a draw on the Credit Facility on the Issuer's behalf for such amounts by delivering to the Credit Provider a draw request substantially in the form provided by the City to the Bond Registrar/Paying Agent; provided, however, that the City acknowledges the Paying Agent agrees to process such draw solely as an accommodation to City and that City shall remain solely responsible for ensuring that funds equal to the unpaid principal of and interest on the Bonds are timely deposited and under no circumstance will the Bond Registrar/Paying Agent be responsible to the City for the failure of such timely deposit either by the City or the Credit Provider, whether due to the Bond Registrar/Paying Agent's failure to properly or timely process such draw or for any other reason except to the extent that such failure is directly caused by the Bond Registrar/Paying Agent.

(b) **Delivery of Credit Facility.** If at any time there are delivered to the Bond Registrar/Paying Agent (1) a Credit Facility, (2) all required legal opinions and information (if any), and (3) all information required to give the notice of mandatory tender for purchase of a Series, then the Bond Registrar/Paying Agent shall draw upon such Credit Facility as set forth in Section 9(a) and, after the date of the mandatory tender for purchase established pursuant to Section 8(b), promptly surrender any Credit Facility then in effect to the issuer thereof for cancellation in accordance with its terms.

(c) **Notice of Termination.** The Bond Registrar/Paying Agent shall give notice to the Remarketing Agent and the Registered Owner(s) of such Series of the termination or expiration of any Credit Facility in accordance with its terms.

(d) **Bank Bonds.** A Credit Facility may provide that a Bond that is purchased by the Bond Registrar/Paying Agent with amounts paid or provided by a Credit Provider under a Credit Facility shall become a Bank Bond and shall bear interest at the Bank Rate for each day from and including the day such Bank Bond becomes a Bank Bond to and excluding the day such Bank Bond ceases to be a Bank Bond or is paid in full. Interest on each Bank Bond shall be calculated and be payable on the dates and in the manner specified in the Credit Facility or Reimbursement Agreement. To the extent there are not remarketing proceeds or refunding bond proceeds available to pay a Bank Bond on any

EXHIBIT D

interest or principal payment date for those Bank Bonds, the City shall make such payment to the Bond Registrar/Paying Agent from the Parity Bond Fund. A Credit Facility may include a Term-Out Provision applicable to Bank Bonds, providing for the Extraordinary Mandatory Redemption of such Bank Bonds in accordance with the Sinking Fund Requirements specified in the Credit Facility or Reimbursement Agreement.

(e) **Liability.** The Bond Registrar/Paying Agent shall have no obligation to the Credit Provider and the Credit Provider shall have no rights against the Bond Registrar/Paying Agent under any such Credit Facility or any related agreement.

Section 10. Remarketing Agent. If the Designated Representative on behalf of the City Elects to effect a Conversion of any Series to a Daily Interest Rate Period, Weekly Interest Rate Period, Long-Term Interest Rate Period or an Index Floating Rate Period (other than a Direct Purchase Period), the Designated Representative shall appoint and enter into a Remarketing Agreement with a Remarketing Agent to carry out the remarketing of such Series on the Purchase Date. A Remarketing Agent appointed by the Designated Representative on behalf of the City shall designate its principal office in the Remarketing Agreement. The Remarketing Agent shall signify its acceptance of the duties and obligations imposed upon it under the Bond Documents by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the City, the Bond Registrar/Paying Agent and the Credit Provider (if any), under which the Remarketing Agent shall agree to keep such books and records related to the remarketing of such Series as is consistent with prudent industry practice and to make such books and records related to the remarketing of such Series available for inspection by the City, the Bond Registrar/Paying Agent and the Credit Provider (if any), at all reasonable times.

To be eligible to serve as Remarketing Agent, an institution must be a member of the Financial Industry Regulatory Authority, Inc. (FINRA), having a combined capital stock, surplus and undivided profits of at least \$50,000,000, and be authorized by law to perform all the duties imposed upon it by the Bond Documents and the Remarketing Agreement. The Remarketing Agent must also be acceptable to the relevant Credit Provider (if any). A Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this Addendum by giving notice to the City, Bond Registrar/Paying Agent and Credit Provider (if any). Such resignation shall take effect on the 30th day after the receipt by the City of the notice of resignation. A Remarketing Agent may be removed at any time on 15 days prior written notice, by an instrument signed by the Designated Representative, approved by the Credit Provider (if any), and delivered to the Remarketing Agent, Bond Registrar/Paying Agent and Credit Provider (if any).

Section 11. Remarketing of Bonds; Notice of Interest Rates.

(a) **Remarketing.** Upon a mandatory tender for purchase of a Series as required by Section 8(b) or notice of optional tender for purchase of a Series under Section 8(a), the Remarketing Agent shall offer for sale and use its best efforts to sell such Bonds on the Purchase Date and, if not remarketed on the Purchase Date, thereafter until sold, at the Purchase Price.

(b) **Notice of Purchase and Remarketing.** The Remarketing Agent shall give notice to the Bond Registrar/Paying Agent and the City by facsimile transmission, telephone, e-mail or similar electronic means promptly confirmed by a written notice, in no event later than 9:30 a.m., New York time, on each Purchase Date on which Bonds are purchased pursuant to a tender for purchase under Section 8, specifying the principal amount of such Bonds successfully remarketed. If such Bonds are not in Book-Entry Form, the Remarketing Agent shall also provide a list of the purchasers showing the

EXHIBIT D

names and Authorized Denominations in which such Bonds are to be registered and the addresses and taxpayer identification numbers of such purchasers.

(c) **During a Delayed Remarketing Period.** During a Delayed Remarketing Period, in accordance with Section 8(f) of this Addendum, the Registered Owner(s) of Unremarketed Bonds will be obligated to tender their Bonds to the Bond Registrar/Paying Agent for purchase upon notice given as set forth in subsection (b) of this section, on any date on which any of the Unremarketed Bonds have been successfully remarketed, on any redemption date or any Conversion Date

Section 12. Bond Purchase Fund. In conjunction with any remarketing, the Bond Registrar/Paying Agent agrees to establish and maintain on behalf of the City a separate trust fund to be designated the “Bond Purchase Fund.” The Bond Registrar/Paying Agent further agrees to establish within the Bond Purchase Fund a separate trust account to be designated the “Remarketing Account” and, if a Credit Facility is delivered in connection with a Conversion, a separate trust account to be designated the “Credit Facility Purchase Account” as follows:

(a) **Remarketing Account.** Upon receipt of the proceeds of a remarketing of a Series of the Bonds on a Purchase Date, the Bond Registrar/Paying Agent shall deposit such proceeds in the Remarketing Account of the Bond Purchase Fund for application to the Purchase Price of such Series of the Bonds.

(b) **Credit Facility Purchase Account.** Upon receipt from the Credit Provider of immediately available funds, the Bond Registrar/Paying Agent shall deposit such funds in the Credit Facility Purchase Account of the Bond Purchase Fund for application to the Purchase Price of such Bonds required to be purchased on a Purchase Date to the extent that the money on deposit in the Remarketing Account of the Bond Purchase Fund is not sufficient. Any amounts deposited in the Credit Facility Purchase Account and not needed on any Purchase Date for the payment of the Purchase Price for any Bonds shall be immediately returned to the Credit Provider. Any amounts in the Credit Facility Purchase Account shall be used only to purchase such Bonds.

(c) **Other City Funds.** Amounts contributed by the City to the Purchase Price as provided in Section 8(e) shall be transferred from the Parity Bond Fund to the Bond Registrar/Paying Agent and deposited into the Remarketing Account for use in accordance with subsection (a) of this section.

Section 13. Time. Time is of the essence of every provision herein contained. In the computation of any period of time provided for in this Addendum or by law, the day of the act or event from which said period of time runs shall be excluded, and the last day of such period shall be included, unless it is not a Business Day, in which case the period shall be deemed to run until 5:00 p.m. (New York Time) of the next day that is a Business Day. Except as otherwise expressly provided herein, all time periods expiring on a specified date or period herein shall be deemed to expire at 5:00 p.m. (New York Time) on such specified date or period.

APPENDIX C
FORM OF BOND COUNSEL OPINION

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SAN DIEGO
SAN FRANCISCO
SANTA BARBARA
SANTA MONICA
COLORADO
DENVER
NEVADA
LAS VEGAS
RENO
WASHINGTON
SEATTLE

[Date of Approving Opinion]

The City of Seattle, Washington

Re: The City of Seattle, Washington
Municipal Light and Power Refunding Revenue Bonds, Series 2018B-1;
Municipal Light and Power Refunding Revenue Bonds, Series 2018B-2;
Municipal Light and Power Refunding Revenue Bonds, Series 2018C-1; and
Municipal Light and Power Refunding Revenue Bonds, Series 2018C-2

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 125460 (the “Bond Ordinance”) to provide the funds to refund on a current basis the City’s Municipal Light and Power Revenue Bonds, 2015B-1 (SIFMA Index), Municipal Light and Power Revenue Bonds, 2015B-2 (SIFMA Index), Municipal Light and Power Revenue Bonds, 2017A (Multimodal), and Municipal Light and Power Revenue Bonds, 2017B (Multimodal), and to pay the costs of issuing the Bonds and administering the Refunding Plan, all as set forth in the Bond Ordinance.

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

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Light System, by money in the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”) and by the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The Net Revenue has been pledged to make the required payments into the Parity Bond Fund and the Reserve Fund, which pledge constitutes a charge on the Net Revenue prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System, and except that the Bonds shall have a lien and charge upon such Net Revenue on a parity with the lien and charge of the Outstanding Parity Bonds and any Future Parity Bonds.

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 Ordinance 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 Ordinance and the Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Ordinance and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid and binding obligations of the City payable solely out of the Gross Revenues of the Light System (after reasonable charges for maintenance and operation) and money in the Parity Bond Fund and the Reserve Fund, enforceable in accordance with their terms, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and 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, under existing statutes, regulations, rulings and judicial decisions, 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 calculating the federal alternative minimum tax imposed on individuals.

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

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

Respectfully submitted

APPENDIX D
2017 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT

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***The City of Seattle—
City Light Department***

Enterprise Fund of The City of Seattle

*Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Required Supplementary Information,
Other Information, and
Independent Auditors' Report*

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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INDEPENDENT AUDITORS' REPORT

To the Housing, Health, Energy and Workers' Rights Committee
The City of Seattle – City Light Department
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of The City of Seattle – City Light Department (the “Department”), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditors’ 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditors’ 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 controls relevant to the Department'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 Department’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of The City of Seattle, Washington, as of December 31, 2017 and 2016 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information as listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 30, 2018

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2017, and 2016. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates generating, transmission, and distribution facilities and delivers electricity to approximately 454,500 customers in Seattle and certain surrounding communities. The Department also provides electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Department's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Department's accounting records also follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

This discussion and analysis is intended to serve as an introduction to the Department's financial statements, which are comprised of the financial statements and the notes to the financial statements and include the following:

Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows—The financial statements provide an indication of the Department's financial health. The balance sheets include all the Department's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which assets are restricted due to bond covenants and other commitments. The statements of revenues, expenses, and changes in net position report all the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and cash payments for bond principal and capital additions and betterments.

Notes to the Financial Statements—The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

CONDENSED BALANCE SHEETS

(\$ in millions)	December 31		
	2017	2016	2015
Assets:			
Utility plant—net	\$ 3,509.5	\$ 3,214.7	\$ 2,961.5
Restricted assets	252.4	222.0	265.1
Current assets	343.6	286.5	339.6
Other assets	<u>416.8</u>	<u>396.2</u>	<u>339.5</u>
Total assets	<u>4,522.3</u>	<u>4,119.4</u>	<u>3,905.7</u>
Total deferred outflows of resources	<u>83.2</u>	<u>94.9</u>	<u>49.8</u>
Total assets and deferred outflows of resources	<u>\$ 4,605.5</u>	<u>\$ 4,214.3</u>	<u>\$ 3,955.5</u>
Liabilities:			
Long-term debt	\$ 2,417.4	\$ 2,165.3	\$ 2,090.8
Noncurrent liabilities	409.6	433.6	341.5
Current liabilities	280.7	266.5	271.4
Other liabilities	<u>36.3</u>	<u>37.2</u>	<u>29.7</u>
Total liabilities	<u>3,144.0</u>	<u>2,902.6</u>	<u>2,733.4</u>
Total deferred inflows of resources	<u>123.6</u>	<u>94.2</u>	<u>89.9</u>
Net position:			
Net investment in capital assets	1,382.8	1,310.5	1,169.6
Restricted:			
Rate stabilization account	25.0	25.0	25.0
Special deposits and other purposes	-	-	-
Total restricted	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>(69.9)</u>	<u>(118.0)</u>	<u>(62.4)</u>
Total net position	<u>1,337.9</u>	<u>1,217.5</u>	<u>1,132.2</u>
Total liabilities, deferred inflows, and net position	<u>\$ 4,605.5</u>	<u>\$ 4,214.3</u>	<u>\$ 3,955.5</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

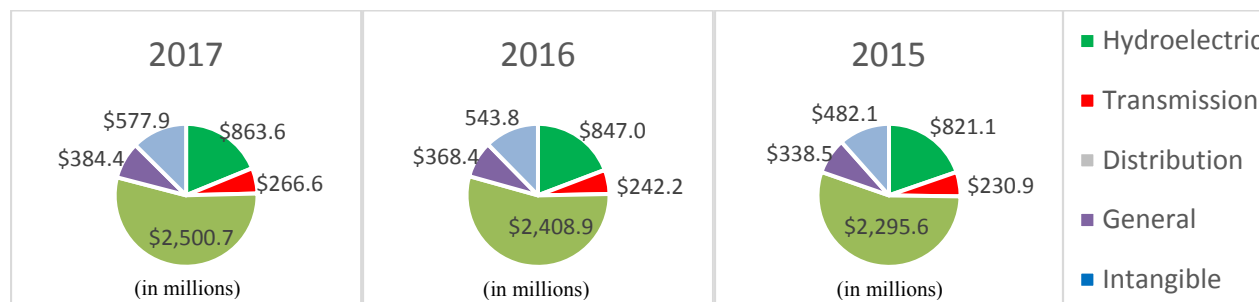
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

ASSETS

Utility Plant—Net

2017 Compared to 2016

Utility plant assets net of accumulated depreciation and amortization increased \$294.8 million to \$3,509.5 million in 2017. Utility plant assets were comprised of hydroelectric production plant \$863.6 million which increased \$16.6 million, transmission plant, \$266.6 million, which increased \$24.4 million, distribution plant, \$2,500.7 million, which increased \$91.8 million, general plant, \$384.4 million, which increased \$16.0 million, and intangible assets, \$577.9 million which increased \$34.1 million. The net increase in utility plant assets were partially offset by a \$88.1 million increase in Accumulated depreciation and amortization to \$1,823.4 million.



The \$91.8 million increase in distribution plant is primarily due to \$43.0 million for underground system, \$16.3 million for transformers, \$14.5 million for overhead system, \$8.2 million for meters, \$6.6 million for poles, and \$2.1 million for streetlights. In hydroelectric production, an increase of \$16.6 million is primarily due to Ross Bank 42 replacement, Gorge Network automation, Boundary Unit 55 relay protection, and Diablo powerhouse AC panel replacement. The \$24.4 million increase in transmission is primarily due to equipment improvements.

Other components of utility plant include Construction work-in-progress \$589.3 million which increased \$196.8 million, Nonoperating property \$14.7 million which increased \$2.0 million, Assets held for future use \$59.1 million which decreased \$0.4 million, and Land and land rights \$76.6 million, which increased \$1.6 million. The \$196.8 million increase in Construction work-in-progress is primarily due to \$48.4 million for Denny substation, \$23.3 million for Downtown network system, \$22.4 million for Alaskan Way Viaduct, \$16.4 million for Diablo powerhouse Units 31 & 31 rebuild, \$15.1 million for Broad Street sub, \$14.5 million for Advanced metering, \$11.3 million for PeopleSoft reimplementation, and \$45.4 million increases in various other projects.

See Note 3 Utility Plant of the accompanying financial statements.

2016 Compared to 2015

Utility plant assets net of accumulated depreciation and amortization increased \$253.2 million to \$3,214.7 million in 2016. Utility plant assets were comprised of hydroelectric production plant \$847.0 million which increased \$25.9 million, transmission plant, \$242.2 million, which increased \$11.3 million, distribution plant, \$2,408.9 million, which increased \$113.3 million, general plant, \$368.4 million, which increased \$29.9 million,

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

and intangible assets, \$543.8 million which increased \$61.7 million. The net increase in utility plant assets were partially offset by a \$63.5 million increase in Accumulated depreciation and amortization to \$1,735.3 million.

The \$113.2 million increase in distribution plant is primarily due to \$31.0 million for Underground, \$22.0 million for Network, \$14.1 million for Services, \$12.2 million for Poles, \$5.4 million for Station Equipment, \$5.2 million for Street Lights.

The \$27.3 million increase in Hydro Assets is primarily due to: \$12.5 million for Ancillary Electric Equipment, \$5.4 million for Miscellaneous Hydro Equipment, \$5.2 million for Hydro Structures. The \$11.4 million increase in Transmission is primarily due to: \$6.4 million for Transmission Station Equipment, \$2.2 million for Transmission Overhead Lines. The \$29.9 million increase in General plant is primarily due to: \$18.4 million for General Structure improvements, \$5.7 million for Communication Equipment, \$4.5 million for vehicles. The \$61.7 million increase in Intangible assets is primarily due to: \$38.8 million for net Software additions (New Customer Information System and Emergency Management System) and \$22.8 million for High Ross and Relicensing at Boundary and Skagit.

Other components of utility plant include Construction work-in-progress \$392.5 million which increased \$72.7 million, driven mainly by an increase of \$95.2 in Underground Distribution projects and a decrease in General Plant of \$27.5. Nonoperating property has a balance of \$12.7 million which increased \$0.9 million, Assets held for future use \$59.5 million which decreased \$1.3 million, and Land and land rights \$75 million, which increased \$2.3 million.

Restricted Assets

2017 Compared to 2016 Restricted assets consisting of restricted cash increased by \$30.4 million to \$252.4 million.

Construction funds increased by \$8.4 million to \$36.8 million and represent the balance of unspent proceeds from the 2016A Clean Renewable Energy Bonds issued in January 2016 and 2017C revenue bonds issued in September 2017. Proceeds are being used for on-going funding of a significant portion of the capital improvement program.

Bond reserve account increased by \$16.6 million to \$103.6 million from bond proceeds and interest earnings. Ongoing funding from operating cash of \$10.0 million continued accumulation of the reserve account ahead of the existing surety bond 2029 expiration.

The Rate Stabilization Account (RSA) increased by a net \$2.3 million to \$93.4 million. A surcharge on electric rates of 1.5% remains in effect implemented in August 2016 until the RSA is funded to \$100.0 million. Additions from the rate surcharge of \$11.2 million and interest earnings of \$1.4 million were offset by transfer of funds to operating cash of \$10.3 million because actual net wholesale revenues were less than budgeted. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets increased by \$3.1 million to \$18.6 million primarily for sundry prepayments and escrow deposits.

2016 Compared to 2015 Restricted assets consisting of restricted cash decreased by \$43.1 million to \$222.0 million.

Construction funds decreased by \$60.3 million to \$28.4 million and represent the balance of unspent proceeds from the 2016A Clean Renewable Energy Bonds issued in January. All proceeds from bonds issued prior to

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

2016 and from additional bonds issued during 2016, were fully spent and used for funding a significant portion of the ongoing capital improvement program.

Bond reserve account increased by \$13.3 million to \$87.0 million from bond proceeds and interest earnings. Additional funding from operating cash of \$10.0 million continued accumulation of the reserve account ahead of the existing surety bond 2029 expiration.

The RSA increased by a net \$0.1 million to \$91.1 million. A surcharge on electric rates of 1.5% remains in effect implemented in August 2016 until the RSA is funded to \$100.0 million. Additions from the rate surcharge of \$4.4 million and interest earnings of \$1.2 million were offset by transfer of funds to operating cash of \$5.5 million because actual net wholesale revenues were less than budgeted.

Other restricted assets increased by \$3.8 million to \$15.5 million primarily for sundry prepayments and escrow deposits.

Current Assets

2017 Compared to 2016 Current assets increased by \$57.1 million to \$343.6 million at year end.

Operating cash increased by \$56.2 million to \$129.1 million at the end of 2017. Increased inflows to cash derived from a 5.6% system average rate increase effective in January, RSA surcharge, capital contributions, and reimbursement from the Construction account for capital expenditures. These were offset by payments for higher debt service, transfers to RSA, lower net wholesale energy sales, capital construction projects, and ongoing operations.

Accounts receivable, net, decreased by \$6.7 million to \$91.1 million. A total of \$11.9 million net increase in receivables were for retail electric due to rate increases and large service connections in progress. These were offset by a net increase of \$10.7 million in the allowance for bad debt primarily for retail electric receivables in arrears. Additional net decreases of \$7.9 million were for lower inter-departmental billings, grants, receivables from wind renewal energy, and other.

Unbilled revenues increased by \$12.8 million to \$89.4 million because of the rate increases and higher consumption due to colder weather during the 4th quarter 2017. In addition, a correction to unbilled revenues from 2016 recorded in January 2017 also affected the increase.

Other current assets decreased by \$5.2 million to \$323.7 million. Materials and supplies inventory was lower by \$2.3 million due primarily to issues out to two major projects. The balance decrease was the result of fully allocating inventory loading costs by year end, and including costs held over from 2016.

2016 Compared to 2015 Current assets decreased by \$53.1 million to \$286.5 million at year end.

Operating cash decreased by \$79.6 million to \$72.9 million at the end of 2016. Increased inflows to cash derived from a 4.9% system average rate increase effective in January, Bonneville Power Administration (Bonneville) 0.9% pass-through rate adjustment effective in October 2015, transfers from the RSA, and reimbursement from the Construction account for capital expenditures. These were offset by payments for higher debt service, capital construction projects, and ongoing operations.

Accounts receivable, net, increased by \$15.6 million to \$97.8 million. A total of \$17.8 million net increase in receivables were for retail electric due to rate increases noted above of \$5.4 million, reclassification of customer overpayments to a liability at implementation of the new billing system of \$4.8 million, large service

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

connections in progress of \$3.0 million, billings to other City departments of \$1.6 million, wholesale power receivables of \$2.0 million, and other. These were offset by a net increase of \$2.2 million in the allowance for bad debt for retail electric and sundry billings.

Unbilled revenues increased by \$6.1 million to \$76.6 million because of the rate increases and higher customer loads due to colder weather during the 4th quarter compared to same comparable period of 2015.

Other current assets increased by \$4.8 million to \$39.2 million. Materials and supplies inventory was higher by \$3.1 million due to the purchase of an additional spare transformer for generating facilities and materials for two major projects in progress. The balance increase consisted mainly of inventory loading costs that will be allocated in the following year.

Other Assets

2017 Compared to 2016 Other assets increased by \$20.6 million to \$416.8 million. The regulatory asset for environmental cleanup costs increased by \$10.0 million, due primarily to the estimated cost to clean up the East Waterway Superfund Site. Environmental cleanup costs are being recovered through rates over a 25-year period. Initial amortization occurred in 2017. See Note 14 Environmental Liabilities of the accompanying financial statements.

Remaining balance of Other assets increased by \$10.6 million to \$323.7 million. Conservation costs, net, increased by \$9.8 million. The balance increase of \$0.8 million was primarily for ongoing Long term environmental receivables to be paid by other responsible parties for cleanup costs incurred by the Department. See Note 7 Other Assets of the accompanying financial statements.

2016 Compared to 2015 Other assets increased by \$56.7 million to \$396.2 million. The regulatory asset for environmental cleanup costs increased by \$51.9 million, due primarily to the estimated cost to clean up the East Waterway Superfund Site. Environmental cleanup costs are being recovered through rates over a 25-year period. See Note 14 Environmental Liabilities of the accompanying financial statements.

Conservation costs, net, increased by \$8.6 million. Decreases totaled \$3.8 million of which \$2.8 million was for over allocation of labor benefits costs from actual retro pay and COLA costs paid. Accordingly, labor benefits costs will be allocated in the following year. The remaining decrease of \$1.1 million was for Long term environmental receivables to be paid by other responsible parties for cleanup costs incurred by the Department.

Deferred Outflows of Resources

2017 Compared to 2016 Deferred outflows of resources decreased by \$11.7 million to \$83.2 million.

In 2015, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* concerning accounting for pension plans. For 2017, the net decrease of \$17.7 million was primarily related to differences between projected and actual investment earnings, which decreased from \$38.9 million in 2016 to \$22.9 million in 2017. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Charges on advance refunding increased a net \$6.0 million to \$36.3 million. Net activity is the result of additions due to new refunding bond issues and decreases for amortization.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

2016 Compared to 2015 Deferred outflows of resources increased by \$45.1 million to \$94.9 million.

For 2016, the net increase of \$31.2 million was primarily related to an increase in the difference between actuarially determined projected and actual investment earnings pertaining to retirement plan.

Charges on advance refunding increased a net \$13.9 million to \$30.3 million. Net activity is the result of additions due to new refunding bond issues and decreases for amortization.

LIABILITIES

Long-Term Debt

2017 Compared to 2016 Long-term debt increased a net \$252.1 million to \$2,417.4 million during 2017. The Department issued total new debt in the amount of \$485.5 million consisting of revenue bonds to fund a portion of the ongoing capital improvement program and refunding revenue bonds. The 2017 bond issues were a combination of fixed and variable rate bonds. \$145.1 million in revenue bonds were refunded with lower interest rate debt.

Debt to capitalization ratio was 63.7% at the end of 2017, a slight increase from the 63.5% ratio of 2016 because of the additional bonds issued.

Net revenues available to pay debt service were equal to 1.85 times principal and interest on all bonds for 2017.

See Note 9 Long-Term Debt of the accompanying financial statements.

2016 Compared to 2015 Long-term debt increased a net \$74.5 million to \$2,165.3 million during 2016. The Department issued total new debt in the amount of \$309.6 million consisting of revenue bonds to fund a portion of the ongoing capital improvement program and refunding revenue bonds. The 2016 bond issues were a combination of fixed and variable rate bonds. \$154.8 million in revenue bonds were refunded with lower interest rate debt.

Debt to capitalization ratio was 63.5% at the end of 2016, a favorable improvement from the 64.7% ratio of 2015.

Net revenues available to pay debt service were equal to 1.69 times principal and interest on all bonds for 2016.

Noncurrent Liabilities

2017 Compared to 2016 Total non-current liabilities decreased by \$24.0 million to \$409.6 million at the end of 2017.

Net Pension Liability decreased by a net \$29.0 million. The lower liability reflects the effect of certain Department information technology employees transferring to Seattle Information Technology Department (SIT) that occurred in May 2016. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental liabilities increased by a net \$3.7 million to \$85.8 million. Environmental liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

More information on environmental liabilities is found in Note 14 Environmental Liabilities of the accompanying financial statements.

The balance net increase of \$1.3 million was for nominal changes for post-employment benefits, estimated arbitrage liability for certain bonds, and other.

2016 Compared to 2015 Total non-current liabilities increased by \$92.1 million to \$433.6 million at the end of 2016.

Net Pension Liability increased by a net \$46.0 million and as noted earlier, primarily for losses related to differences between projected and actual investment earnings. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental liabilities increased by a net \$48.4 million to \$82.0 million. In 2016, an additional liability in the amount of \$45.0 million was recorded for the Department's estimated share of cleaning the East Waterway Superfund Site.

The balance net decrease of \$2.3 million was for nominal changes within risk management liabilities, a decrease in compensated absences as the long-term amount of restored furlough days to affected employees taken in 2010 were re-classified to current at the end of 2016, and other.

Current Liabilities

2017 Compared to 2016 Current liabilities increased by a net of \$14.2 million for a total of \$280.7 million at the end of 2017.

Current liability increases totaling \$26.8 million were due to several factors. Increases in customer deposits received for pole attachment projects, retail electric customer overpayments, and escrow retainage were a combined \$10.5 million. Debt service for bonds was higher by \$7.6 million. Balance net increase of \$8.7 million was for payroll, current environmental liabilities, taxes, and other.

Current liability decreases of \$12.6 million were for net decrease in vouchers payable for normal operations in the amount of \$7.3 million, downward adjustment of \$2.8 million primarily for unvouchered inventory received, compensated absences liability of \$1.1 million and for paid furlough days from 2016, power payables of \$1.0 million, and other of \$0.4 million.

2016 Compared to 2015 Current liabilities decreased by \$4.9 million for a total of \$266.5 million at the end of 2016.

Current liability decreases of \$8.3 million were for vouchers payable for normal operations, payment of \$7.8 million for Terminal 117 and Cedar Falls Bridge remediation environmental projects, lower interest due for bonds of \$2.6 million, and lower estimate for current compensated absences of \$1.1 million due in part to transfer of information technology staff to Seattle Information Technology Department in April 2016. These were offset by higher liabilities for principal on bonds of \$5.3 million, reclassification of customer overpayments to a liability at implementation of the new billing system of \$4.8 million, inventory payables of \$2.0 million, retainage of \$1.6 million, and other net of \$1.2 million for ongoing operations.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Other Liabilities

2017 Compared to 2016 Other liabilities decreased by \$0.9 million to \$36.3 million in 2017. Decrease in unearned revenue was the result of increased completions of large service connections offset by increased billings for large service connection projects in progress, both driven by the continued strong local economy.

2016 Compared to 2015 Other liabilities increased by \$7.5 million to \$37.2 million in 2016. The major increase was for unearned revenue for large service connections in progress due to the strong local economy.

Deferred Inflows of Resources

2017 Compared to 2016 Deferred inflows of resources increased by \$29.4 million for a total of \$123.6 million at the end of 2017.

In 2017, Deferred inflows related to pension liability increased by \$23.0 million to \$23.8 million and primarily for actuarially determined differences for the Department between employer contributions and proportionate share of contributions affected by the transfer of information technology employees to SIT.

The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization unearned revenue account and vice versa. The rate stabilization unearned revenue account increased a net \$2.3 million from 2016.

During 2017, the 1.5% surcharge on electric rates in effect since August 2016 contributed \$11.2 million, with an offset of \$10.3 million transferred to operating revenues for actual net wholesale revenues being lower than budget. \$1.4 million in interest income was also earned, adding to the unearned revenue account, and leaving an ending balance of \$68.4 million in the rate stabilization unearned revenue account. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other deferred inflows of resources increased by \$4.1 million to \$31.4 million. Again in 2017, the increase was mostly due to payments received from Bonneville in accordance with the Department's Energy Conservation Agreement plus increase for BPA Slice true up credit deferred at the end of 2017.

2016 Compared to 2015 Deferred inflows of resources increased by \$4.3 million for a total of \$94.2 million at the end of 2016.

During 2016 for RSA unearned revenue account, a 1.5% surcharge on electric rates was in effect since August that contributed \$4.4 million, with an offset of \$5.5 million transferred to operating revenues for actual net wholesale revenues being lower than budget. \$1.2 million in interest income was also earned, adding to the unearned revenue account, and leaving an ending balance of \$66.1 million in the rate stabilization unearned revenue account.

Other deferred inflows of resources increased by \$4.2 million to \$28.1 million. The increase was mostly due to payments received from Bonneville in accordance with the Department's Energy Conservation Agreement, net of earned revenue, offset by recognition of BPA Slice true up credit deferred at the end of 2015.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

RESULTS OF OPERATIONS

Condensed Statements of Revenues, Expenses, and Changes in Net Position

(\$ in millions)	Year Ended December 31		
	2017	2016	2015
Operating revenues	\$ 989.7	\$ 903.2	\$ 882.9
Nonoperating revenues	13.3	14.6	16.7
Total revenues	<u>1,003.0</u>	<u>917.8</u>	<u>899.6</u>
Operating expenses	852.5	795.8	772.0
Nonoperating expenses	75.4	75.1	76.5
Total expenses	<u>927.9</u>	<u>870.9</u>	<u>848.5</u>
Income before capital contributions and grants	<u>75.1</u>	<u>46.9</u>	<u>51.1</u>
Capital contributions	45.1	37.9	39.0
Capital grants	0.2	0.5	0.4
Total capital contributions and grants	<u>45.3</u>	<u>38.4</u>	<u>39.4</u>
Change in net position	<u>\$ 120.4</u>	<u>\$ 85.3</u>	<u>\$ 90.5</u>

SUMMARY

2017 Compared to 2016 Change in net position for 2017 was \$120.4 million, an increase of \$35.1 million or 41.1% from 2016 change in net position of \$85.3 million. Higher retail electric sales attributable to rate increases, including for the 1.5% rate surcharge, and capital contributions were offset by lower net Short-term wholesale power revenues and higher long-term purchased power, bad debt, administrative & general, taxes, and depreciation.

2016 Compared to 2015 Change in net position for 2016 was \$85.3 million, a decrease of \$5.2 million or 5.7% from 2015 change in net position of \$90.5 million. Higher retail electric sales attributable to rate increases, including for the 1.5% rate surcharge, and higher net Short-term wholesale power revenues were offset by lower transfers from/(to) RSA. Further offsets were for higher non-power operations and maintenance expenses due to retro pay and COLA labor costs, and for the increase in pension expense.

REVENUES

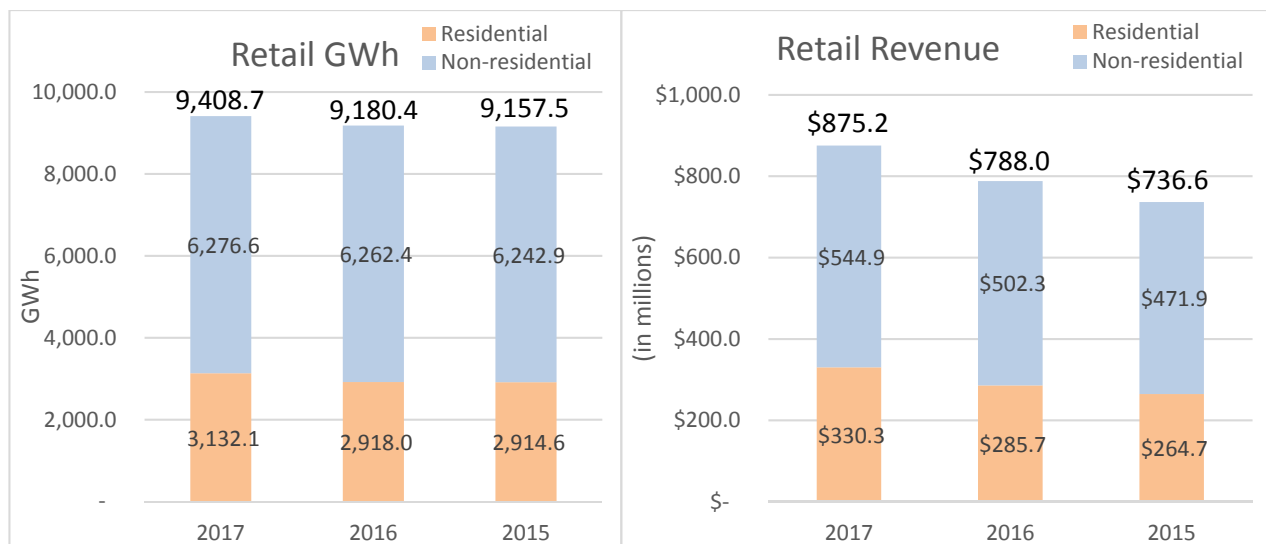
2017 Compared to 2016 Total operating revenues were \$989.7 million, an increase of \$86.5 million or 9.6% from 2016. Retail power revenues at \$875.2 million increased \$87.2 million, Short-term wholesale power revenues at \$60.9 million decreased \$2.0 million, Other power-related revenues at \$35.8 million increased \$3.2 million, Transfers from/(to) RSA at (\$2.3) million decreased \$2.2 million, and Other operating revenues at \$20.1 million increased \$0.3 million.

Retail power revenues were higher due to the 5.6% across-the-board rate increase effective January 1, 2017, and the RSA rate surcharge, in effect since August 1, 2016. Higher consumption due to the colder weather during the first two months of the year was another element contributing to the higher revenues. Transactions

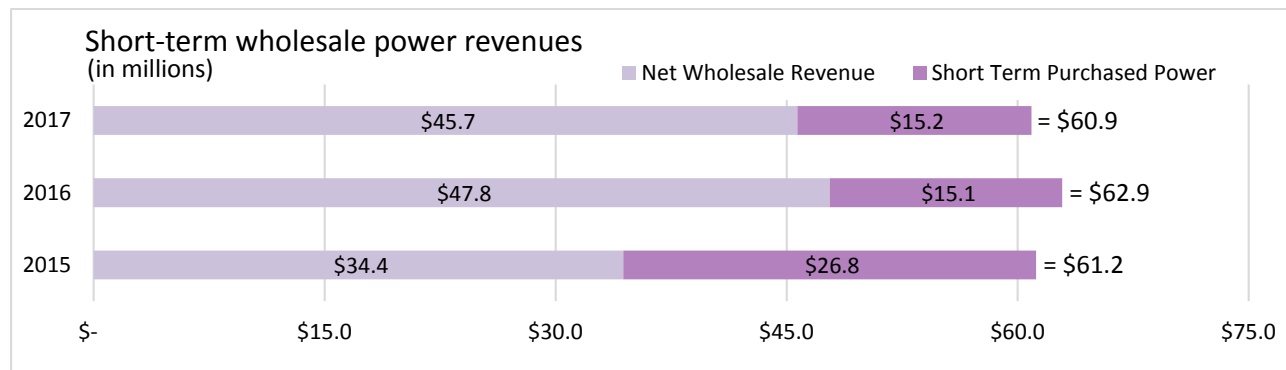
THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

within Transfers from/(to) rate stabilization account are affected in part by actual net wholesale power revenues compared to budget. In 2017, actual net wholesale power revenues were lower than budget by \$10.3 million and this amount was transferred from the rate stabilization unearned revenue account. This was offset by the RSA rate surcharge revenues of \$11.2 million and interest earnings of \$1.4 million for a net (\$2.3) million transferred to the rate stabilization unearned revenue account. In 2016, net transfers to rate stabilization unearned revenue account were (\$0.1), the result of comparable transactions with different amounts and hence, an overall decrease of \$2.2 million between years.



Net Short-term wholesale power revenues were \$45.7 million, a decrease of \$2.1 million or 4.4% from net Short-term wholesale power revenues of \$47.8 million in 2016. Net Short-term wholesale power revenues represent revenue received from the sale of power generated in excess of system sales and other obligations. Net short-term wholesale power revenues fluctuate with changes in water conditions, retail sales and economic factors such as the price of natural gas. The decrease from 2016 was primarily due to lower net energy sales volume affected somewhat by higher average wholesale power prices. Other net power-related revenues, including valuation of energy exchange revenues increased by a net \$2.3 million due in part to additional ancillary contracts in 2017.



2016 Compared to 2015 Total operating revenues were \$903.2 million, an increase of \$20.3 million or 2.3% from 2015. Retail power revenues at \$788.0 million increased \$51.4 million, Short-term wholesale power revenues at \$62.9 million increased \$1.7 million, Other power-related revenues at \$32.6 million decreased \$4.2

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

million, Transfers from/(to) RSA at (\$.01) million decreased \$23.5 million, and Other operating revenues at \$19.8 million decreased \$5.1 million.

Retail power revenues were higher due to the 4.9% across-the-board rate increase effective January 1, 2016, the 0.9% Bonneville pass-through rate adjustment effective in October 2015, and the RSA rate surcharge, effective August 1, 2016 even with lower consumption from another year with overall warmer weather. Transactions within Transfers from/(to) rate stabilization account are affected in part by actual net wholesale power revenues compared to budget. In 2016, actual net wholesale power revenues were lower than budget by \$5.5 million and this amount was transferred from the rate stabilization unearned revenue account. This was offset by the RSA rate surcharge revenues of \$4.4 million and interest earnings of \$1.2 million for a net (\$0.1) million transferred to the rate stabilization unearned revenue account. In 2015, actual net wholesale power revenues were lower than budget and \$23.4 million net was transferred to operating revenues. The net effect to the Transfers from/(to) RSA between years was a decrease of \$23.5 million. Other operating revenues declined for damage billings of \$1.9 million, salvage sales of \$1.6 million, and new retail billing system interest charges of \$0.6 million, and were offset by other net increases of \$1.0 million.

Net Short-term wholesale power revenues were \$47.8 million, an increase of \$13.4 million or 39.0% from net Short-term wholesale power revenues of \$34.4 million in 2015. Average wholesale power prices were again lower in 2016 because of the low natural gas prices. Other net power-related revenues, including valuation of energy exchange revenues were lower by a net \$2.9 million due to lower average wholesale power prices.

EXPENSES

2017 Compared to 2016 Operating expenses totaled \$852.5 million, an increase of \$56.7 million or 7.1% from \$795.8 million in 2016.

Power-related operating expenses at \$357.9 million were higher by \$9.4 million or 2.7%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$224.8 million, which increased \$5.0 million, Short-term wholesale power purchases of \$15.2 million, which increased \$0.1 million, Other power expenses of \$65.4 million, which increased \$5.3 million, and Transmission of \$52.5 million, which decreased \$1.0 million.

Bonneville costs increased largely because of changing to Block power purchases only, effective October 2017, and thereby reducing Slice power purchases. A lower Bonneville Slice true-up credit also added to the higher Bonneville costs. These were offset by lower other Long-term purchased power costs primarily for less renewable wind energy due to weather dependency. Other power expenses increased because of higher operating costs, including for an abandoned plan to replace the AC/DC electrical supply system at the Skagit Ross Dam. Other power related variances were minimal for normal operations.

Non-power operating expenses increased by \$29.7 million to \$271.0 million or 29.7% from \$241.3 million in 2016. These expenses included Distribution expenses of \$60.4 million, which decreased \$3.1 million, Customer service of \$49.4 million, which increased \$6.8 million, Conservation of \$32.5 million, which increased \$2.3 million, and Administrative and general (A&G), net, of \$128.7 million which increased \$23.7 million.

Distribution expenses were lower in several categories including for underground system network maintenance, contracting and support services, fewer wireless antenna upgrades, lower street lighting maintenance due to use of LEDs, and other. Customer service expenses continued to be driven primarily by higher bad debt expense

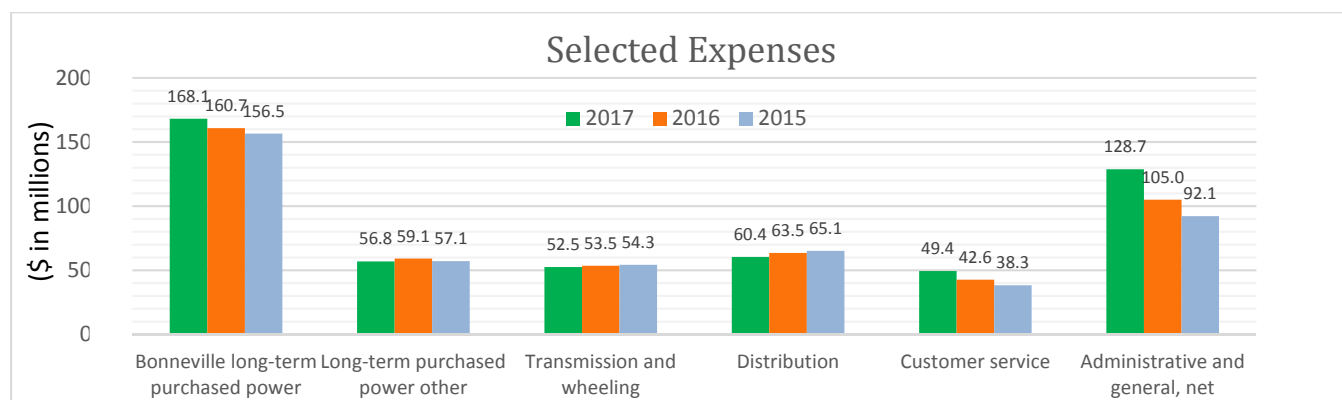
THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

for retail electric sales because of higher balances in aged receivables, as these accounts are processed through collection.

Administrative and general, net, were significantly higher for SIT expenses as these billings were consolidated within A&G. In prior years, technology expenses were recorded throughout capital and operations projects (total SIT costs for 2017 and 2016 were comparable). Other increases were for COLA salary adjustments, general year-end estimated accruals, and compensated absences. These were offset by lower general plant maintenance, lower pension and benefits from the transfer of staff to SIT, industrial insurance, and other.

Taxes at \$94.8 million increased by \$9.6 million because of the higher revenues. Depreciation and amortization at \$128.8 million increased by \$8.0 million generally due to additional plant assets placed in service, including for the retail power billing system implemented in 4th quarter 2016.



2016 Compared to 2015 Operating expenses totaled \$795.8 million, an increase of \$23.8 million or 3.1% from \$772.0 million in 2015.

Power-related operating expenses at \$348.5 million were lower by \$5.8 million or 1.6%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$219.8 million, which increased \$6.2 million, Short-term wholesale power purchases of \$15.1 million, which decreased \$11.7 million, Other power expenses of \$60.1 million, which increased \$0.5 million, and Transmission of \$53.5 million, which decreased \$0.8 million.

Short-term wholesale power purchases were lower because additional power generated during 2016 was used to meet the Department's load, and lower wholesale prices also affected wholesale power purchased. Bonneville purchased power was higher due to an increase in the Slice product of which the Department's share is 3.63% of Bonneville's total system costs. Stateline wind generation power costs were higher during 2016 due to increased generation, and subject to weather dependency. Other power related variances were minimal and part of normal operations.

Non-power operating expenses increased by \$16.7 million to \$241.3 million or 7.4% from \$224.6 million in 2015. These expenses included Distribution expenses of \$63.5 million, which decreased \$1.6 million, Customer service of \$42.6 million, which increased \$4.3 million, Conservation of \$30.2 million, which increased \$1.1 million, and Administrative and general, net, of \$105.0 million which increased \$12.9 million.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Customer service expenses were driven higher by bad debt expense for retail electric sales due to clean-up of accounts in arrears as part of the conversion process to the new retail billing system. Retro pay and COLA salary adjustments also contributed to the higher Customer service expenses.

The 2016 GASB Statement No. 68 adjustment increased pension expenses by \$9.2 million within Administrative and general, net. Other increases were for salaries and benefits due to retro pay and COLA salary adjustments; and injuries and damages expenses based on the most recent actuarial report; and other. These were offset by lower legal costs as an ongoing power related case from the 2001 energy crises was settled, compensated absences, and other.

Taxes at \$85.2 million increased by \$4.1 million because of the higher revenues. Depreciation and amortization at \$120.8 million increased by \$8.8 million generally due to additional plant assets placed in service.

NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

2017 Compared to 2016 Nonoperating revenues decreased by \$1.3 million to \$13.3 million in 2017. There was no Washington State Department of Ecology grant reimbursement received in 2017 compared to the prior year. This was offset by higher unrealized gains on pooled investments due to favorable investment market performance, higher interest earnings from bond proceeds for two bond issues, and higher surplus property sales.

Nonoperating expenses at \$75.4 million were slightly higher by \$0.3 million. Higher interest on greater average balance of bonds outstanding in 2017 along with higher refunding loss amortization were offset by increased interest charged to construction projects and bond premium amortization.

Capital contributions and grants increased by \$6.9 million to \$45.3 million in 2017. The increase was due for the most part to an increase in new amperage fees charged to large service connections and service work charged to telecommunications companies.

2016 Compared to 2015 Nonoperating revenues decreased by \$2.1 million to \$14.6 million in 2016. There was no FEMA non-capital grant revenue related to a fire near one of the Department's generating facilities as occurred in 2015. Lower sales of property were offset by higher CREB bonds interest subsidies from the U.S. Treasury Department.

Nonoperating expenses were slightly lower by \$1.4 million to \$75.1 million. Higher bond premium amortization and interest for construction projects were offset by an increase in bond refunding loss amortization and interest on higher average bonds outstanding throughout the year.

Capital contributions and grants decreased by \$1.0 million to \$38.4 million in 2016, the net of higher service connections for larger construction projects during 2016 on the heels of a strong local economy; and no recurring energization of underground electrical infrastructure for a local suburban jurisdiction as transpired in 2015.

RISK MANAGEMENT

The Department began implementing an Enterprise-wide Risk Management (ERM) process in 2008 to establish a full spectrum approach to risk management that links important decision-making functions through a standardized process of identifying, assessing, monitoring, and mitigating risks across all Business Units and Divisions of the Department.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Chief Financial Officer (Chair/Voting), Power Supply Officer (Voting), Director of Risk Oversight (Voting), Director of Power Management (non-Voting), Director of Power Contracts, Regional Affairs & Strategic Planning (non-Voting), and Director of Finance (non-Voting). ROC guides the continuous improvement of energy risk management activities and capabilities, approves hedging strategies, hedging plans, and approves changes to relevant operating procedures.

The Risk Oversight Division, in addition to the ERM, manages the market and credit risk related to all wholesale marketing activities, and carries out the middle office functions of the Department. This includes confirmations, risk controls, deal review & valuations, independent reporting of market positions, counterparty credit risk, risk modeling, model validations, settlements, and ensuring adherence to Wholesale Energy Risk Management (WERM) policy and procedures.

Hydro Risk

Due to the Department's primary reliance on hydroelectric generation, weather can significantly affect its operations. Hydroelectric generation depends on the amount of snow-pack in the mountains upstream of the Department's hydroelectric facilities, springtime snow-melt, run-off and rainfall. Hydroelectric operations are also influenced by flood control and environmental matters, including protection of fish. In low-water years, the Department's generation is reduced, and the use of wholesale purchased power may increase in order to meet load. Normally, the Department experiences electricity usage peaks in winter; however, extreme weather conditions affecting either heating or cooling needs could cause the Department's seasonal fluctuations to be more pronounced and increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and change or increase costs.

Energy Market Risk

For the Department, energy market risk is the risk of adverse fluctuations in the price of wholesale electricity, which is compounded by volumetric changes affecting the availability of, or demand for electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department's exposure to hydro volumetric and energy market risk is managed by the ROC and the approved strategies are executed by the Power Management Division. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources.

With significant portion of the Department's revenue expected from wholesale energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

The Department measures the risk in its energy portfolio using a model that utilizes historical simulation methodology and incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Scenario analysis is used for stress testing.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance by a counterparty of their contractual obligations. If a counterparty failed to perform on its contractual obligation to deliver electricity, then the Department may find it necessary to procure electricity at current market prices, which may be higher than the contract price. If a counterparty failed to pay its obligation in a timely manner, this would have an impact on the Department's revenue and cash flow. As with market risk, the Department has policies governing the management of credit risk.

Wholesale counterparties are assigned credit limits based on publicly available and proprietary financial information. Along with ratings provided by national ratings agencies, an internal credit scoring model is used to classify counterparties into one of several categories with permissible ranges of credit limits. Specific counterparty credit limits are set within this prescribed range based on qualitative and quantitative factors. Credit limits are also used to manage counterparty concentration risk. The Department actively strives to reduce concentration of credit risk related to geographic location of counterparties as it only transacts in the western energy markets. This geographic concentration of counterparties may impact the Department's overall credit exposure, because counterparties may be affected by similar conditions.

Credit limits, exposures and credit quality are actively monitored daily. Despite such efforts, there is potential for default, however the Department has not faced a counterparty default in nearly 15 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

REQUESTS FOR INFORMATION

For more information about Seattle City Light, contact Marketing and Communications at 206-684-3090 or at P.O. Box 34023, Seattle, WA 98124-4023.

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2017 AND 2016

(\$ in millions)	2017	2016
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	\$ 4,593.2	\$ 4,410.3
Less accumulated depreciation and amortization	<u>(1,823.4)</u>	<u>(1,735.3)</u>
Total plant-in-service—net	2,769.8	2,675.0
Construction work-in-progress	589.3	392.5
Nonoperating property—net of accumulated depreciation	14.7	12.7
Assets held for future use	59.1	59.5
Land and land rights	<u>76.6</u>	<u>75.0</u>
Total utility plant—net	<u>3,509.5</u>	<u>3,214.7</u>
RESTRICTED ASSETS:		
Rate stabilization account	93.4	91.1
Municipal light and power bond reserve account	103.6	87.0
Construction account	36.8	28.4
Special deposits and other restricted assets	<u>18.6</u>	<u>15.5</u>
Total restricted assets	<u>252.4</u>	<u>222.0</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	129.1	72.9
Accounts receivable (includes \$1.6 and \$2.1 at fair value), net of allowance of \$10.7 and \$8.4	88.8	92.7
Interfund receivables	2.3	5.1
Unbilled revenues	89.4	76.6
Materials and supplies at average cost	33.6	36.0
Prepayments and other current assets	<u>0.4</u>	<u>3.2</u>
Total current assets	<u>343.6</u>	<u>286.5</u>
OTHER ASSETS:		
Conservation costs—net	262.2	252.4
Environmental costs—net	93.1	83.1
Other charges and assets—net	<u>61.5</u>	<u>60.7</u>
Total other assets	<u>416.8</u>	<u>396.2</u>
TOTAL ASSETS	<u>4,522.3</u>	<u>4,119.4</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unrealized contributions and losses related to Pension	46.9	64.6
Charges on advance refunding	<u>36.3</u>	<u>30.3</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>83.2</u>	<u>94.9</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,605.5</u>	<u>\$ 4,214.3</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION AS OF DECEMBER 31, 2017 AND 2016

<i>(\$ in millions)</i>	2017	2016
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$ 2,345.5	\$ 2,118.1
Plus bond premium—net	190.7	158.4
Less revenue bonds—current portion	<u>(118.8)</u>	<u>(111.2)</u>
Total long-term debt	<u>2,417.4</u>	<u>2,165.3</u>
NONCURRENT LIABILITIES:		
Net pension liability	288.8	317.8
Accumulated provision for injuries and damages	96.1	92.0
Compensated absences	15.7	15.8
Other noncurrent liabilities	<u>9.0</u>	<u>8.0</u>
Total noncurrent liabilities	<u>409.6</u>	<u>433.6</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	102.1	99.5
Interfund payables	12.0	11.1
Accrued payroll and related taxes	15.3	10.8
Compensated absences	1.5	2.5
Accrued interest	31.0	31.4
Long-term debt—current portion	<u>118.8</u>	<u>111.2</u>
Total current liabilities	<u>280.7</u>	<u>266.5</u>
OTHER LIABILITIES	<u>36.3</u>	<u>37.2</u>
TOTAL LIABILITIES	<u>3,144.0</u>	<u>2,902.6</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization unearned revenue	68.4	66.1
Unrealized gains related to pension	23.8	0.8
Other deferred inflows of resources (includes \$1.2 and \$0.6 at fair value)	<u>31.4</u>	<u>27.3</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>123.6</u>	<u>94.2</u>
NET POSITION		
Net investment in capital assets	1,382.8	1,310.5
Restricted:		
Rate stabilization account	<u>25.0</u>	<u>25.0</u>
Total restricted	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>(69.9)</u>	<u>(118.0)</u>
Total net position	<u>1,337.9</u>	<u>1,217.5</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 4,605.5</u>	<u>\$ 4,214.3</u>

See notes to financial statements.

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<i>(\$ in millions)</i>	2017	2016
OPERATING REVENUES:		
Retail power revenues	\$ 875.2	\$ 788.0
Short-term wholesale power revenues	60.9	62.9
Other power-related revenues	35.8	32.6
Transfers from/(to) rate stabilization account	(2.3)	(0.1)
Other operating revenues	<u>20.1</u>	<u>19.8</u>
Total operating revenues	<u>989.7</u>	<u>903.2</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville and other	224.8	219.8
Short-term wholesale power purchases	15.2	15.1
Other power expenses	65.4	60.1
Transmission	52.5	53.5
Distribution	60.4	63.5
Customer service	49.4	42.6
Conservation	32.5	30.2
Administrative and general	128.7	105.0
Taxes	94.8	85.2
Depreciation and amortization	<u>128.8</u>	<u>120.8</u>
Total operating expenses	<u>852.5</u>	<u>795.8</u>
OPERATING INCOME	<u>137.2</u>	<u>107.4</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)—net	13.3	14.6
Interest expense		
Interest expense—net	(86.6)	(85.8)
Amortization of bond costs—net	<u>11.2</u>	<u>10.7</u>
Total interest expense	<u>(75.4)</u>	<u>(75.1)</u>
Total nonoperating expenses	<u>(62.1)</u>	<u>(60.5)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>75.1</u>	<u>46.9</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	45.1	37.9
Capital grants	<u>0.2</u>	<u>0.5</u>
Total capital contributions and grants	<u>45.3</u>	<u>38.4</u>
CHANGE IN NET POSITION	120.4	85.3
NET POSITION:		
Beginning of year	<u>1,217.5</u>	<u>1,132.2</u>
End of year	<u>\$ 1,337.9</u>	<u>\$ 1,217.5</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<i>(\$ in millions)</i>	2017	2016
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 957.2	\$ 869.9
Cash paid to suppliers and counterparties	(327.2)	(322.7)
Cash paid to employees	(165.2)	(181.0)
Taxes paid	<u>(92.9)</u>	<u>(86.9)</u>
Net cash provided by operating activities	<u>371.9</u>	<u>279.3</u>
NONCAPITAL FINANCING ACTIVITIES:		
Interfund operating cash received	2.0	1.9
Interfund operating cash paid	(30.2)	(30.4)
Principal paid on long-term debt	(8.6)	(10.4)
Interest paid on long-term debt	(8.2)	(9.1)
Noncapital grants received	(0.3)	2.5
Bonneville receipts for conservation	5.2	9.4
Payment to vendors on behalf of customers for conservation	<u>(31.8)</u>	<u>(32.2)</u>
Net cash used in noncapital financing activities	<u>(71.9)</u>	<u>(68.3)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	485.5	309.6
Proceeds from long-term debt premiums	54.8	50.7
Payment to trustee for defeased bonds	(163.6)	(178.8)
Bond issue costs paid	(1.5)	(1.4)
Principal paid on long-term debt	(104.4)	(97.1)
Interest paid on long-term debt	(88.1)	(85.5)
Acquisition and construction of capital assets	(418.1)	(348.2)
Interfund payments for acquisition and construction of capital assets	(28.9)	(26.2)
Capital contributions	37.4	38.9
Interfund receipts for capital contributions	1.5	0.6
Capital grants received/(paid)	3.2	(2.0)
Interest received for suburban infrastructure improvements	2.3	2.5
Proceeds on sale of property	0.8	0.4
(Increase) Decrease in other assets	<u>0.9</u>	<u>(0.8)</u>
Net cash used in capital and related financing activities	<u>(218.2)</u>	<u>(337.3)</u>
INVESTING ACTIVITIES:		
Interest received on cash and equity in pooled investments	<u>4.8</u>	<u>3.6</u>
Net cash provided by investing activities	<u>4.8</u>	<u>3.6</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	86.6	(122.7)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>294.9</u>	<u>417.6</u>
End of year	<u>\$ 381.5</u>	<u>\$ 294.9</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<i>(\$ in millions)</i>	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 137.2	\$ 107.4
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	136.1	127.3
Amortization of other liabilities	(1.5)	(1.1)
Amortization of other assets	55.8	56.2
Bad debt expense	14.6	7.0
Power revenues	(31.5)	(28.5)
Power expenses	30.6	28.7
Provision for injuries and damages	(0.4)	(1.6)
Other non-cash items	19.9	21.3
Change in:		
Accounts receivable	(6.4)	(24.0)
Unbilled revenues	(12.8)	(6.1)
Materials and supplies	8.1	(3.1)
Prepayments, interest receivable, and other receivables	4.8	(1.9)
Other assets	(1.9)	6.1
Provision for injuries and damages and claims payable	(5.5)	(1.1)
Accounts payable and other payables	22.5	(7.4)
Rate stabilization unearned revenue	2.3	0.1
Total adjustments	<u>234.7</u>	<u>171.9</u>
Net cash provided by operating activities	<u>\$ 371.9</u>	<u>\$ 279.3</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 0.5	\$ 1.5
Amortization of debt related costs—net	11.2	10.7
Allowance for funds used during construction	12.0	10.2
Power exchange revenues	15.0	15.8
Power exchange expenses	(15.0)	(15.8)
Power revenue netted against power expenses	5.4	6.6
Power expense netted against power revenues	(9.8)	(5.9)

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 454,500 residential, commercial, and public customers in the city of Seattle. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues for services provided to other City departments were \$17.9 million and \$20.1 million in 2017 and 2016, respectively, and \$2.9 million and \$2.4 million for non-energy services, respectively.

The Department receives certain services from other City departments and paid \$108.0 million in 2017 and \$86.6 million in 2016, for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, administrative, information technology and building rentals, including for the Department's administrative offices.

The Department's receivables from other City departments totaled \$2.3 million and \$5.1 million at December 31, 2017, and 2016, respectively. The Department's payables to other City departments totaled \$12.0 million and \$11.1 million at December 31, 2017, and 2016, respectively. The balances receivable and payable are the result of transactions incurred in the normal course of operations.

Basis of Presentation and Accounting Standards—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2017 with all applicable GASB pronouncements.

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replacing the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. Statement No. 75 will be effective for the Department in 2018 and the Department is currently evaluating the impact that adoption of this statement will have on its financial statements.

The GASB has issued Statement No. 85, *Omnibus 2017*, which addresses topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

benefits. Statement No. 85 will be effective for the department in 2018 and the Department is currently evaluating the impact that adoption of this statement may have on its financial statements.

The GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable asset retirement obligations and requires that recognition occur when the liability is both incurred and reasonably estimable. This standard will be adopted by the Department in 2019. The effect of this Statement on the Department's financial statements has not yet been determined.

The GASB has issued Statement No. 84, *Fiduciary Assets*, which improves guidance regarding the identification of fiduciary assets, including pension plans and other postemployment benefits, for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 will be effective for the Department in 2019 and the Department is currently evaluating the impact the adoption of this statement will have on its financial statements.

The GASB has issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 87 will be effective for the department in 2020 and the Department is currently evaluating the impact the adoption of this statement will have on its financial statements.

Fair Value Measurements—Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2017 and 2016, are as noted in Note 2 Fair Value Measurement, Note 5 Cash and Equity in Pooled Investments and Investments, Note 6 Accounts Receivable and Note 18 Long-Term Purchased Power, Exchanges, and Transmission.

Fair Value of Financial Instruments—The Department's financial instruments reported on the balance sheets at December 31, 2017 and 2016, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department's share of the City-wide pool of investments (see Note 5 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. Long-term debt at December 31, 2017 and 2016, is disclosed at fair value (see Note 9 Long-Term Debt).

Net Position—The Department classifies its net position into three components as follows:

- **Net investment in capital assets**—This component consists of capital assets, net of accumulated depreciation and amortization, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.
- **Restricted**—This component consists of net position with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.
- **Unrestricted**—This component consists of assets and liabilities that do not meet the definition of Net investment in capital assets or Restricted.

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Restricted and Unrestricted Net Position—The Department’s policy is to use restricted net position for specified purposes and to use unrestricted net position for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted net position is available.

Assets Held for Future Use—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2017, and 2016, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, transmission lines, and plans for additional hydraulic generating capacity totaling \$59.1 million and \$59.5 million, respectively.

Materials and Supplies—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued utilizing the average cost method and charged to construction or expense when used.

Revenue Recognition—Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements as unbilled revenue within Retail power revenues.

The Department’s customer base accounted for electric energy sales at December 31, 2017 and 2016, as follows:

	2017	2016
Residential	37.7 %	36.3 %
Nonresidential	<u>62.3 %</u>	<u>63.7 %</u>
Total	100.0 %	100.0 %

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of change in net position. Investment income, nonexchange transactions, and other revenues are considered Nonoperating revenues.

Expense Recognition—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered Nonoperating expenses.

Administrative and General Overhead Costs Applied—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$50.1 million and \$51.4 million in 2017 and 2016, respectively. Pension and benefit costs applied were \$57.1 million and \$59.9 million in 2017 and 2016, respectively. Administrative and general expenses, net of total applied overhead, were \$128.7 million and \$105.0 million in 2017 and 2016, respectively.

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Interest Charged to Construction—Interest is charged for funds used during construction of plant assets and to non-billable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department’s weighted-average interest rate for all bonds outstanding, the majority of which are tax exempt, and is revised when new bonds are issued and at the end of the year. Interest charged to construction totaled \$12.0 million and \$10.2 million in 2017 and 2016, respectively, and is reflected as a reduction of Interest expense in the statements of revenues, expenses, and changes in net position.

Nonexchange Transactions—Capital contributions and grants in the amount of \$45.3 million and \$38.4 million for 2017 and 2016, respectively, and noncapital grants in the amount of -\$0.3 million and \$2.5 million for 2017 and 2016, respectively, are reported in the statements of revenues, expenses, and changes in net position as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized at estimated acquisition value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

Compensated Absences—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA) receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third-party administrator, Meritain Health. HRA investments are managed by HRA Voluntary Employee Beneficiary Association (VEBA) Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

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. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers’ compensation, environmental liabilities, accrued sick leave, net pension liability, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

Significant Risk and Uncertainty—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; local and federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

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2. FAIR VALUE MEASUREMENT

The Department records certain assets, liabilities and deferred inflows of resources in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The Department uses the market approach for the valuation of pooled investments, a combination of the market and income approaches for the valuation of the undelivered forward portion of energy exchanges and other nonmonetary transactions, and the market approach for the valuation of long-term debt.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

The valuation methods of the fair value measurements are disclosed as noted below.

Cash resources of the Department are combined with cash resources of the City to form a pool of cash and investments that is managed by the City's Department of Finance and Administrative Services (FAS). The City records pooled investments at fair value based on quoted market prices.

The Department obtained the lowest level of observable input of the fair value measurement of energy exchanges and other non-monetary transactions in its entirety from subscription services or other independent parties. The observable inputs for the settled portion of the energy exchange contracts are Dow Jones price indices. The observable inputs for the undelivered forward portion of energy exchanges and other non-monetary transactions are Kiodex forward curves and present value factors based on the interest rate for Treasury constant maturities, bond-equivalent yields.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department's assessment of the significance of a particular

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input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

The Department had no assets or liabilities that met the criteria for Level 3 at December 31, 2017 and 2016. The following fair value hierarchy table presents information about the Department's assets, liabilities, and deferred inflows of resources reported at fair value on a recurring basis or disclosed at fair value as of December 31, 2017 and 2016:

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(\$ in millions)

2017	Level 1	Level 2	Total
Assets			
Fair value investments (16.3% of City pool)			
Bank note	\$ -	\$ 7.8	\$ 7.8
Commercial paper	-	41.0	41.0
Municipal bonds	-	59.7	59.7
Repurchase agreements	22.6	-	22.6
U.S. government agency mortgage-backed securities	-	39.7	39.7
U.S. government agency securities	-	113.1	113.1
U.S. treasury & U.S. government-backed securities	75.5	2.0	77.5
Washington State Local Government Investment Pool	-	19.7	19.7
Total fair value investments (16.3% of City pool)	<u>98.1</u>	<u>283.0</u>	<u>381.1</u>
Exchange energy receivable	<u>-</u>	<u>1.6</u>	<u>1.6</u>
Total Assets at fair value	<u>\$ 98.1</u>	<u>\$ 284.6</u>	<u>\$ 382.7</u>
Deferred Inflows of Resources			
Exchange energy regulatory deferred gains	<u>\$ -</u>	<u>\$ 0.8</u>	<u>\$ 0.8</u>

(\$ in millions)

2016	Level 1	Level 2	Total
Assets			
Fair value investments (16.9% of City pool)			
Bank note	\$ -	\$ 8.1	\$ 8.1
Commercial paper	-	34.6	34.6
Municipal bonds	-	51.8	51.8
Repurchase agreements	8.5	-	8.5
U.S. government agency mortgage-backed securities	-	44.2	44.2
U.S. government agency securities	-	93.6	93.6
U.S. treasury & U.S. government-backed securities	46.5	2.1	48.6
Washington State Local Government Investment Pool	-	7.7	7.7
Total fair value investments (16.9% of City pool)	<u>55.0</u>	<u>242.1</u>	<u>297.1</u>
Exchange energy receivable	<u>-</u>	<u>2.1</u>	<u>2.1</u>
Total Assets at fair value	<u>\$ 55.0</u>	<u>\$ 244.2</u>	<u>\$ 299.2</u>
Deferred Inflows of Resources			
Exchange energy regulatory deferred gains	<u>\$ -</u>	<u>\$ 1.2</u>	<u>\$ 1.2</u>

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3. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold for tangible assets was \$5,000, and for intangible assets, \$500,000 in 2017 and 2016. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and capital grants totaled \$45.3 million in 2017 and \$38.4 million in 2016. The Department uses a straight-line composite method of depreciation and amortization and, therefore, groups assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 50 years. Effective with the implementation of a new fixed asset system January 1, 2017, the Department changed from a half-year convention method of depreciation to an actual month method, on the assumption that additions and replacements are placed in service at mid-year. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.8% in 2017 and 2.7% in 2016. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments are capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives.

Intangible assets are those that lack physical substance, are nonfinancial in nature, and have useful lives extending beyond a single reporting period. The Department's intangible assets are reported as capital assets under Utility Plant. The Department's intangible assets consist of easements, purchased and internally developed software, transmission rights, capitalized relicensing costs for Skagit and Boundary hydroelectric projects, Tolt hydroelectric project mitigation costs, and costs capitalized under the High Ross Agreement.

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Utility plant-in-service at original cost, including land at December 31, 2017, and 2016, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2017						
<i>(\$ in millions)</i>						
Utility Plant-in-service - At original cost:						
Plant-in-service, excluding Land:						
1/1/2017 Balance	\$ 847.0	\$ 242.2	\$ 2,408.9	\$ 368.4	\$ 543.8	\$ 4,410.3
Acquisitions	22.9	27.1	110.8	28.1	34.1	223.0
Dispositions	(6.3)	(2.7)	(24.2)	(12.1)	-	(45.3)
Transfers and adjustments	-	-	5.2	-	-	5.2
	<u>863.6</u>	<u>266.6</u>	<u>2,500.7</u>	<u>384.4</u>	<u>577.9</u>	<u>4,593.2</u>
Accumulated depreciation and amortization:						
1/1/2017 Balance	\$ 361.0	\$ 85.2	\$ 881.5	\$ 230.6	\$ 177.0	\$ 1,735.3
Increase in accumulated depreciation and amortization	16.7	5.8	73.8	18.2	24.6	139.1
Retirements	(7.3)	(3.8)	(27.8)	(12.1)	-	(51.0)
Transfers and adjustments	-	-	-	(1.1)	1.1	-
	<u>370.4</u>	<u>87.2</u>	<u>927.5</u>	<u>235.6</u>	<u>202.7</u>	<u>1,823.4</u>
Sub Total Plant-in-service - Net, excluding Land:	<u>\$ 493.2</u>	<u>\$ 179.4</u>	<u>\$ 1,573.2</u>	<u>\$ 148.8</u>	<u>\$ 375.2</u>	<u>\$ 2,769.8</u>
Land and land rights:						
1/1/2017 Balance	\$ 52.0	\$ 3.0	\$ 13.4	\$ 6.6	\$ -	\$ 75.0
Acquisitions	0.7	-	-	-	-	0.7
Dispositions	-	-	-	-	-	-
Transfers and adjustments	0.9	-	-	-	-	0.9
	<u>53.6</u>	<u>3.0</u>	<u>13.4</u>	<u>6.6</u>	<u>-</u>	<u>76.6</u>
Total Plant-in-service - Net, including Land:	<u>\$ 546.8</u>	<u>\$ 182.4</u>	<u>\$ 1,586.6</u>	<u>\$ 155.4</u>	<u>\$ 375.2</u>	<u>\$ 2,846.4</u>

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	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2016						
<i>(\$ in millions)</i>						
Utility Plant-in-service - At original cost:						
Plant-in-service, excluding Land:						
1/1/2016 Balance	\$ 821.1	\$ 230.9	\$ 2,295.6	\$ 338.5	\$ 482.1	\$ 4,168.2
Acquisitions	27.8	13.9	133.6	30.7	96.1	302.1
Dispositions	(1.9)	(2.6)	(20.3)	(0.8)	(34.4)	(60.0)
Transfers and adjustments	-	-	-	-	-	-
12/31/2016 Balance	<u>847.0</u>	<u>242.2</u>	<u>2,408.9</u>	<u>368.4</u>	<u>543.8</u>	<u>4,410.3</u>
Accumulated depreciation and amortization:						
1/1/2016 Balance	347.7	82.5	836.0	214.3	191.3	1,671.8
Increase in accumulated depreciation and amortization	16.2	5.4	71.1	17.4	17.6	127.7
Retirements	(2.9)	(2.7)	(25.6)	(1.1)	(34.4)	(66.7)
PY Adjustments	-	-	-	-	2.5	2.5
12/31/2016 Balance	<u>361.0</u>	<u>85.2</u>	<u>881.5</u>	<u>230.6</u>	<u>177.0</u>	<u>1,735.3</u>
Sub Total Plant-in-service - Net: excluding Land:	<u>\$ 486.0</u>	<u>\$ 157.0</u>	<u>\$ 1,527.4</u>	<u>\$ 137.8</u>	<u>\$ 366.8</u>	<u>\$ 2,675.0</u>
Land and land rights:						
1/1/2016 Balance	\$ 50.6	\$ 3.0	\$ 13.4	\$ 5.7	\$ -	\$ 72.7
Acquisitions	0.6	-	-	0.9	-	1.5
Dispositions	-	-	-	-	-	-
Transfers and adjustments	0.8	-	-	-	-	0.8
12/31/2016 Balance	<u>52.0</u>	<u>3.0</u>	<u>13.4</u>	<u>6.6</u>	<u>-</u>	<u>75.0</u>
Total Plant-in-service - Net: including Land:	<u>\$ 538.0</u>	<u>\$ 160.0</u>	<u>\$ 1,540.8</u>	<u>\$ 144.4</u>	<u>\$ 366.8</u>	<u>\$ 2,750.0</u>

4. RATE STABILIZATION ACCOUNT

The Rate Stabilization Account (RSA) is a restricted cash reserve established to reduce the need for rapid and substantial rate increases solely to comply with the Department's bond covenants.

In March 2010, the Seattle City Council adopted Resolution No. 31187 and Ordinance No. 123260, establishing revised financial policies and parameters for the operation of the RSA created by Ordinance No. 121637 in 2004. Ordinance No. 123260 identified the sources of significant funding of the RSA and specified parameters for its operation. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount, and conversely, deposits are to be made to the RSA when the surplus power sales revenues are greater than budgeted. Deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year.

Ordinance No. 123260 established a target size for the RSA of no less than \$100.0 million and no greater than \$125.0 million, and authorized the imposition of automatic temporary surcharges on electric rates when the RSA balance is within the below specified levels:

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RSA Balance	Action
Less than or equal to \$90.0 million but greater than \$80.0 million:	Automatic 1.5% surcharge
Less than or equal to \$80.0 million but greater than \$70.0 million:	Automatic 3.0% surcharge
Less than or equal to \$70.0 million but greater than \$50.0 million:	Automatic 4.5% surcharge
Less than or equal to \$50.0 million:	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100.0 million within 12 months

In February 2014, the Seattle City Council adopted Ordinance No. 124426 (retroactive to December 2013), directing specific cash transfers to the RSA with the intention of reducing the likelihood of future rate surcharges.

Ordinance No. 123260 originally required a rate review whenever the RSA balance exceeded \$125.0 million, along with the implementation of measures to reduce the RSA balance to \$125.0 million within a period of 12 months or less. Subsequently, the Seattle City Council adopted Ordinance No. 124108 in February 2013 (retroactive to January 1, 2013) which extended the timing of this required rate review and associated action to an effective date of January 1, 2014.

In 2017, actual net wholesale revenue was \$10.3 million less than budgeted. Hence, net transfers of \$10.3 million were made from the RSA to the operating cash account during the year. The 1.5% surcharge enacted August 1, 2016 remained in effect throughout 2017. Transfers from the RSA were fully offset by \$11.2 million surcharge revenue resulting from the 1.5% surcharge. Interest of \$1.4 million was earned on the RSA in 2017. The RSA ending balance was \$93.4 million at December 31, 2017.

In 2016, actual net wholesale revenue was \$5.5 million less than budgeted. Hence, net transfers of \$5.5 million were made from the RSA to the operating cash account during the year. At June 30, 2016, the RSA balance was \$89.1 million (below the \$90.0 million threshold) which triggered a 1.5% rate surcharge effective August 1, 2016. Transfers from the RSA were partially offset by \$4.4 million surcharge revenue resulting from this 1.5% surcharge. Interest of \$1.2 million was earned on the RSA in 2016. The RSA ending balance was \$91.1 million at December 31, 2016.

The RSA at December 31, 2017, and 2016, consisted of cash from the following sources:

<i>(\$ in millions)</i>	2017	2016
Rate Stabilization Account		
Beginning balance	\$ 91.1	\$ 91.0
Surcharge revenue	11.2	4.4
RSA interest income	1.4	1.2
Operating revenue	<u>(10.3)</u>	<u>(5.5)</u>
Ending balance	<u>\$ 93.4</u>	<u>\$ 91.1</u>

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RSA transactions are recorded in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The regulatory deferred inflow of resources rate stabilization unearned revenue account at December 31, 2017, and 2016, consisted of the following:

(\$ in millions)	2017	2016
Unearned revenue - Rate Stabilization Account		
Beginning balance	\$ 66.1	\$ 66.0
Surcharge revenue	11.2	4.4
RSA interest income	1.4	1.2
Operating revenue	<u>(10.3)</u>	<u>(5.5)</u>
Ending balance	<u>\$ 68.4</u>	<u>\$ 66.1</u>

The initial \$25.0 million transfer from the Contingency Reserve Account to the RSA in May 2010 is not included in the Rate stabilization unearned revenue balance and is not available to be transferred to current revenue in the event that net wholesale revenues are less than the budgeted amount. The Contingency Reserve Account was established in 2005 with proceeds that had been deposited in the Bond Reserve Fund, which was replaced with a surety bond.

Net transfers from/(to) the RSA in the statements of revenues, expenses and net position for the periods ended December 31, 2017, and 2016 were as follows:

(\$ in millions)	2017	2016
Transfers from/(to) Rate Stabilization Account	<u>\$ (2.3)</u>	<u>\$ (0.1)</u>

5. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City’s Department of Finance and Administrative Services (FAS). Under the City’s investment policy, all temporary cash surpluses in the pool are invested. The Department’s share of the pool is included on the balance sheets as Cash and Equity in Pooled Investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Department, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Department’s fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

Custodial Credit Risk - Deposits—Custodial credit risk of deposits is the risk that in the event of bank failure for one of the City’s depository institutions, the City’s deposits or related collateral securities may not be returned in a timely manner.

As of December 31, 2017, and 2016, the City did not have custodial credit risk. The City’s deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National

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Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2017, and 2016, the City held \$95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA/FDIC's \$250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Investments—The Department's cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City's Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. As of December 31, 2017, and 2016, the Department did not have any dedicated investments. The City's Statement of Investment Policy will be modified on January 1, 2018, with an effective date of March 8, 2018, and the Department will work with the City of Seattle Treasury to evaluate and determine the impact that adoption of the new investment policy will have on its financial statements.

Eligible investments are those securities and deposits authorized by statute (chapters 35.39, 39.58, 39.59, 39.60, and 43.250 RCW; RCW 43.84.080, 43.180.190). Eligible investments include, but are not limited to:

- U.S. Government obligations,
- U.S. Government Agency obligations,
- U.S. Agency Mortgaged-Backed securities,
- Repurchase Agreements,
- Municipal bonds,
- Washington State Local Government Investment Pool,
- Bankers' Acceptances,
- Commercial Paper,
- Bank Notes,
- Non-negotiable Certificates of Deposit and Demand Deposits,
- Mutual Funds and Money Market Funds

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The City of Seattle has three objectives in managing its investments that define its risk profile and guide implementation of its investment strategy. In order of importance they are Safety of Principal, Maintenance of Liquidity, and Return on Investment.

The City follows a set of Standards of Care when it comes to its investments that include the following:

- **Social Policies:** A City social policy shall take precedence over furthering the City’s financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- **Prudence:** The standard of prudence to be used by investment personnel shall be the “Prudent Investor Rule” and will be applied in the context of managing an overall portfolio.
- **Ethics and Conflict of Interest:** Investment officers shall comply with the City’s Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the City’s Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City’s investment portfolio.
- **Delegation of Authority:** The Director of Finance and Administrative Services has delegated management responsibility for the City’s investment program to the Director of Finance who has designated day to day management responsibility to investment officers under the supervision of the City’s Treasury Services Director. No persons may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

As of December 31, 2017, and 2016 The City’s pooled investments were as follows:

(\$ in millions)	2017		2016	
	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)
Bank Note	\$ 48.0	294	\$ 48.1	658
Commercial Paper	251.7	33	204.5	90
Local Government Investment Pool	120.7	1	45.4	3
Municipal Bonds	366.1	1858	306.5	1692
Repurchase Agreements	138.4	2	50.4	3
US Government Agency Mortgage-Backed Securities	243.7	1732	261.4	1853
US Government Agency Securities	693.6	1209	553.8	1355
US Treasury and US Government-Backed Securities	475.7	490	287.8	472
Total	<u>\$ 2,337.9</u>		<u>\$ 1,757.9</u>	
Portfolio Weighted Average Maturity		803		1103

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As of December 31, 2017, and 2016, the Department's share of the City pool was as follows:

(\$ in millions)	2017	2016
Operating cash and equity in pooled investments	\$ 129.1	\$ 72.9
Restricted cash and equity in pooled investments	252.4	222.0
Total	<u>\$ 381.5</u>	<u>\$ 294.9</u>
Balance as a percentage of City pool cash and investments	16.3%	16.8%

Fair Value of Pooled Investments—The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. See Note 2 Fair Value Measurement. Fair value of the City's pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City's pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. During the first quarter of 2018 interest rates moved higher in anticipation of tighter monetary policy and higher inflation expectations following expansionary fiscal policy passed by Congress at the end of 2017. At the conclusion of the Federal Open Market Committee meeting of the Federal Reserve System (Federal Reserve) on March 21, 2018, the Federal Reserve raised the federal funds target range by 25 basis points to 1.50% - 1.75% and communicated the Federal Reserve is firmly on course to normalize interest rates. The City's pooled investments will experience an unrealized loss on its investments in the near future as overall interest rates move higher and more quickly than new funds can be reinvested at higher interest rates.

The City holds a \$120.7 million deposit in the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The City's investments in the LGIP are reported at amortized cost which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office.

Interest Rate Risk- Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. To mitigate interest rate risk, the City intentionally immunizes its known and expected cash flow needs. To best accomplish meeting its investment objectives, the City has divided the Pool into two separate portfolios: Operating and Strategic.

The Operating Portfolio is invested to meet reasonably expected liquidity needs over a period of twelve to eighteen months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington's Local Government Investment Pool (LGIP).

The Strategic Portfolio consists of cash that is in excess of known and expected liquidity needs. Accordingly, this portfolio is invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle, is expected to provide a higher return and greater investment income. Consistent with this profile, and for the purpose of comparing duration, yield and total return, the benchmark for the Strategic portfolio is the Barclays U.S. Government 1-7 year index. The duration of the Strategic Portfolio is targeted between 75% and 125% of the benchmark.

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To further mitigate interest rate risk a minimum of 60% of the Operating Portfolio and 30% of the Strategic Portfolio must be invested in asset types with high liquidity, specifically U.S. Government obligations, U.S. Government Agency obligations, LGIP, Demand Accounts, Repo, Sweep, and Commercial Paper.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some of the City's pooled investments have credit risk from holdings in commercial paper, corporate notes, and taxable municipal bonds. The City may not hold more than 50% of the Pool's total assets in these credit sensitive sectors.

State statute defines the investments in commercial paper and corporate notes as a "credit portfolio". The credit portfolio may not exceed 25 percent of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3 percent of the Pool's market value.

Commercial Paper investments may not have maturities exceeding 270 days and must hold the highest short-term credit rating by all the major credit rating agencies that rate the issuer at the time of purchase.

Corporate notes must mature within 5.5 years from the time of purchase and must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. No single issuer rated AA or better may exceed 3 percent of the Pool's market value. No single issuer rated in the single-A category may exceed 2 percent of the Pool's market value.

Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool's market value.

Concentration Risk - Concentration Risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. The policy limits vary for each investment category. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities, commercial paper as well as bank notes and corporate notes. The City's investments in which 5% or more is invested in any single issuer as of December 31, 2017 and 2016 are as follows:

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(\$ in millions)	2017		2016	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Issuer				
Federal Farm Credit Bank/Federal Home Loan Bank	\$ 428.9	18%	\$ 329.9	19%
Municipal Bonds	366.1	16%	306.5	17%
Federal National Mortgage Association	291.7	12%	302.4	17%
United States Treasury (HUD Debenture, US Treasury Bonds)	475.7	20%	287.8	16%
Federal Home Loan Mortgage Corp. and FHMS K Series	146.5	6%	182.8	10%
Local Government Investment Pool	120.7	5%	-	-
SWEEP-REPO	138.4	6%	-	-
	<u>\$ 1,968.0</u>	<u>83%</u>	<u>\$ 1,409.4</u>	<u>79%</u>

Custodial Credit Risk – Investments- Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City’s contractual custodial agent. The City maintains a custody relationship with Wells Fargo under the State of Washington’s statewide custody provider program arranged by the State Treasurer’s Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

By investment policy, the City maintains a list of approved securities dealers for transacting business. The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

Foreign Currency Risk – The City’s pooled investments do not include securities denominated in foreign currencies.

The City of Seattle’s Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Finance and Administrative Services, P.O. Box 94689, Seattle, WA 98124-4689; telephone: (206) 684-2489, or obtained on-line at <http://www.seattle.gov/financial-services/comprehensive-annual-financial-report>.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2017 and 2016, consist of:

(\$ in millions)	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2017						
Accounts receivable	\$ 62.5	\$ 9.7	\$ 15.2	\$ 87.4	\$ 22.9	\$ 110.3
Less allowance for doubtful accounts	<u>(12.7)</u>	<u>-</u>	<u>(8.8)</u>	<u>(21.5)</u>	<u>-</u>	<u>(21.5)</u>
	<u>\$ 49.8</u>	<u>\$ 9.7</u>	<u>\$ 6.4</u>	<u>\$ 65.9</u>	<u>\$ 22.9</u>	<u>\$ 88.8</u>
2016						
Accounts receivable	\$ 56.1	\$ 11.7	\$ 12.8	\$ 80.6	\$ 22.8	\$ 103.4
Less allowance for doubtful accounts	<u>(3.4)</u>	<u>-</u>	<u>(7.3)</u>	<u>(10.7)</u>	<u>-</u>	<u>(10.7)</u>
	<u>\$ 52.7</u>	<u>\$ 11.7</u>	<u>\$ 5.5</u>	<u>\$ 69.9</u>	<u>\$ 22.8</u>	<u>\$ 92.7</u>

Wholesale power receivable includes \$1.6 million at December 31, 2017, and \$2.1 million at December 31, 2016, for exchange energy at fair value under long-term contracts (see Note 18 Long-Term Purchased Power, Exchanges, and Transmission).

7. OTHER ASSETS

Seattle City Council passed resolutions authorizing debt financing and reporting as regulatory assets certain costs in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Programmatic conservation costs incurred by the Department and not funded by third parties, Endangered Species Act costs, and environmental costs are reported as regulatory assets in accordance with GASB Statement No. 62. Conservation costs reported as regulatory assets are amortized over 20 years. Endangered Species Act costs reported as regulatory assets are amortized over the remaining license period (see Note 19 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

Other assets, which are not covered under GASB Statement No. 62, consist of:

- Suburban infrastructure long-term receivables are underground electrical infrastructure costs for suburban jurisdictions, which are recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.
- Long-term interfund receivable for expected recoveries related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 14 Environmental Liabilities).
- Puget Sound Energy Stillwater substation costs, which are being amortized to expense over 25 years.
- Studies, surveys, and investigations are reported as regulatory assets until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.
- Long-term customer loans receivable and the remaining components of other assets, are not amortized.

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Regulatory assets and other assets, net, at December 31, 2017 and 2016, consisted of the following:

(\$ in millions)	2017	2016
Regulatory assets:		
Conservation costs—net	\$ 262.2	\$ 252.4
Endangered Species Act costs—net	1.8	1.9
Environmental costs	<u>93.1</u>	<u>83.1</u>
	<u>357.1</u>	<u>337.4</u>
Other charges and assets—net:		
Suburban infrastructure long-term receivables	51.7	53.3
Long-term interfund receivable for environmental costs	3.8	3.0
Long-term customer notes receivable	0.4	0.3
Puget Sound Energy interconnection and substation	0.3	0.4
Studies, surveys, and investigations	2.8	2.8
Other ¹	<u>0.7</u>	<u>(1.0)</u>
	<u>59.7</u>	<u>58.8</u>
Total Other Assets	<u>\$ 416.8</u>	<u>\$ 396.2</u>

¹ - 2016 contained \$2.3 million in over-allocated labor benefit costs which were included in calculation of revised 2017 allocation rate per Department policy.

8. DEFERRED OUTFLOWS OF RESOURCES

In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the Department recognizes pension contributions made between the pension plan measurement date and the Department’s fiscal year end as deferred outflows of resources. Also recognized as deferred outflows of resources are losses resulting from differences between projected and actual earnings on plan investments, which are amortized over a closed five-year period, and losses related to differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, which are amortized to pension expense over a period equal to the expected remaining service life of employees receiving pension benefits. See Note 12 Seattle City Employees’ Retirement System.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt are reported as Deferred outflows of resources and amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. See Note 9 Long-term Debt.

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Deferred outflows of resources at December 31, 2017 and 2016 consisted of the following:

<i>(\$ in millions)</i>	2017	2016
Deferred outflows of resources:		
Unrealized contributions and losses related to pension	\$ 46.9	\$ 64.6
Charges on advance refunding	<u>36.3</u>	<u>30.3</u>
Total	<u>\$ 83.2</u>	<u>\$ 94.9</u>

9. LONG-TERM DEBT

At December 31, 2017 and 2016, the Department's long-term debt consisted of the following prior lien or parity bonds:

LONG-TERM						
<i>(\$ in millions)</i>		Fixed Rate	Maturity Year	Original Issuance	2017	2016
Prior Lien Bonds:						
2017C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2047	\$ 385.5	\$ 385.5	\$ -
2017A	ML&P Revenue Bonds	variable rates	2046	50.0	49.1	-
2017B	ML&P Revenue Bonds	variable rates	2046	50.0	49.1	-
2016A	ML&P Revenue Bonds	4.050% fixed	2041	31.9	31.9	31.9
2016B	ML&P Refunding Revenue Bonds	4.000%–5.000%	2029	116.9	115.3	115.3
2016C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2046	160.8	158.7	160.8
2015A	ML&P Revenue Bonds	4.000%–5.000%	2045	171.9	161.1	167.5
2015B1	ML&P Adjustable Rate Revenue Bonds	variable rates	2045	50.0	50.0	50.0
2015B2	ML&P Adjustable Rate Revenue Bonds	variable rates	2045	50.0	50.0	50.0
2014	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2044	265.2	232.2	239.5
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	190.8	178.7	181.9
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	243.9	261.1
2012C	ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43.0	43.0	43.0
2011A	ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	296.3	80.7	239.8
2011B	ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10.0	10.0	10.0
2010A	ML&P Build America Bonds	4.447%–5.570%	2040	181.6	181.6	181.6
2010B	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2026	596.9	290.3	340.9
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3
2008	ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	<u>257.4</u>	<u>21.1</u>	<u>31.5</u>
Total prior lien bonds				<u>\$ 3,214.8</u>	<u>\$ 2,345.5</u>	<u>\$ 2,118.1</u>

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The Department had the following activity in long-term debt during 2017 and 2016:

<i>(\$ in millions)</i>	Balance at 1/1/17	Additions	Reductions	Balance at 12/31/17	Current Portion
2017					
Prior Lien Bonds - fixed rate	\$ 2,018.1	\$ 385.5	\$ (256.3)	\$ 2,147.3	\$ 117.0
Prior Lien Bonds - variable rate	100.0	100.0	(1.8)	198.2	1.8
	<u>\$ 2,118.1</u>	<u>\$ 485.5</u>	<u>\$ (258.1)</u>	<u>\$ 2,345.5</u>	<u>\$ 118.8</u>
<i>(\$ in millions)</i>	Balance at 1/1/16	Additions	Reductions	Balance at 12/31/16	Current Portion
2016					
Prior Lien Bonds - fixed rate	\$ 1,970.8	\$ 309.6	\$ (262.3)	\$ 2,018.1	\$ 111.2
Prior Lien Bonds - variable rate	100.0	-	-	100.0	-
	<u>\$ 2,070.8</u>	<u>\$ 309.6</u>	<u>\$ (262.3)</u>	<u>\$ 2,118.1</u>	<u>\$ 111.2</u>

Prior Lien Bonds—In January 2017 the Department issued \$100.0 million of tax exempt Municipal Light and Power (ML&P) Multi-Modal Revenue Bonds (2017A&B Bonds) and in September 2017 issued \$385.5 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2017C Bonds). The 2017A&B Bonds had coupon interest rates ranging from .97% to 1.38% during 2017 and mature serially from November 1, 2017 to November 1, 2046. The 2017A&B Multi-Modal Bonds bear interest rates at variable rates that fluctuate based on the London Interbank Offered Rate (LIBOR) plus a certain number of basis points. The 2017C Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from September 1, 2018 through September 1, 2043 with term bonds maturing annually from September 1, 2044 to September 1, 2047. The arbitrage yield was 4.033% for the 2017A&B Bonds and 2.63% for the 2017C Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2017A&B Bonds were used to finance certain capital improvement and conservation programs. Proceeds from the 2017C Bonds were used to refund \$145.1 million of the 2011A Bonds, to finance certain capital improvement and conservation programs, and to make a deposit to the reserve fund.

The debt service on the 2017A&B Bonds requires a cash flow over the life of the bonds of \$172.6 million, including \$72.6 million in interest, and the debt service on the 2017C Bonds requires a cash flow over the life of the bonds of \$656.7 million including \$271.2 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2017C Bonds totaled \$21.5 million and the aggregate economic gain on refunding totaled \$18.9 million at present value. The accounting loss on refunding for the 2017C Bonds was \$11.0 million.

In January 2016 the Department issued \$31.9 million of taxable Municipal Light and Power (ML&P) Clean Renewable Energy Bonds (2016A Bonds) and \$116.9 million of tax exempt Municipal Light and Power (ML&P) Refunding Revenue Bonds (2016B Bonds). In September 2016, the Department issued \$160.8 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2016C Bonds). The 2016A Bonds had a fixed coupon interest rate of 4.05% and mature serially from January 1, 2036 to January 1, 2041. The 2016B Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from October 1, 2016 through April 1, 2029. The 2016C Bonds had interest rates ranging from 4.00% to 5.00% and mature serially from October 1, 2017 through October 1, 2037 with term bonds maturing annually from October 1, 2038 to October 1, 2046. The arbitrage yield was 1.01% for the 2016A Bonds, 1.88% for the 2016B Bonds, and 2.29% for the 2016C Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2016A Bonds were used to finance certain capital improvement and

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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conservation programs. Proceeds from the 2016B Bonds were used to refund \$122.8 million of the 2008 Bonds. Proceeds from the 2016C Bonds were used to finance certain capital improvement and conservation programs and to refund \$32.0 million of the 2010B Bonds.

The debt service on the 2016A Bonds requires a cash flow over the life of the bonds of \$60.9 million, including \$29.0 million in interest, and the debt service on the 2016B Bonds requires a cash flow over the life of the bonds of \$166.8 million including \$50.0 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2016A&B Bonds and the 2016C Bonds totaled \$22.1 million and \$1.8 million, and the aggregate economic gain on refunding totaled \$19.4 million and \$2.0 million at present value, respectively. The debt service of the 2016C Bonds requires a cash flow over the life of the bonds of \$268.8 million, including \$108.0 million in interest. The accounting loss on refunding for the 2016B Bonds was \$16.1 million and was \$3.0 million for the 2016C Bonds.

The Department has certain bonds outstanding that provide a refundable tax credit, or federal subsidy, paid to state or local governmental issuers by the U.S. Treasury. The amount of the federal subsidy is equal to the lesser of the amount of interest payable based on the coupon interest rate or a percentage of the amount of interest payable based on the tax credit rate on the sale date with respect to those bonds. This federal subsidy ultimately results in a net decrease to debt service, although debt service payments are paid gross. The federal subsidies are recorded as nonoperating revenues on the statements of revenues, expenses, and changes in net position.

Federal Sequestration—The sequestration provisions of the Budget Control Act of 2011 went into effect on March 1, 2013. The only direct impact of sequestration on the Department for 2017 was a 6.9% reduction through the end of the federal fiscal year ending September 30, 2017 at which time the automatic reductions were adjusted to 6.6% in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds; 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department received \$0.4 million less in interest subsidies than originally anticipated for 2017. The Department has sufficient revenues to pay the interest without these subsidies. The effect for the accrual of federal subsidies as of December 31, 2017 was inconsequential. The effect during 2018 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable. Sequestration was originally in effect through federal fiscal year (FFY) 2021 and has subsequently been extended through FFY 2024.

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Debt service requirements for prior lien bonds, excluding federal subsidies for the 2016, 2012, 2011 and 2010 bonds are shown in the table below. Future debt service requirements on the variable 2015B and 2017A&B Bonds are estimated based on actual interest rates in effect as of December 31, 2017.

(\$ in millions)

Years Ending December 31	Fixed Rate Bonds		Variable Rate Bonds		Total
	Principal Redemptions	Interest Requirements	Principal Redemptions	Interest Requirements	
2018	\$ 117.0	\$ 96.7	\$ 1.8	\$ 3.7	\$ 219.2
2019	112.7	92.3	1.9	3.7	210.6
2020	112.1	86.6	2.0	3.7	204.4
2021	111.3	81.5	2.1	3.7	198.6
2022	110.9	76.0	2.2	3.7	192.8
2023 – 2027	507.5	296.7	19.0	17.6	840.8
2028 – 2032	310.4	200.2	34.4	14.9	559.9
2033 – 2037	321.7	132.0	42.0	11.2	506.9
2038 – 2042	300.1	61.9	51.2	6.6	419.8
2043 – 2047	<u>143.6</u>	<u>13.8</u>	<u>41.6</u>	<u>1.4</u>	<u>200.4</u>
Total	<u>\$ 2,147.3</u>	<u>\$ 1,137.7</u>	<u>\$ 198.2</u>	<u>\$ 70.2</u>	<u>\$ 3,553.4</u>

Reserve Fund—The Department has created and is required under Ordinance No. 125198 (Bond Ordinance) to maintain a Reserve Fund for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding and all amounts due under Parity Payment Agreements. The Reserve Fund is a pooled reserve and is an account within the books of the Department.

Reserve Fund Requirement—Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements established for each issue of Parity Bonds outstanding. The Bond Ordinance permits the City to establish the Reserve Fund Requirement (if any) for each issue of the Bonds or of Future Parity Bonds in connection with approving the sale of each such issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued together under a single bond sale resolution are treated as a single “issue”. Upon issuance of the 2017C Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding was \$142.3 million. The Reserve Fund Requirement is satisfied by cash deposits of \$67.6 million in cash held in the Reserve Fund and the surety bond (see below). Also included in the reserve fund was \$36.0 million and \$25.4 million at the end of 2017 and 2016 that is expected to be used toward the eventual replacement of the Surety Bond upon its expiration. Total reserve fund balance was \$103.6 million and \$87.0 million at December 31, 2017 and 2016, respectively.

Surety Bond—Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with an Alternate Reserve Security consistent with the Bond Legislation requirements. Under the Bond Legislation, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider’s ratings are in one of the top two rating categories at the time the policy is issued. The Bond Legislation does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded. The City currently has a surety bond (the “Surety Bond”) purchased from Financial Security Assurance, Inc.

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(“FSA”), with a policy limit that is equal to \$74.7 million. This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement.

The Surety Bond was issued by FSA in 2005; FSA was acquired by Assured Guaranty Corporation in 2009 and Assured Guaranty Corporation changed the name of its FSA subsidiary to Assured Guaranty Municipal Corporation (“AGM”). AGM is currently rated A2 and AA by Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively.

Irrevocable Trust Accounts—\$145.1 million of the proceeds of the 2017C refunding revenue Bonds were placed in a separate irrevocable trust accounts to provide for all future debt service payments on certain prior lien bonds advance refunded or defeased. There were balances outstanding in the irrevocable trust account during 2017 for prior lien bonds advance refunded or defeased with the 2017 bonds and balances outstanding for prior lien bonds advance refunded prior to 2017. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department’s financial statements. The outstanding principal balance of all bonds defeased through 2017 was \$299.9 million as of December 31, 2017 and was \$154.8 million as of December 31, 2016. As of December 31, 2017, none of the defeased bonds were called and paid from the 2017 irrevocable trust account. Funds held in the 2017 irrevocable trust accounts at December 31, 2017 are sufficient to service and redeem the defeased bonds outstanding.

Bond Ratings—The 2017 and 2016 Bonds, along with other outstanding parity bonds, were rated “Aa2” and “AA”; and “Aa2” and “AA”, by Moody’s Investors Service, Inc. and Standard Poor’s Rating Services, respectively.

Revenue Pledged— Revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and Reserve Fund. Principal and interest paid during 2017 and 2016 was \$209.3 million and \$202.1 million, respectively. Total revenue available for debt service as defined for the same periods was \$376.8 million and \$331.9 million, respectively. Annual interest and principal payments are expected to require 58.0% of revenues available for debt service for 2018 and required 63.7% in 2017.

Federal Arbitrage Regulations—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. \$0.1 million in federal arbitrage rebate liability was recorded in 2017 and a \$0.3 million arbitrage rebate liability was recorded in 2016 with cumulative balances of \$318.2 million and \$392.4 million, respectively.

Other—There were no liens on property or revenue pertaining to parity bonds and all bond covenants were in compliance for the Department’s prior lien bonds as of December 31, 2017 and 2016, respectively.

Fair Value— Debt is recorded and presented in the financial statements at carrying value net of premiums and discounts and shown below with fair values as provided by the Department’s financial advisor, Piper Jaffray & Company. The fair value for the Department’s bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts and fair values at December 31, 2017 and 2016, were as follows:

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(\$ in millions)	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 2,536.2	\$ 2,551.3	\$ 2,276.5	\$ 2,298.1

Amortization—Discounts and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. Charges on advance refunding amortized to interest expense totaled \$4.9 million in 2017 and \$4.6 million in 2016. Charges on advance refunding in the amount of \$36.3 million and \$30.3 million are included as a component of Deferred Outflows of Resources on the 2017 and 2016 balance sheets, respectively.

Noncurrent Liabilities—The Department had the following activities during 2017 and 2016:

(\$ in millions)	Balance at 1/1/17	Additions	Reductions	Balance at 12/31/17
	2017			
Net pension liability	\$ 317.8	\$ -	\$ (29.0)	\$ 288.8
Accumulated provision for injuries and damages	92.0	4.7	(0.6)	96.1
Compensated absences	15.8	-	(0.1)	15.7
Other	8.0	1.0	-	9.0
Total	\$ 433.6	\$ 5.7	\$ (29.7)	\$ 409.6
	Balance at 1/1/16	Additions	Reductions	Balance at 12/31/16
2016				
Net pension liability	\$ 271.8	\$ 70.9	\$ (24.9)	\$ 317.8
Accumulated provision for injuries and damages	42.3	49.8	(0.1)	92.0
Compensated absences	19.4	-	(3.6)	15.8
Other	8.0	0.1	(0.1)	8.0
Total	\$ 341.5	\$ 120.8	\$ (28.7)	\$ 433.6

Additional information on the Net pension liability can be found in Note 12 Seattle City Employees' Retirement System. Information about the provision for injuries and damages can be found in Note 10 Provision for Injuries and Damages and Note 14 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 13 Other Postemployment Benefits.

10. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 14 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using

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actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. For 2017 and 2016, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 25 to 29 years at the City's average annual rate of return on investments, which was 1.45% and 1.13%, respectively.

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. Effective June 1, 2016, the City had general liability insurance coverage for losses over a \$6.5 million self-insured retention per occurrence with a \$85.0 million limit per occurrence in the aggregate. The Department had no settled claims exceeding coverage in the last three years.

The City also purchased an all risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes \$100.0 million in earthquake and flood limits. Hydroelectric and certain other utility producing and processing projects are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures, and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2017 and 2016 are as follows:

<i>(\$ in millions)</i>	2017	2016
Beginning unpaid claims liability	\$ 14.0	\$ 12.8
Payments	(4.7)	(4.3)
Incurred claims	<u>5.0</u>	<u>5.5</u>
Ending unpaid claims liability	<u>\$ 14.3</u>	<u>\$ 14.0</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2017 and 2016 is as follows:

<i>(\$ in millions)</i>	2017	2016
Noncurrent liabilities	\$ 10.3	\$ 10.0
Accounts payable and other current liabilities	<u>4.0</u>	<u>4.0</u>
Total liability	<u>\$ 14.3</u>	<u>\$ 14.0</u>

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11. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2017 and 2016, is as follows:

(\$ in millions)	2017	2016
Vouchers payable	\$ 34.8	\$ 42.9
Power accounts payable	23.1	24.2
Taxes payable	10.0	8.2
Claims payable	10.9	8.6
Guarantee deposit and contract retainer	20.8	10.3
Other accounts payable	2.5	5.3
Total	<u>\$ 102.1</u>	<u>\$ 99.5</u>

12. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

Plan Description - The Seattle City Employees' Retirement System (SCERS) is a cost-sharing multiple-employer defined benefit public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City. SCERS is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of the King County Departments of Transportation and Public Health who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership.

Beginning with employees with hire dates of January 1, 2017 or later, all new members are enrolled in SCERS Plan II, which has contribution and benefit calculation rates different than the original SCERS I Plan.

Following is membership data for employees covered by the benefit terms as of the reporting date, December 31, 2017, and the measurement date, December 31, 2016 and the reporting date December 31, 2016, and the measurement date December 31, 2015:

	2017	2016
Active members	9,283	9,151
Retired members and beneficiaries receiving benefits	6,534	6,382
Vested terminated employees entitled to benefits	1,312	2,352

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Summary of Significant Accounting Policies – SCERS financial statements and schedules are presented using the economic resources measurement focus and the accrual basis of accounting. For purposes of measuring the net pension liability (NPL), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SCERS and additions to and deductions from SCERS fiduciary net position have been determined on the same basis as they are reported by SCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value in accordance with GASB 72.

The NPL was measured as of December 31, 2016 and December 31, 2015, and the total pension liability used to calculate the NPL was based on an actuarial valuation as of January 1, 2016 and January 1, 2015, respectively.

Pension Benefits – Service retirement benefits are calculated on the basis of age, salary, and service credit.

SCERS I – Members are eligible for retirement benefits after 30 years of service, at age 52 after 20 years of service, at age 57 after 10 years of service, and at age 62 after 5 years of service. Annual retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

SCERS II – Members are eligible for retirement benefits at age 55 after 20 years of service, at age 57 after 10 years of service, and at age 60 after 5 years of service. Annual retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

Disability Benefits – An active member is eligible to receive disability benefits when: (a) member has achieved 10 years of credited service within the 15 years preceding disability retirement, or (b) the disability occurs in the course of City employment in which no service requirement exists. The amount of the disability benefit is the greater of (a) 1.5% times the final compensation times completed years of creditable service, or (b) 1.5% times final compensation total years of service that could have been earned to age 62, but not to exceed one-third of final compensation. Disability benefits vest after 10 years of credited service.

Death Benefits – Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are (a) payment to the beneficiary of accumulated contributions, including interest, or (b) if the member had completed 10 years of service at the time of death, a surviving spouse or registered domestic partner may elect to receive, in place of (a) above, either: (1) A monthly allowance for life equal to the benefit the spouse would have received had the member just retired with a 100% contingent annuitant option in force, or (2) A cash payment of no more than one-half of the member's accumulated contributions, along with a correspondingly reduced retirement allowance. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement. Death benefits vest after 10 years of credited service.

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Contributions – Member and employer contributions rates are established by Seattle Municipal Code Chapter 4.436. The overall contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. Member contribution rates are also set via collective bargaining contracts. The overall formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations. Contribution rates and amounts were as follows as of the reporting dates, December 31, 2017 and December 31, 2016, and the measurement dates, December 31, 2016 and December 31, 2015:

	Contributions				
	Rates			Amounts	
	Employer	SCERS I Employee	SCERS II Employee	City	Department
2017	15.29%	10.03%	7.00%	\$112.1	\$23.7
2016	15.29%	10.03%	N/A	\$108.5	\$25.3

Net Pension Liability –The Department reported a liability of \$288.8 million and \$317.8 million for its proportionate share of net pension liability as of December 31, 2017 and December 31, 2016, respectively. The Department’s proportion of the NPL as of December 31, 2017 and December 31, 2016 was based on contributions to SCERS during the fiscal year ended December 31, 2016 and December 31, 2015, respectively. The Department’s proportionate share percent was 22.13% and 24.46% for the years ended December 31, 2016 and December 31, 2015, respectively. The net pension liability was measured as of December 31, 2016 and December 31, 2015, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of January 1, 2016 and January 1, 2015, respectively.

In April 2016, there was a transfer of 115 employees from Seattle City Light to the newly created Seattle Information Technology department. Employer pension contributions for transferred employees continued to be recognized as a Seattle City Light expense through December 31, 2016. This transfer affects Seattle City Light’s proportionate share of pension expense and net pension liability as of December 31, 2017 but did not affect the proportionate share or net pension liability as of December 31, 2016.

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Changes in Net Pension Liability		
(\$ In millions)		
	Fiscal Year Ended December 31	
	2017	2016
<u>Total Pension Liability</u>		
Service cost	\$ 23.6	\$ 24.5
Interest on total pension liability	59.3	62.3
Effect of economic/demographic gains or losses	(1.7)	0.5
Benefit payments	(37.4)	(39.0)
Refund of contributions	(3.7)	(3.9)
Net change in total pension liability	<u>40.1</u>	<u>44.4</u>
Total pension liability, beginning of period	883.5	841.5
Effect of change in proportionate share	<u>(84.1)</u>	<u>(2.4)</u>
Adjusted total pension liability, beginning of period	<u>799.4</u>	<u>839.1</u>
Total pension liability, end of period	<u>839.5</u>	<u>883.5</u>
<u>Plan fiduciary net position</u>		
Benefit payments	(37.4)	(39.0)
Refunds of contributions	(3.7)	(3.9)
Administrative expenses	(2.0)	(2.0)
Member contributions	15.9	16.1
Employer contributions	24.0	24.7
Net investment income	<u>42.0</u>	<u>1.7</u>
Net change in Plan fiduciary net position	<u>38.8</u>	<u>(2.4)</u>
Plan fiduciary net position, beginning of period	565.7	569.7
Effect of change in proportionate share	<u>(53.8)</u>	<u>(1.6)</u>
Adjusted fiduciary net position, beginning of period	<u>511.9</u>	<u>568.1</u>
Plan fiduciary net position, end of period	<u>550.7</u>	<u>565.7</u>
Net pension liability, end of period	<u>\$ 288.8</u>	<u>\$ 317.8</u>

The Department recognized pension expense of \$37.1 million and \$40.8 million for the years ended December 31, 2017, and 2016, respectively.

Actuarial assumptions – The total pension liability at December 31, 2017 and 2016, was based on actuarial valuations as of December 31, 2016 and 2015, respectively, using the following actuarial methods and assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	
Level percent or level dollar	Level percent
Closed, open, or layered periods	Closed
Amortization Period and Start Date	30 years as of January 1, 2013 Valuation
Amortization Growth Rate	4.00%
Asset Valuation Method	

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Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.25%
Investment Rate of Return	7.50%
Post-retirement benefit increases	1.50%
Cost-of-living year-end bonus dividend	0.00%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

All other actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013, including updates to salary increase, mortality and retirement rates.

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

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

The following table reflects long-term expected (30 year) real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected inflation rate is projected at 3.25% for the same period.

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Asset Category	Target Allocation	Geometric Expected Return
Equity		
Public Equity	48.0%	4.99%
Private Equity	9.0%	6.25%
Fixed Income		
Broad Fixed Income	18.0%	0.62%
Credit Fixed Income	5.0%	3.79%
Real Assets		
Real Estate	12.0%	3.25%
Infrastructure	3.0%	2.75%
Diversifying Strategies	5.0%	3.25%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate –The following presents the Department’s proportionate share of the net pension liability of SCERS, calculated using a discount rate of 7.50%, as well as what the Department’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%):

Discount Rate Sensitivity

(In millions)

<u>Discount Rate</u>	Net Pension Liability at December 31,	
	<u>2017</u>	<u>2016</u>
1% decrease - 6.50%	\$ 390.9	\$ 425.6
Current discount Rate - 7.50%	288.8	317.8
1% increase - 8.50%	203.0	227.0

Plan Fiduciary Net Position – Detailed information about the SCERS’s fiduciary net position is available in the separately issued, audited financial statements as of December 31, 2017, which are publicly available at <http://www.seattle.gov/retirement/about-us/board-of-administration>.

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Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension – The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for the Department at December 31, 2017, and December 31, 2016:

	<u>2017</u>	<u>2016</u>
<u>Deferred outflows of resources</u>		
Differences between expected and actual experience	\$ 0.3	\$ 0.4
Net difference between projected and actual earnings	22.9	38.9
Contributions made subsequent to measurement date	23.7	25.3
Total deferred outflows of resources	<u>\$ 46.9</u>	<u>\$ 64.6</u>
<u>Deferred inflows of resources</u>		
Differences between expected and actual experience	\$ 1.4	\$ -
Differences between employer contributions and proportionate share of contributions	22.4	0.8
Total deferred inflows of resources	<u>\$ 23.8</u>	<u>\$ 0.8</u>

Department contributions made in 2017 in the amount of \$23.7 million are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. These contributions along with the net difference between projected and actual earnings reported as deferred outflows of resources will be recognized as pension expense in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

Year Ending December 31 (\$ in millions)	Amortization
2018	\$ 3.3
2019	3.3
2020	1.4
2021	(6.0)
2022	(2.6)
Total	<u>\$ (0.6)</u>

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13. OTHER POSTEMPLOYMENT BENEFITS

Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

Employees retiring under the City may continue their health insurance coverage under the City's health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The City provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The City's expected contribution for employer-paid benefits was \$2.3 million and \$2.0 million in 2017 and 2016, respectively. The Department's portion of the expected contribution was \$0.3 million and \$0.3 million in years 2017 and 2016, respectively. The City recorded an expense and liability for OPEB of \$4.7 million in 2017 and \$4.7 million in 2016. The Department recorded an expense and increase in liability for OPEB of \$0.7 million in 2017, and a reduction to expense and a decrease in liability for OPEB of \$0.1 million in 2016. The department reported an OPEB liability of \$8.6M in 2017 and \$7.9M in 2016.

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. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. 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. Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

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Actuarial data and assumptions

Valuation date	January 1, 2016
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Initial amortization period	30 years, open
Discount rate	3.09%
Health care cost trend rates—medical:	6.25% in 2017, decreasing to 6% in 2018, and decreasing by varying amounts until 2025 thereafter.
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on RP-2000 Table and RP-2000 Combined Healthy, respectively, with ages set back six years for male and female actives; set back two years for male retirees and one year for female retirees. Rates are generational for both males and females using Projection Scale AA.
Marital status	45% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.
Health Care Claims Development	<p>The average medical/Rx per capita claims costs were developed from calendar year fully insured premium rates for Aetna plans or self-funded premium-equivalent rates for Group Health (acquired by Kaiser Permanente in 2017) plans. Premium or premium-equivalent rates were provided by the City of Seattle's health pricing actuary. The average medical/Rx per capita claims costs were trended to the mid-point of the annual period following the valuation date. Average medical/ Rx per capita claims costs were then age-adjusted based on the demographics of the population, and the assumed health care aging factors shown in the morbidity factors table below.</p> <p>For the Aetna plans only, the average medical/Rx per capita claims costs were blended with the average medical/Rx per capita claims costs developed from actual active claims experience and enrollment for the two-year period January 1, 2015 through December 31, 2016. Claims and enrollment information was provided by Aetna. Claims experience was adjusted for differences in plan design between the historical periods and the projection period using plan design relative values from Aon Hewitt's actuarial models. No adjustment was made for large claims. The average medical/Rx per capita claims costs from each respective historical base period were trended to the mid-point of the annual period following the measurement date. In order to improve the credibility of a single projection estimate, a combination of estimates from the distinct historical periods was used, placing 50% credibility on the most recent period and 50% on the next most recent.</p>
Morbidity Factors	

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The claim costs for medical and prescription drugs were assumed to increase with age according to the table below.

Age	Medical	RX	Composite
40-44	3.0%	4.8%	3.3%
45-49	3.7%	4.7%	3.8%
50-54	4.2%	4.7%	4.3%
55-59	4.4%	4.6%	4.4%
60-64	3.7%	4.6%	3.8%
65-69	2.7%	3.8%	3.1%
70-74	1.8%	2.5%	2.1%
75-79	2.2%	0.8%	1.4%
80-84	2.8%	0.2%	1.3%
85-89	1.4%	0.1%	0.6%
90+	0.0%	0.0%	0.0%

Other considerations

Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have \$0 liability.

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Based on the actuarial valuation date of January 1, 2017, the City's annual cost for fiscal years ended December 31, 2017 and 2016, the amount of expected contribution to the plan, and changes in net obligation are as follows:

(\$ in millions)	2017	2016
Annual required contribution	\$ 8.1	\$ 7.7
Interest on net OPEB obligation	1.7	1.5
Adjustment to annual required contribution	(2.8)	(2.5)
Annual OPEB cost (expense)	7.0	6.7
Expected contribution (employer-paid benefits)	(2.3)	(2.0)
Increase in net OPEB obligation	4.7	4.7
Net OPEB obligation - beginning of the year	54.1	49.4
Net OPEB obligation - end of year	<u>\$ 58.8</u>	<u>\$ 54.1</u>

The schedules of funding progress (\$ in millions) (unaudited) are as follows:

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liabilities (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funding Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
2012	\$ -	\$ 74.7	\$ 74.7	- %	\$ 891.6	8.4 %
2014	-	41.8	41.8	-	1,004.0	4.2
2016	-	65.7	65.7	-	1,125.7	5.8

The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

14. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$92.7 million and \$86.7 million, at December 31, 2017, and 2016, respectively.

The following is a brief description of the significant Superfund sites:

- The Harbor Island Superfund Site*—In 1983, the U.S. Environmental Protection Agency (EPA) designated this site as a federal Superfund site. The Department and other entities are sharing costs equally for investigating contamination in the East Waterway alongside Harbor Island. The City share is split between the Department 45% and Seattle Public Utilities (SPU) 55%. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. A draft final feasibility study was submitted to EPA in October 2016. Nine alternative actions were presented with costs ranging from \$256.0 million to \$411.0 million with an estimated time to complete construction on active cleanup components ranging from 9 to 13 years. EPA however, has not identified the cleanup construction timing and cost estimate at this time. The project manager has estimated that total remediation liability may be up to \$300.0 million, of which \$100.0 million is the City share. The Department recorded its share of the estimated liability of \$45.0 million

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in October 2016 in accordance with GASB Statement No. 49. The Feasibility Study (FS) was completed in 2017. EPA is expected to issue a Proposed Plan in late 2018 followed by a Cleanup Action Plan. The Department's ultimate liability is indeterminate.

- *The Lower Duwamish Waterway Superfund Site*—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department's involvement is attributable to its land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology (DOE) to conduct a remedial investigation and feasibility study to prepare a site remedy. The EPA approved the feasibility study in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway. In December 2014, the EPA issued its final Record of Decision (ROD) indicating its preferred alternative clean-up with an estimated cost of \$342.0 million. There have been three amendments to the (AOC). The first amendment required Lower Duwamish Waterway Group (LDWG) to complete the Fisher Study which was completed in 2016; the second amendment required the completion of carbon study which was constructed in the first quarter of 2017 and will continue through 2020; and the third amendment which required additional pre-design activities. The workplan for pre-design work was approved by EPA in August 2017 and is expected to continue through 2020. The extent and cost of additional investigation work required prior to implementation of remedy is still unknown. The Department's ultimate liability is indeterminate.

In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The City and other three parties who signed the AOC with the EPA agreed to invite some of those parties to participate in an alternative dispute resolution process (the "allocation process") to resolve their respective shares of past and future costs. There are 44 parties participating in allocation. The City hired an allocator and the allocation process officially began in April 2014. The Department agreed to administer the allocator's contract, estimated to cost about \$4.0 million over a four-year period. Parties participating in the allocation process will share the cost of the allocator and the process.

The City is also responsible for investigation and cleanup at the Port of Seattle Terminal 117 Streets, Uplands and Sediments sites. The South Park street is not owned by the Department, but the City has jurisdiction over the streets and right-of-ways. Remediation activities for streets was completed in August 2016. The City's share for the uplands and sediments site is paid 100% by the Department. The City's share for the adjacent streets is split between the Department and SPU according to a Memorandum of Agreement (MOA) signed in August 2014. According to this MOA, SPU will pay 2.5% for some portions of the construction and up to 100% for other parts of the cleanup and restoration. The final construction closeout and project closeout with EPA has extended into 2018. The Port is currently negotiating with EPA and DOE regarding Stormwater management on the Upland site. This negotiation has the potential to prolong the completion of the upland and sediment portion of the site.

- *South Park Marina*—The Washington Department of Ecology has notified the City that it is a Potentially Liable Party for contamination at South Park Marina, which is adjacent to Terminal 117. The Department is the lead for the City at this site. Negotiations with the property owner and with Washington State Department of Ecology is underway. The Department's ultimate liability is indeterminate.
- *North Boeing Field/Georgetown Steam Plant*—The City, King County, and Boeing signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring

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them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing agreed to pay 67% of the costs for Ecology's implementation of the current order. The order requires completion and then implementation of a remedial investigation and feasibility. The final Remedial Investigation (RI) work plan was issued in November 2013. In January 2015, all parties executed the First Amendment to the North Boeing Field/Georgetown Steam Plant Agreed Order, making the PRPs responsible for conducting and completing remedial action at the site. The City is responsible for 1/3 of the costs, with the Department's share at 90% and SPU's share at 10%. The draft RI was submitted in June 2016. DOE provided comments on the draft report on August 2016. The revised draft RI will be submitted to DOE in 2018. Total estimated costs for the current order are \$6.0 million. Costs to date are approximately \$6.8 million with an additional \$383K projected through completion of the FS. Boeing and the City will each pay 100% of costs for remedial action at their own facilities. The final liability is indeterminate.

The Department has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB Statement No. 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. The Department's estimate for realized recoveries was \$3.8 million and \$3.0 million at December 31, 2017, and 2016, respectively, primarily representing an interfund receivable from SPU for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department's estimated environmental liabilities was zero at December 31, 2017, and 2016. As of December 31, 2017, and 2016, environmental costs of \$93.1 million and \$83.1 million were deferred primarily for cleanup estimates of the Department's responsibility for the Lower Duwamish Waterway and East Waterway Superfund Sites; and these costs will be recovered through future rates in accordance with GASB Statement No. 62.

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The changes in the provision for environmental liabilities at December 31, 2017, and 2016 are as follows:

<i>(\$ in millions)</i>	2017	2016
Beginning environmental liability, net of recoveries	\$ 86.7	\$ 45.9
Payments	(5.0)	(10.0)
Incurred environmental liability	<u>11.0</u>	<u>50.8</u>
Ending environmental liability, net of recoveries	<u>\$ 92.7</u>	<u>\$ 86.7</u>

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2017 and 2016, is as follows:

<i>(\$ in millions)</i>	2017	2016
Noncurrent liabilities	\$ 85.8	\$ 82.0
Accounts payable and other current liabilities	<u>6.9</u>	<u>4.7</u>
Ending liability	<u>\$ 92.7</u>	<u>\$ 86.7</u>

15. OTHER LIABILITIES

Other liabilities include unearned capital fees which are amortized to revenues as earned, deposits that are returned to customers, and certain other unearned revenues which expire at contract completion.

Other liabilities at December 31, 2017 and 2016 consisted of the following:

<i>(\$ in millions)</i>	2017	2016
Other liabilities:		
Unearned capital fees	\$ 27.8	\$ 30.2
Customer deposits—sundry sales	7.9	6.4
Unearned operations and maintenance revenues	0.2	0.2
Unearned revenues—other	<u>0.4</u>	<u>0.4</u>
Total	<u>\$ 36.3</u>	<u>\$ 37.2</u>

16. DEFERRED INFLOWS OF RESOURCES

Seattle City Council passed resolutions authorizing the reporting of certain credits as regulatory liabilities in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*.

The unearned revenue for the Rate Stabilization Account for 2017 and 2016 is the result of spreading retail electric revenues and related activity over multiple periods to reduce the need for rapid and substantial rate

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increases (see Note 3 Rate Stabilization Account). Payments received from Bonneville's Energy Conservation Agreement are amortized to revenues over 20 years.

Recognized as deferred inflows of resources are decreases in Net Pension Liability resulting from changes in employer proportion and differences between contributions and proportionate share of pension expense, which are amortized over a closed five-year period. See Note 12 Seattle City Employees' Retirement System for more information.

Bonneville Slice contract true-up credits are reported as regulatory liabilities in the year invoiced and recognized as revenue in the following year. Seattle City Council affirmed the Department's practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 18 Long-Term Purchased Power, Exchanges, and Transmission).

Deferred inflows of resources at December 31, 2017 and 2016 consisted of the following:

<i>(\$ in millions)</i>	2017	2016
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 68.4	\$ 66.1
Changes in Net Pension Liability - changes in employer proportion and differences between contributions and proportionate share of pension expense	23.8	0.8
Bonneville energy conservation agreement	29.3	25.7
Bonneville Slice true-up credit	1.4	0.4
Exchange energy: regulatory gain	<u>0.7</u>	<u>1.2</u>
Total	<u>\$ 123.6</u>	<u>\$ 94.2</u>

17. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of stream flows, availability of generating units, historic and forward market information, contract terms, and experience. Based on these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 24 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating profit. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

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It is the Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*, as appropriate. Certain forward purchase and sale of electricity contracts meet the definition of a derivative instrument but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, the Department considers these forward contracts as normal purchases and normal sales under GASB Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

The undiscounted aggregate contract amounts, fair value, and unrealized gain or (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31, 2017 and 2016 consisted of the following:

(\$ in millions)

	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
2017			
Sales	\$ 20.0	\$ 19.1	\$ 0.9
Purchases	3.3	3.1	(0.2)
Total	<u>\$ 23.3</u>	<u>\$ 22.2</u>	<u>\$ 0.7</u>
	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
2016			
Sales	\$ 23.3	\$ 26.6	\$ (3.3)
Purchases	2.2	2.4	0.2
Total	<u>\$ 25.5</u>	<u>\$ 29.0</u>	<u>\$ (3.1)</u>

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to GASB Statement No. 53. In 2010, the Seattle City Council adopted a resolution granting the Department authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under GASB Statement No. 53. The Department did not have any such activity for 2017 and 2016. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Note 7 Other Assets and Note 16 Deferred Inflows of Resources).

Market Risk—Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of, or demand for, the commodity. Because the Department is active in the wholesale energy market, it is subject to market risk.

Credit Risk—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial

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settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by: entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

The Department has concentrations of suppliers and customers in the electric industry including: electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

Other Operational and Event Risk—There are other operational and event risks that can affect the supply of the commodity, and the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect the Department's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

18. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

Bonneville Power Administration—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 17-year contract, for the period October 1, 2011 through September 30, 2028. Effective October 1, 2017 there was an amendment to the agreement whereby the Department no longer participates as a Slice customer and will now exclusively purchase Block. Block quantities are expected to be recalculated periodically during the term of the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

The terms of the Slice product specify that the Department will receive a percentage of the actual output of the Federal Columbia River Power System (the System). The percentage is adjusted annually with a Slice Adjustment Ratio no greater than 1.0 times the 3.65663 initial slice percentage, no later than 15 days prior to the first day of each federal fiscal year, beginning with fiscal year 2012. The current 2017 Slice percentage is 3.62643%, the same as the previous fiscal year. The cost of Slice power is based on the Department's same percentage of the expected costs of the System and is subject to true-up adjustments based on actual costs with specified exceptions.

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. To remedy this inconsistency, the Court ruled that refunds be issued to non-IOUs through 2019. The Department received \$5.7 million in both 2017 and 2016 in billing credits related to both the Block and Slice agreements as a result of the Court decision.

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Lucky Peak—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

The Department incurred \$9.3 million and \$6.9 million in 2017 and 2016, respectively, including operations costs and royalty payments to the irrigation districts. The Department provided and billed Lucky Peak \$0.3 million for operational and administrative services in both 2017 and 2016. These amounts are recorded as offsets to purchased power expense.

The Department's receivables from Lucky Peak were less than \$0.1 million at December 31, 2017, and 2016, respectively. The Department's payables to Lucky Peak were \$0.8 million and \$0.1 million at December 31, 2017, and 2016, respectively.

British Columbia—High Ross Agreement—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These other costs are included in utility plant-in-service as an intangible asset and are being amortized to purchase power expense over 35 years through 2035 (see Note 3 Utility Plant).

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Expenses incurred, and energy received under these and other long-term purchased power agreements at December 31, 2017 and 2016 were as follows:

(\$ in millions)	Expense		Average Megawatts	
	2017	2016	2017	2016
Bonneville Block	\$ 103.8	\$ 80.0	347.7	264.7
Bonneville Slice	64.3	80.7	278.2	320.3
Long-term purchase power-Bonneville	168.1	160.7	625.9	585.0
Lucky Peak	9.3	6.9	52.9	38.8
British Columbia - High Ross Agreement	13.4	13.4	35.8	35.1
Grant County Public Utility District	1.9	2.3	2.8	2.9
Columbia Basin Hydropower	6.8	6.2	26.1	28.9
Bonneville South Fork Tolt billing credit	(3.3)	(3.3)	-	-
Renewable energy - State Line Wind	22.1	24.8	37.7	42.5
Renewable energy - Other	7.7	8.7	13.5	15.4
Exchanges and loss returns energy at fair value	3.7	5.5	50.1	56.0
Long-term purchased power booked out	(4.9)	(5.4)	(28.9)	(32.7)
Long-term purchase power-other	56.7	59.1	190.0	186.9
Total	\$ 224.8	\$ 219.8	815.9	771.9

Renewable Energy Purchase and/or Exchanges—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits (RECs) as a percentage of total energy delivered to retail customers. The annual targets are: at least 9% by 2016, and at least 15% by 2020. The Department's 2017 and 2016 resource portfolio is adequate to meet the 9% target.

Energy Exchange—Northern California Power Agency (NCPA) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power, from November through April. The agreement includes financial settlement and termination options. In a letter NCPA dated May 17, 2011, NCPA gave seven year's advance written notice to the Department terminating the agreement effective no later than May 31, 2018.

Fair Value of Exchange Energy—Exchange energy receivable and the related regulatory gains at December 31, 2017 and 2016, were valued using Kiindex Forward Curves, and Dow Jones U.S. Daily Electricity Price Indices for settled deliveries. An income valuation technique that uses interest rate forecasts from HIS Global Insight is used to discount for present value based on the interest rate for U.S. Government Treasury constant maturities, bond-equivalent yields by the future month of the transactions (see Note 2 Fair Value Measurement and Note 16 Deferred Inflows of Resources).

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Estimated Future Payments Under Purchased Power, Transmission and Related Contracts—The Department’s estimated payments for purchased power and transmission, RECs, and other contracts for the period from 2018 through 2065, undiscounted, are as follows:

Years Ending December 31 (\$ in millions)	Estimated Payments
2018 ^(a)	\$ 282.0
2019 ^(a)	290.7
2020 ^(b)	304.7
2021	287.6
2022	281.5
2023-2027 ^(c)	1,317.8
2028-2032 ^(d)	262.7
Thereafter (through 2065)	<u>142.1</u>
Total	<u>\$ 3,169.1</u>

^(a) 2018 to 2019 includes estimated REP recoveries from Bonneville.

^(b) British Columbia - High Ross direct cost payments end in 2020.

^(c) Bonneville transmission contract expires July 31, 2025.

^(d) Bonneville Block and Slice contract expires Sept 30, 2028.

19. COMMITMENTS AND CONTINGENCIES

Operating Leases—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses for all operating leases totaled \$1.9 million in 2017 and \$1.7 million in 2016.

Minimum payments under the operating leases are:

Year Ending December 31 (\$ in millions)	Minimum Payments
2018	\$ 1.6
2019	1.5
2020	<u>-</u>
Total	<u>\$ 3.1</u>

2018 Capital Program—The budget for the Department’s 2018 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$439.9 million. At December 31, 2017, the Department had approximately \$157.9 million in

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commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

2018 Operations and Maintenance Budget—The Department’s 2018 Operating and Maintenance budget is \$971.6 million for labor and related benefits, purchased power, outside services, supplies, taxes, injuries and damages, interest, debt-related costs, maintenance of Department assets, and other non-capital expenditures incurred in the normal course of operations.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$157.0 million through 2055; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, when their existing FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year the current license issued by FERC expires. The Boundary FERC license and related issues are discussed below.

New Boundary License—The Department’s FERC license for the Boundary Project expired on September 30, 2011 and a new license was issued on March 20, 2013 with a 42-year life and a total cost of \$48.6 million. The terms and conditions of the new license have been evaluated and the Department is in the license implementation process, which imposes mitigation of endangered species including water quality standards and conservation management.

As part of the application process, the Department negotiated a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The settlement sought to preserve the Department’s operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures.

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$379.9 million adjusted to 2017 dollars, of which \$59.2 million were expended through 2017. Projected mitigation cost estimates are subject to revision as more information becomes available.

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both licenses, the Department has taken and will continue to take required mitigating and compliance measures.

Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2017, to be \$136.3 million, of which \$122.1 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.9 million, of which \$1.3 million were expended through 2017. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2017 dollars. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

Endangered Species – Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Department’s hydroelectric projects, the ESA listings still affect operations of the Department’s Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department’s power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project’s firm capability is also reduced.

The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Department’s share of the Early Action program from inception in 1999 through December 31, 2017, are estimated to be \$13.2 million, and \$1.1 million has been allocated for the program in the 2018 budget.

Project Impact Payments—Effective August 2010, the Department renewed its contract with Pend Oreille County and committed to pay a total of \$19.0 million over 10 years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Department’s hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of \$15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The impact payments totaled \$1.8 million and \$1.7 million to Pend Oreille County, and \$1.1 million to Whatcom County in 2017 and 2016.

Gamble v. City – A Department employee contends that the Department has failed properly to accommodate her disability. An adverse result in litigation could result in awards of back pay, compensatory damages, and attorneys’ fees. Trial concluded in April 2017, with a verdict in favor of the Department. The plaintiff has appealed to the Washington Court of Appeals. The Department’s ultimate liability is indeterminate.

Central Puget Sound Regional Transit Authority Condemnation Cases— The Department is a defendant in a series of condemnation actions by the Central Puget Sound Regional Transit Authority (“Sound Transit”). Sound Transit is working in concert with the City of Bellevue on multiple transportation projects which negatively affect the Department’s East Side Lines transmission corridor, which is a 100 plus mile corridor between 150’-160’ wide that runs contiguously from Maple Valley to the Department’s Skagit Project in Skagit and Whatcom Counties. There are currently five condemnation actions for the specific area along 124th Street in Bellevue. The Department has contested Sound Transit’s ability to condemn publicly owned property, but in each of the five condemnation actions, the trial courts determined that Sound Transit had

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

demonstrated public use and necessity over portions of the Department's easement area. All of those decisions are on appeal, and the Washington Supreme Court has granted direct review of the first trial court's order denying the Department's motion for summary judgment. Three of the four remaining actions have been consolidated for review by the Supreme Court. The Department has also sought direct review by the Washington Supreme Court in the fifth action, but briefing is not yet complete. The Washington Supreme Court heard oral argument on March 15, 2018 on the four consolidated cases. A decision is expected within the next 60 to 180 days. In the event the appeal is unsuccessful, the value of the land sought to be condemned by Sound Transit from the Department is significant, but indeterminate.

Tao v. City – A Department employee alleges that she is a victim of discrimination on the basis of race, gender, and age. Employee also alleges that she has been retaliated against for engaging in protected activities opposing discrimination. Employees asserts that the Department failed to promote her and created a hostile work environment through, *inter alia*, investigating allegations of misconduct. An adverse result could include awards of back pay, compensatory damages, and attorneys' fees. The Department's ultimate liability is indeterminate.

Deformation Mitigation in N. Thomas Street -- The Department is moving five 13.8 kV and 26kV feeders in Thomas Street at 6th Avenue to protect them for deformation caused by the tunneling activities, including the work necessary to extract the tunnel boring machine cutter head when it reaches the North Portal. The Department anticipates that the total costs for this work is estimated at \$3.1 million. The Department has requested that the Washington State Department of Transportation (WSDOT) reimburse it for those costs and has sent a proposed task order for that purpose, but, to date, WSDOT has not agreed to reimburse City Light. City Light's ultimate recovery amount is unknown.

Other Contingencies—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department's financial position, operations, or cash flows.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCERS

The Department's schedule of the employer's proportionate share of the net pension liability for the years ended December 31 (dollar amounts in millions):

	2017	2016	2015
Employer's proportion of the net pension liability	22.13%	24.46%	24.53%
Employer's proportionate share of total pension liability	\$ 839.5	\$ 883.5	\$ 841.5
Employer's proportionate share of plan fiduciary net position	\$ 550.7	\$ 565.7	\$ 569.7
Employer's proportionate share of the net pension liability	\$ 288.8	\$ 317.8	\$ 271.8
Employer's covered-employee payroll	\$ 156.5	\$ 157.0	\$ 152.3
Employer's proportionate share of net pension liability as a percentage of its covered-employee payroll	184.49%	202.44%	178.48%
Plan fiduciary net position as a percentage of the total pension liability	65.60%	64.03%	67.70%

Note:

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

The Department's proportionate schedule of employer's contributions (dollar amounts in millions):

	2017	2016	2015
Contractually required contribution	\$ 23.7	\$ 25.3	\$ 24.9
Contributions in relation to contractually required contribution	23.7	25.3	24.9
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 153.6	\$ 164.0	\$165.0
Contributions as a percentage of covered-employee payroll	15.43%	15.43%	15.09%

Note:

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

The Department’s schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (dollar amounts in millions):

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Liabilities (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funding Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
2012	\$ -	\$ 74.7	\$ 74.7	- %	\$ 891.6	8.4 %
2014	-	41.8	41.8	-	1,004.0	4.2
2016	-	65.7	65.7	-	1,125.7	5.8

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2017, 2016, and 2015. The target level for debt service coverage was 1.8x on all bonds for 2017, 2016 and 2015 in accordance with current financial policies (which include a Rate Stabilization Account that will result in greater compliance of actual debt service coverage with the policy-specified level).

(\$ in millions)

Debt Service Coverage

	December 31		
	2017	2016	2015
OPERATING REVENUES:			
Retail power revenues	\$ 875.2	\$ 788.0	\$ 736.6
Short-term wholesale power revenues	60.9	62.9	61.2
Other power-related revenues (a)(b)(c)	35.8	32.6	36.8
Transfers from/(to) rate stabilization account (d)	(2.3)	(0.1)	23.4
Other operating revenues	20.1	19.8	24.9
Total operating revenues	<u>\$ 989.7</u>	<u>\$ 903.2</u>	<u>\$ 882.9</u>
OPERATING EXPENSES:			
Long-term purchased power—Bonneville and other (b)	\$ 224.8	\$ 219.8	\$ 213.6
Short-term wholesale power purchases	15.2	15.1	26.8
Other power expenses (b)	65.4	60.1	59.6
Transmission (e)	52.5	53.5	54.3
Distribution	60.4	63.5	65.1
Customer service	49.4	42.6	38.3
Conservation	32.5	30.2	29.1
Administrative and general	128.7	105.0	92.1
Taxes	94.8	85.2	81.1
Depreciation and amortization	128.8	120.8	112.0
Total operating expenses	<u>\$ 852.5</u>	<u>\$ 795.8</u>	<u>\$ 772.0</u>
NET OPERATING REVENUE (f)	<u>\$ 137.2</u>	<u>\$ 107.4</u>	<u>\$ 110.9</u>
Adjustments to Net Operating Revenue (g)			
City Taxes (h)	\$ 54.4	\$ 48.4	\$ 45.5
Depreciation and amortization	128.8	120.8	112.0
Depreciation & amortization included in operating & maintenance expenses (i)	32.4	29.9	27.1
Pension expense (j)	37.1	40.8	27.9
Pension contributions (j)	(23.7)	(25.3)	(24.9)
Valuation on exchange power, net (b)(c)	0.0	0.0	0.6
BPA Conservation Augmentation/Agreement revenue (k)	(1.6)	(1.2)	(0.9)
Investment income (l)	7.4	7.3	6.7
Non-cash expenses (m)	2.4	1.8	(0.3)
Other (n)	2.4	2.0	2.0
Total adjustments	<u>\$ 239.6</u>	<u>\$ 224.5</u>	<u>\$ 195.7</u>
Net Revenue Available for Debt Service	<u>\$ 376.8</u>	<u>\$ 331.9</u>	<u>\$ 306.6</u>
Total Debt Service (o)	<u>\$ 203.3</u>	<u>\$ 196.5</u>	<u>\$ 189.6</u>
Ratio of Available Net Revenue to Debt Service	<u>1.85x</u>	<u>1.69x</u>	<u>1.62x</u>

Notes

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

- (a) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (b) Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*. Non-monetary transactions are measured at fair value and are valued at market. Disclosures required by GASB Statement No. 72 are available in Note 2 Fair Value Measurement.
- (c) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (d) Transfers from/(to) the RSA in accordance with Ordinance No. 123260, primarily to address fluctuations in surplus power sales.
- (e) Includes revenue from the short-term sale of excess transmission capacity.
- (f) Operating Income per audited financial statements.
- (g) Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for Debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines within the table.
- (h) City taxes are excluded because the lien on such taxes is junior to debt service in accordance with the Bond Legislation.
- (i) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (j) Pension expense is the amount recorded for compliance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, implemented in 2015, a non-cash item. Pension contributions are the Department cash contributions to the Seattle City Employee's Retirement System.
- (k) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (l) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (m) Primarily includes claim expenses and capital project expenditures from prior year which were determined not to be capital expenditures.
- (n) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.
- (o) Net of federal bond subsidies.

DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31 (\$ in millions)	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
2017	\$ 376.8	\$ 203.3	1.85
2016	331.9	196.5	1.69
2015	306.6	189.6	1.62
2014	341.4	184.8	1.85
2013	319.6	172.8	1.85

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

Year Ending December 31 (\$ in millions)	Fixed Rate Bonds			Variable Rate Bonds			Total ^(a)
	Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2018	\$ 117.0	\$ 96.7	\$ 213.7	\$ 1.8	\$ 3.7	\$ 5.5	\$ 219.2
2019	112.7	92.3	205.0	2.0	3.7	5.7	210.6
2020	112.1	86.6	198.7	2.0	3.7	5.7	204.4
2021	111.3	81.5	192.8	2.1	3.7	5.8	198.6
2022	110.9	76.0	186.9	2.2	3.7	5.9	192.8
2023	112.9	70.4	183.3	2.3	3.6	5.9	189.2
2024	116.1	64.7	180.8	2.3	3.6	5.9	186.7
2025	105.7	58.7	164.4	2.5	3.5	6.0	170.4
2026	99.1	53.7	152.8	5.8	3.5	9.3	162.1
2027	73.7	49.2	122.9	6.1	3.4	9.5	132.4
2028	74.9	45.9	120.8	6.3	3.3	9.6	130.4
2029	68.5	42.6	111.1	6.6	3.1	9.7	120.9
2030	53.5	39.8	93.3	6.9	3.0	9.9	103.2
2031	55.6	37.3	92.9	7.2	2.8	10.0	102.9
2032	57.8	34.6	92.4	7.4	2.7	10.1	102.5
2033	60.1	31.9	92.0	7.7	2.6	10.3	102.3
2034	62.4	29.3	91.7	8.0	2.4	10.4	102.1
2035	64.9	26.6	91.5	8.4	2.2	10.6	102.1
2036	72.6	23.7	96.3	8.7	2.1	10.8	107.1
2037	61.8	20.5	82.3	9.1	1.9	11.0	93.3
2038	64.1	17.8	81.9	9.5	1.7	11.2	93.1
2039	66.4	15.1	81.5	9.8	1.5	11.3	92.8
2040	69.0	12.1	81.1	10.2	1.3	11.5	92.6
2041	57.5	9.5	67.0	10.6	1.1	11.7	78.7
2042	43.1	7.4	50.5	11.1	0.9	12.0	62.6
2043	45.0	5.6	50.6	11.5	0.7	12.2	62.8
2044	35.8	3.8	39.6	12.0	0.5	12.5	52.1
2045	28.0	2.4	30.4	12.5	0.2	12.7	43.1
2046	20.8	1.4	22.2	5.6	0.1	5.7	27.8
2047	14.0	0.6	14.6	-	-	-	14.6
Total	\$ 2,147.3	\$ 1,137.7	\$ 3,285.0	\$ 198.2	\$ 70.2	\$ 268.4	\$ 3,553.4

^(a) Maximum debt service of \$219.2 is due in 2018. See Note 9 Long-term debt.

Note: All parity bonds of the Department are fixed rate bonds except the 2015B and the 2017 A&B bonds which are variable rate bonds.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

STATEMENT OF LONG-TERM DEBT

As of December 31, 2017
(\$ in millions)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2008	2018	5.000	\$ 36.7	\$ 11.0	\$ 11.0	\$ 0.2
Series 2008	2019-2020	5.250	20.6	10.0	-	0.1
Series 2010A	2018-2021	4.447	4.6	4.6	-	0.1
Series 2010A	2022	4.597	7.2	7.2	-	0.1
Series 2010A	2023	4.747	7.5	7.5	-	0.1
Series 2010A	2024	4.947	7.7	7.7	-	0.2
Series 2010A	2025	5.047	8.0	8.0	-	0.2
Series 2010A	2026	5.147	8.2	8.2	-	0.2
Series 2010A	2027	5.247	8.5	8.5	-	0.2
Series 2010A	2028-2030	5.470	27.4	27.4	-	0.6
Series 2010A	2031-2040	5.570	102.6	102.5	-	2.4
Series 2010B	2018	4.000	5.0	5.0	5.0	0.1
Series 2010B	2018	5.000	38.8	38.8	38.8	0.8
Series 2010B	2019	4.000	1.5	1.5	-	-
Series 2010B	2019	5.000	42.7	42.7	-	0.9
Series 2010B	2020	4.000	2.6	2.6	-	-
Series 2010B	2020	5.000	43.9	43.9	-	0.9
Series 2010B	2021-2026	5.000	187.8	155.8	-	3.3
Series 2010C	2018-2040	5.590	13.3	13.3	-	0.3
Series 2011A	2018-2030	5.500	20.4	4.9	4.9	0.1
Series 2011A	2031-2036	5.250	75.8	75.8	6.6	1.6
Series 2011B	2027	5.750	10.0	10.0	-	0.2
Series 2012A	2018-2027	5.000	198.0	157.2	18.1	0.6
Series 2012A	2028	3.250	12.4	12.4	-	-
Series 2012A	2034-2036	4.000	25.1	25.1	-	0.1
Series 2012A	2037-2041	4.000	49.1	49.1	-	0.2
Series 2012C	2028	3.400	4.3	4.3	-	-
Series 2012C	2029	3.500	7.7	7.7	-	-
Series 2012C	2030	3.500	7.7	7.7	-	-
Series 2012C	2031-2033	3.750	23.4	23.4	-	0.1
Series 2013	2018-2033	5.000	97.4	91.3	3.3	2.2
Series 2013	2034-2035	4.000	14.7	14.7	-	0.3
Series 2013	2036-2038	4.125	24.4	24.4	-	0.6
Series 2013	2039-2043	4.500	48.3	48.3	-	1.1
Series 2014	2018-2029	5.000	163.2	130.1	15.7	2.0
Series 2014	2030-2038	4.000	53.9	53.9	-	0.8
Series 2014	2039-2040	4.000	14.8	14.8	-	0.2
Series 2014	2041-2044	4.000	33.3	33.3	-	0.5
Series 2015A	2018-2026	5.000	62.9	52.1	6.2	0.4
Series 2015A	2027-2045	4.000	109.0	109.0	-	0.8
Series 2015B B.1	2026-2045	1.30 - 2.39 ^A	50.0	50.0	-	0.1
Series 2015B B.2	2026-2045	1.30 - 2.39 ^A	50.0	50.0	-	0.1
Series 2016A	2036-2041	4.050	31.9	31.9	-	0.6
Series 2016B	2020-2028	5.000	103.0	101.5	-	1.2
Series 2016B	2029	4.000	13.9	13.9	-	0.2
Series 2016C	2018-2026	5.000	56.9	54.8	2.3	0.5
Series 2016C	2027-2046	4.000	103.9	103.9	-	1.2
Series 2017A	2018-2046	0.974 - 1.383 ^A	50.0	49.1	0.9	0.1
Series 2017B	2018-2046	0.974 - 1.383 ^A	50.0	49.1	0.9	0.1
Series 2017C	2018-2032	5.000	174.2	174.2	5.1	2.0
Series 2017C	2033-2047	4.000	211.3	211.3	-	2.4
Total			<u>\$ 2,525.5</u>	<u>\$ 2,345.5</u>	<u>\$ 118.8</u>	<u>\$ 31.0</u>

^A Range of adjustable rates in effect during 2017.

Note: All parity bonds of the Department are fixed rate bonds except the 2015B and 2017A&B bonds, which are variable rate bonds.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

Year ending December 31 (\$ in millions)	2017	2016	2015	2014	2013
POWER COSTS					
Hydroelectric generation ^{(a)(c)}	\$ 41.6	\$ 53.0	\$ 50.1	\$ 49.9	\$ 54.0
Long-term purchased power ^(b)	224.8	219.8	213.6	214.3	203.1
Wholesale power purchases ^{(c)(e)}	15.2	15.1	26.8	14.9	19.8
Fair valuation & other power purchases ^{(b)(c)}	11.4	10.5	11.8	17.7	14.1
Owned transmission ^(a)	10.3	15.9	17.2	15.3	15.1
Wheeling expenses	42.9	42.9	42.0	42.1	37.4
Other power expenses	13.9	12.8	12.9	13.2	12.2
Total power costs	<u>360.1</u>	<u>370.0</u>	<u>374.4</u>	<u>367.4</u>	<u>355.7</u>
Less short-term wholesale power sales ^(c)	(60.9)	(62.9)	(61.2)	(96.8)	(63.0)
Less other power-related revenues	(20.8)	(16.7)	(19.9)	(25.5)	(21.5)
Less fair valuation other power-related ^(b)	<u>(15.0)</u>	<u>(15.9)</u>	<u>(16.9)</u>	<u>(25.3)</u>	<u>(18.9)</u>
Net power costs	<u>\$ 263.4</u>	<u>\$ 274.5</u>	<u>\$ 276.4</u>	<u>\$ 219.8</u>	<u>\$ 252.2</u>
POWER STATISTICS (MWh)					
Hydroelectric generation ^(c)	6,396,563	6,707,264	5,979,884	7,091,368	6,108,908
Long-term purchased power ^(b)	7,521,767	7,215,308	6,900,647	6,658,689	6,482,960
Wholesale power purchases ^{(c)(e)}	904,362	936,289	1,379,168	900,527	2,072,066
Wholesale power sales ^{(c)(e)}	(3,695,173)	(4,044,452)	(3,548,507)	(4,083,391)	(3,854,352)
Other ^(d)	<u>(1,154,419)</u>	<u>(1,117,826)</u>	<u>(1,023,970)</u>	<u>(655,569)</u>	<u>(760,882)</u>
Total power available	<u>9,973,100</u>	<u>9,696,583</u>	<u>9,687,222</u>	<u>9,911,624</u>	<u>10,048,700</u>
Less self consumed energy	(26,691)	(24,912)	(25,195)	(29,717)	(30,910)
Less system losses	<u>(537,750)</u>	<u>(491,233)</u>	<u>(504,533)</u>	<u>(541,323)</u>	<u>(511,390)</u>
Total power delivered to retail customers	<u>9,408,659</u>	<u>9,180,438</u>	<u>9,157,494</u>	<u>9,340,584</u>	<u>9,506,400</u>
Net power cost per MWh delivered	<u>\$ 28.00</u>	<u>\$ 29.90</u>	<u>\$ 30.18</u>	<u>\$ 23.53</u>	<u>\$ 26.53</u>

(a) Including depreciation.

(b) Long-term purchased power, fair valuation & other power purchases, and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts are valued at market. Disclosures required by GASB Statement No. 72, *Fair Value Measurement and Application*, are available in Note 2 Fair Value Measurements.

(c) The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region.

(d) "Other" includes seasonal exchange power delivered and miscellaneous power transactions.

(e) Bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales, however MWh are presented gross.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

	2017	2016	2015	2014	2013
Department-Owned Generation					
Boundary Project	3,825,302	3,888,316	3,469,855	4,249,957	3,465,890
Skagit Hydroelectric Project:				-	-
Gorge	998,676	1,036,540	953,628	1,057,865	955,265
Diablo	692,828	870,216	775,025	857,757	828,200
Ross	741,493	791,415	684,687	796,513	726,560
Cedar Falls/Newhalem	83,461	68,429	47,571	65,687	77,397
South Fork Tolt	<u>54,803</u>	<u>52,348</u>	<u>49,118</u>	<u>63,589</u>	<u>55,596</u>
Subtotal	<u>6,396,563</u>	<u>6,707,264</u>	<u>5,979,884</u>	<u>7,091,368</u>	<u>6,108,908</u>
Energy Purchases					
Bonneville	5,482,904	5,138,417	4,971,459	5,155,271	5,079,991
Priest Rapids	24,532	25,249	23,698	21,961	33,205
Columbia Basin Hydropower	228,789	253,628	258,678	272,842	254,568
High Ross	313,973	308,478	310,102	307,873	312,350
Lucky Peak	463,403	340,474	278,001	308,334	215,587
Stateline Wind Project	330,161	373,389	299,551	357,325	363,099
Columbia Ridge	96,096	99,487	94,271	68,920	51,577
Seasonal and Other Exchange(a)	581,909	676,186	664,887	411,555	69,940
Wholesale Market Purchases(b)	<u>904,362</u>	<u>936,289</u>	<u>1,379,168</u>	<u>900,527</u>	<u>2,072,066</u>
Subtotal	<u>8,426,129</u>	<u>8,151,597</u>	<u>8,279,815</u>	<u>7,804,608</u>	<u>8,452,383</u>
Total Department Resources	<u>14,822,692</u>	<u>14,858,861</u>	<u>14,259,699</u>	<u>14,895,976</u>	<u>14,561,291</u>
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ^(c)	328,666	344,383	331,897	393,844	421,375
Seasonal and Other Exchange ^(b)	825,753	773,443	692,073	507,117	236,864
Wholesale Market Sales	<u>3,695,173</u>	<u>4,044,452</u>	<u>3,548,507</u>	<u>4,083,391</u>	<u>3,854,352</u>
Total Energy Resources	<u>9,973,100</u>	<u>9,696,583</u>	<u>9,687,222</u>	<u>9,911,624</u>	<u>10,048,700</u>

(a) Includes exchange contracts with the Northern California Power Authority (NCPA), Sacramento Municipal Utility District (SMUD), Grant County and the Lucky Peak Project.

(b) Purchases to compensate for low water conditions and to balance loads and resources.

(c) Energy provided to Public Utility District of Pend Oreille County under the Boundary Project's FERC license and include incremental losses due to expanded activity in the wholesale market.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

Years ended December 31,	2017	2016	2015	2014	2013
Average number of customers:					
Residential	403,890	397,074	381,419	374,619	367,837
Non-residential	50,610	50,258	41,391	40,437	40,218
Total	454,500	447,332	422,810	415,056	408,055
Megawatt-hours ^(a) :					
Residential	33% 3,132,079	32% 2,917,984	32% 2,914,563	32% 2,987,711	33% 3,158,629
Non-residential	67% 6,276,580	68% 6,262,454	68% 6,242,931	68% 6,352,873	67% 6,347,771
Total	100% 9,408,659	100% 9,180,438	100% 9,157,494	9,340,584	100% 9,506,400
Average annual revenue per customer ^(a) :					
Residential	812	717	\$ 691	\$ 695	\$ 710
Non-residential	10,757	9,983	\$ 11,390	\$ 11,448	\$ 10,820

* Seattle City Light changed customer counts to Service Agreement effective September 2016 with the implementation of the new retail electric billing system. Service Agreement determines how Seattle City Light and Seattle Public Utilities charge customers for services provided. An account can have several Service Agreements for the different types of services. No revisions were made to prior year customer counts.

Years ended December 31,	2017	2016	2015	2014	2013
Average annual consumption per customer (kWhs) ^{(a)(b)} :					
Residential - Seattle	7,755	7,349	7,641	7,975	8,587
- National	n/a	10,766	10,816	10,936	10,908
Non-residential - Seattle	124,018	124,606	150,828	157,107	157,834
- National	n/a	124,518	125,592	126,114	125,778
Average rate per kilowatt-hour (cents) ^{(a)(b)} :					
Residential - Seattle	10.47	9.75	9.05	8.71	8.27
- National	n/a	12.55	12.65	12.52	12.12
Non-residential - Seattle	8.67	8.01	7.55	7.29	6.86
- National	n/a	8.91	9.08	9.2	8.84

(a) Source of national data: Department of Energy (www.eia.doe.gov/electricity/annual/). 2017 National average annual consumption data and average rate data not available. Certain 2016-2013 national average annual consumption and national average rate data were updated with revised actuals.

(b) Seattle amounts include an allocation for the net change in unbilled revenue. Unbilled revenue excludes retail customer voluntary payments for conservation and solar energy as well as revenue from diverted electricity.

NOTE 1: A comprehensive rate change of 5.6% became effective January 1, 2017.

NOTE 2: A Rate Stabilization Account (RSA) surcharge of 1.5% is currently in effect to all residential and non-residential rates schedules.

NOTE 3: Notice of public hearings on future rate actions may be obtained on request to:

The Office of the City Clerk, 600-4th Ave, Floor Three, Seattle, WA 98104. Phone number 206-684-8344.

Additional information about city of Seattle Council meetings can be found on the Web at www.seattle.gov/council/calendar.

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Housing, Health, Energy and Workers' Rights Committee
The City of Seattle - City Light Department
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Seattle, City Light Department (the "Department") as of and for the year ended December 31, 2017, and have issued our report thereon dated April 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Department are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Department in a separate letter dated April 30, 2018.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 30, 2018

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APPENDIX E
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 populous county in the United States. Of the State’s population, nearly 30% reside in the County, and of the County’s population, 33% live in the City of Seattle.

Population

Historical and current population figures for the State, the County, and the City are given below.

POPULATION			
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>
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
2010 ⁽¹⁾	6,724,540	1,931,249	608,660
2014 ⁽²⁾	6,968,170	2,017,250	640,500
2015 ⁽²⁾	7,061,410	2,052,800	662,400
2016 ⁽²⁾	7,183,700	2,105,000	686,800
2017 ⁽²⁾	7,310,300	2,153,700	713,700
2018 ⁽²⁾	7,427,570	2,190,200	730,400

(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					
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Seattle MD	\$ 59,554	\$ 60,219	\$ 65,033	\$ 68,094	\$ 69,786
King County	65,345	66,073	71,882	75,518	77,213
State of Washington	47,338	47,814	50,890	53,064	54,579
U.S.	44,282	44,493	46,494	48,451	49,246

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 County. The value of public construction is not included in this table.

CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multifamily Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2013	822	\$205,297,350	5,855	\$805,297,482	\$1,010,594,832
2014	898	227,307,102	6,547	881,734,102	1,109,041,204
2015	810	215,818,201	10,530	1,684,630,374	1,900,448,575
2016	797	216,693,139	9,202	1,242,951,877	1,459,645,016
2017	593	162,452,219	9,294	1,562,063,391	1,724,515,610
2017 ⁽¹⁾	322	88,188,869	3,303	440,160,937	528,349,806
2018 ⁽¹⁾	278	75,638,638	2,841	410,047,387	485,686,025

(1) Through June.

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
2013	\$ 46,601,198,766	\$ 18,258,200,683
2014	49,638,174,066	19,995,171,842
2015	54,890,159,770	22,407,443,037
2016	59,530,882,870	24,287,539,378
2017	62,910,608,935	26,005,147,210

Source: Washington State Department of Revenue and Quarterly Business Review

Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data as of May 1, 2018 (except where noted).

PUGET SOUND AREA MAJOR EMPLOYERS	
Employer	Employees
The Boeing Company	65,800 ⁽¹⁾
Joint Base Lewis-McChord	54,000
Amazon.com Inc.	50,000
Microsoft Corp.	46,300 ⁽¹⁾
Navy Region Northwest	45,900
University of Washington	45,000
Providence Health & Services	43,100
Safeway Inc. and Albertsons LLC	21,500 ⁽¹⁾
Wal-Mart Stores, Inc.	20,000
Costco Wholesale Corp.	17,600 ⁰
MultiCare Health System	16,300
Fred Meyer Stores	15,500 ⁽¹⁾
King County Government	15,300 ⁽¹⁾⁽²⁾
Starbucks Corp.	14,000 ⁽¹⁾
City of Seattle	13,700 ⁽³⁾
Swedish Medical Center	13,300
CHI Franciscan Health System	12,400
Seattle Public Schools	11,400
Nordstrom Inc.	10,200
PeaceHealth	9,300

(1) Latest information available is for 2017.

(2) Source: King County.

(3) Source: City of Seattle.

Source: *Puget Sound Business Journal*, 2018

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

	Annual Average				
	2013	2014	2015	2016	2017
Civilian Labor Force	1,137,369	1,158,195	1,178,040	1,204,360	1,230,207
Total Employment	1,079,695	1,103,941	1,127,580	1,156,939	1,184,707
Total Unemployment	57,674	54,254	50,460	47,421	45,500
Percent of Labor Force	5.1%	4.7%	4.3%	3.9%	3.7%
NAICS INDUSTRY	2013	2014	2015	2016	2017
Total Nonfarm	1,237,217	1,278,033	1,311,575	1,358,517	1,401,333
Total Private	1,069,975	1,108,425	1,137,442	1,180,175	1,219,450
Goods Producing	162,508	168,283	174,908	176,800	178,550
Mining and Logging	458	458	575	500	575
Construction	55,883	60,792	66,800	70,833	75,108
Manufacturing	106,167	107,025	107,542	105,475	102,892
Service Providing	1,074,708	1,109,750	1,136,667	1,181,717	1,222,783
Trade, Transportation, and Utilities	225,167	235,758	244,433	254,642	269,508
Information	82,617	85,583	89,058	95,967	102,983
Financial Activities	70,892	72,000	69,675	70,758	71,208
Professional and Business Services	201,042	207,933	215,733	222,667	228,183
Educational and Health Services	162,633	167,983	167,008	174,592	179,092
Leisure and Hospitality	120,575	124,883	130,108	136,425	141,392
Other Services	44,542	46,000	46,517	48,325	48,533
Government	167,242	169,608	174,133	178,342	181,883
Workers in Labor/Management Disputes	0	0	0	0	0

June 2018

Civilian Labor Force	1,251,339
Total Employment	1,204,627
Total Unemployment	46,712
Percent of Labor Force	3.7%

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

APPENDIX F
BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the “Beneficial Owners”) should confirm the following with DTC or its participants (the “Participants”).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds, 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’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 the 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.

Redemption notices will 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 maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 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 the 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 securities 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 obligated to exchange or transfer any Bond during the 15 days preceding any principal or interest payment or redemption date.

Neither the City nor the Bond Registrar shall have any responsibility or obligation to Participants of DTC or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC 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 Registered Owners under the Bond Ordinance (except such notice as is required to be given by the Bond Registrar to DTC).