OFFICIAL STATEMENT

New Issue | **Moody's Rating: Aa1**
Book-Entry Only | **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 and corporations. See "Legal and Tax Information—Tax Matters."

$111,010,000

THE CITY OF SEATTLE, WASHINGTON

DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021

DATED: DATE OF INITIAL DELIVERY | **DUE: SEPTEMBER 1, AS SHOWN ON PAGE i**

The City of Seattle, Washington (the "City"), will issue its Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2021 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of the Securities Depository.

The Depository Trust Company, New York, New York ("DTC") will act as initial Securities Depository for the Bonds. Individual purchases of the Bonds will be made in Book-Entry Form, in the denomination of $5,000 or any integral multiple thereof within a single maturity. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2021. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (the "Bond Registrar") (currently U.S. Bank National Association) to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Bonds, as described in "Description of the Bonds—Registration and Book-Entry Form" and in Appendix E.

The Bonds are being issued to pay for part of the costs of various projects of the City's Drainage and Wastewater System, to refund certain outstanding obligations of the Drainage and Wastewater System, and to pay the costs of issuing the Bonds and the costs of 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 special limited obligations of the City payable from and secured solely by the Net Revenue of the Drainage and Wastewater System (including all utility local improvement district assessments pledged to Parity Bonds) and by money in the Parity Bond Account and the subaccounts therein (including the Reserve Subaccount). Net Revenue is pledged to make the payments into the Parity Bond Account and the Reserve Subaccount required by the Bond Documents, which pledge constitutes a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever. The Bonds are on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without preference or priority of right or lien. Upon the redemption or defeasance of certain of the Outstanding Parity Bonds, the Bond Documents provide that the Bonds will cease to be secured by the Reserve Subaccount. See "Security for the Bonds."

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

The Bonds are offered for delivery by the Purchaser, 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 B. Bond Counsel will also act as Disclosure Counsel to the City. It is expected that the Bonds will be ready for delivery at DTC's facilities in New York, New York, or to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about June 8, 2021.

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

Dated: May 19, 2021

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

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 Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Documents have 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 Securities and Exchange Commission has 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 historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The information set forth in the Drainage and Wastewater System's 2020 Audited Financial Statements, which are included as Appendix C, speaks only as of the date of those statements and is subject to revision or restatement in accordance with applicable accounting principles and procedures. The City specifically disclaims any obligation to update this information except to the extent described under "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 Ratings. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP number for a specific maturity is subject to change after the issuance of the Bonds. Neither the City nor the successful bidder take responsibility for the accuracy of the CUSIP numbers.

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

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.

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

$111,010,000

DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021

SERIAL BONDS

Due September 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2022	$ 2,020,000	5.00%	0.12%	105.998	812631 PH6
2023	2,125,000	5.00%	0.16%	110.772	812631 PJ2
2024	2,240,000	5.00%	0.29%	115.133	812631 PK9
2025	2,360,000	5.00%	0.43%	119.137	812631 PL7
2026	2,490,000	5.00%	0.55%	122.912	812631 PM5
2027	2,625,000	5.00%	0.69%	126.239	812631 PN3
2028	2,565,000	5.00%	0.82%	129.285	812631 PP8
2029	10,780,000	5.00%	0.93%	132.175	812631 PQ6
2030	11,320,000	5.00%	1.02%	134.974	812631 PR4
2031	11,895,000	5.00%	1.08%	137.869	812631 PS2
2032	9,160,000	4.00%	1.17% (1)	127.210	812631 PT0
2033	1,860,000	4.00%	1.21% (1)	126.769	812631 PU7
2034	1,935,000	4.00%	1.25% (1)	126.330	812631 PV5
2035	2,010,000	4.00%	1.30% (1)	125.784	812631 PW3
2036	2,090,000	4.00%	1.35% (1)	125.241	812631 PX1
2037	2,175,000	4.00%	1.40% (1)	124.700	812631 PY9
2038	2,260,000	4.00%	1.44% (1)	124.269	812631 PZ6
2039	2,350,000	4.00%	1.49% (1)	123.733	812631 QA0
2040	2,445,000	4.00%	1.53% (1)	123.306	812631 QB8
2041	2,545,000	4.00%	1.58% (1)	122.775	812631 QC6
2042	2,645,000	4.00%	1.63% (1)	122.247	812631 QD4
2043	2,750,000	4.00%	1.66% (1)	121.931	812631 QE2
2044	2,860,000	4.00%	1.69% (1)	121.616	812631 QF9
2045	2,975,000	4.00%	1.72% (1)	121.302	812631 QG7
2046	3,095,000	4.00%	1.73% (1)	121.198	812631 QH5

TERM BONDS

Due September 1	Amounts (1)	Interest Rates	Yields	Prices	CUSIP Numbers
2049	$ 10,050,000	4.00%	1.76% (1)	120.885	812631 QL6
2051	7,385,000	4.00%	1.78% (1)	120.677	812631 QN2

(1) Calculated to the September 1, 2031, par call date.

THE CITY OF SEATTLE

MAYOR AND CITY COUNCIL

Jenny A. Durkan	**Mayor**
Council Member	**Term Expiration**
Lorena González	2021
Lisa Herbold	2023
Debora Juarez	2023
Andrew Lewis	2023
Tammy Morales	2023
Teresa Mosqueda	2021
Alex Pedersen	2023
Kshama Sawant	2023
Dan Strauss	2023

CITY ADMINISTRATION

Glen M. Lee	Director of Finance
Peter Holmes	City Attorney

SEATTLE PUBLIC UTILITIES

Mami Hara	General Manager/Chief Executive Officer
Paula Laschober	Chief Financial Officer/Deputy Director of Financial and Risk Services
Idris Beauregard	Interim Deputy Director of People, Culture, and Community
Keri Burchard-Juarez	Deputy Director for Project Delivery and Engineering
Andrew Lee	Deputy Director for Drainage and Wastewater Line of Business
Jeff Fowler	Deputy Director for Solid Waste Line of Business
Alex Chen	Interim Deputy Director for Water Line of Business and Shared Services

BOND COUNSEL

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

MUNICIPAL ADVISOR

Piper Sandler & Co.
Seattle, Washington

BOND REGISTRAR

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

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PRELIMINARY OFFICIAL STATEMENT

$111,010,000
THE CITY OF SEATTLE, WASHINGTON
DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021

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"), in connection with the offering of $111,010,000 aggregate principal amount of its Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2021 (the "Bonds"). This Official Statement contains certain information related to such offering and sale concerning the City, the Bonds, Seattle Public Utilities ("SPU"), and the City's drainage and wastewater system (the "Drainage and Wastewater System").

Appendix A to this Official Statement is a copy of the ordinances authorizing the new money portion of the Bonds (see "Description of the Bonds—Authorization for the Bonds"). Appendix B is the form of legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington ("Bond Counsel"). Appendix C is the audited financial statements of the Drainage and Wastewater Fund as of and for the fiscal year ended December 31, 2020 (the "2020 Financial Statements"). Appendix D provides demographic and economic information for the City. Appendix E is a description provided on its website by The Depository Trust Company, New York, New York ("DTC"), of DTC procedures with respect to book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the ordinance attached as Appendix A and in the Bond Resolution (as defined below).

All of the summaries of provisions of the Washington State Constitution (the "State Constitution") and laws of the State, of ordinances and resolutions of the City, and of other documents contained in this Official Statement, copies of which may be obtained from the City upon request, are subject to the complete provisions thereof and do not purport to be complete statements of such laws or documents. 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.

The spread of COVID-19, the illness caused by the novel coronavirus known as SARS-CoV-2, is currently affecting local, State, national, and global economic activity. The COVID-19 pandemic is ongoing and has resulted in significant public health emergency response costs and reduced sources of state and local government revenue. Consequently, the pandemic has materially adversely impacted the financial condition of the City.

The historical financial data and information presented may not necessarily predict near term trends accurately. Moreover, because of the delay between taxable activity, collections, distribution and reporting, the most recently available data may not capture the full effects of the ongoing pandemic, response, and recovery. Any forecast information speaks only as of the date it was prepared and the reader should exercise caution in relying on such information. Actual results could differ materially. See more specific information set forth throughout this Official Statement and particularly under "Seattle Public Utilities—Operating and Fiscal Impacts of COVID-19 Pandemic" and "Other Considerations—Global Health Emergency Risk and City's Response to the COVID-19 Pandemic."

DESCRIPTION OF THE BONDS

Authorization for the Bonds

The Bonds are to be issued by the City pursuant to the State Constitution, chapters 35.92 and 39.53 of the Revised Code of Washington ("RCW"), the Seattle City Charter, Ordinance 125454, passed by the City Council on November 20, 2017 (as amended by Ordinance 125712, passed by the City Council on November 19, 2018, and Ordinance 126222, passed by the City Council on November 23, 2020) (as amended, the "New Money Ordinance"), and Ordinance 125455, passed by the City Council on November 20, 2017 (the "Refunding Bond Ordinance" and, together with the New Money Ordinance, the "Bond Ordinance"), delegating 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 certificate of bid award, a pricing certificate ("Pricing Certificate"), and other documents (collectively, the "Bond Documents") in accordance with the parameters set forth in the Bond Ordinance.

The New Money Ordinance authorized the issuance of drainage and wastewater system bonds in a maximum aggregate principal amount not to exceed $500,000,000. Pursuant to this authorization, the City previously issued its $192,181,651 Drainage and Wastewater System Improvement Revenue Bond, 2020A (Ship Canal Water Quality Project—N18106WA), to evidence a loan through the Water Infrastructure Finance and Innovation Act ("WIFIA") program, leaving $307,818,349 of authorization available for the Bonds and future Parity Bonds. The authorization expires on December 31, 2023.

Principal Amounts, Dates, Interest Rates, and Maturities

The Bonds will be dated the date of their initial issuance and delivery. The Bonds will mature on September 1 in the years and amounts set forth on page i of this Official Statement.

Interest on the Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2021, at the rates set forth on page i of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Registration and Book-Entry Form

Registrar and Paying Agent. The Bonds will be issued only in registered form as to both principal and interest. The fiscal agent for the State, 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 act as registrar and paying agent for the Bonds (the "Bond Registrar").

Book-Entry Form. The Bonds will be held fully immobilized in Book-Entry Form, registered in the name of the Securities Depository (defined in the Bond Documents as the Depository Trust Company, New York, New York ("DTC"), or any successor thereto) in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar 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 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 E—Book-Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix E obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

Termination of Book-Entry System. Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the Director of Finance to discontinue services of the 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 no longer will be held in Book-Entry Form and ownership may be transferred only as provided in the Bond Ordinance.

Lost or Stolen Bonds. In case any Bond is lost, stolen, or destroyed, the Bond Registrar 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 evidence satisfactory to the Bond Registrar 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

Principal of and interest on each Bond is payable in the manner set forth in the Letter of Representations. No Bonds will be subject to acceleration under any circumstances.

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 mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. The City, however, is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received at least ten days prior to the Record Date and at the sole expense of the Registered Owner. Principal of each Bond not held in Book-Entry Form is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

The Bond Ordinance defines "Record Date" as, in the case of each interest or principal payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest or principal payment date. With regard to redemption of a Bond prior to its maturity, the Record Date means the Bond Registrar's close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption to the Registered Owner(s) of the affected Bonds.

Redemption of Bonds

Optional Redemption The Bonds maturing on and before September 1, 2031, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after September 1, 2032, prior to their stated maturity dates at any time on and after September 1, 2031, as a whole or in part, at a price equal to 100% of the stated principal amount to be redeemed plus accrued interest to the date fixed for redemption.

Mandatory Redemption. If not redeemed or purchased at the City's option prior to maturity, the Bonds maturing on September 1 in the years 2049 and 2051, designated as Term Bonds, must be redeemed, at a price equal to 100% of the principal amount to be redeemed plus accrued interest, on September 1 in the years and principal amounts as follows:

2049 TERM BONDS	
Years	**Amounts**
2047	$ 3,220,000
2048	3,350,000
2049(1)	3,480,000

2051 TERM BONDS	
Years	**Amounts**
2050	$ 3,620,000
2051(1)	3,765,000

(1) Maturity.

If the City optionally redeems or purchases Term Bonds prior to maturity, the principal amount of those Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited against the remaining mandatory redemption installment payments as directed by the Director of Finance. In the absence of direction by the Director of Finance, credit will be allocated to each mandatory redemption installment payment for that Bond on a *pro rata* basis.

Selection of Bonds for Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If less than all of the principal amount of a maturity of the Bonds is to be redeemed and such maturity is held in Book-Entry Form, the portion of such maturity to be redeemed will be selected for redemption by the Securities Depository in accordance with the Letter of Representations, and if such maturity is not then held in Book-Entry Form, the portion of such maturity to be redeemed will be selected by the Bond Registrar at random in such manner as the Bond Registrar determines.

All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in denominations of $5,000 or integral multiples thereof within a maturity of the Bonds ("Authorized Denominations"). If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, 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 maturity and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

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 notice 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 E.

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 the Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior to the scheduled optional redemption date. Any notice of optional redemption that is 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.

Purchase

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

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 interest on that Bond at the same rate provided on 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 Drainage and Wastewater System Parity Bond Account (the "Parity Bond Account"), and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

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 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 are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the "Trust Account"), then all right and interest of the Owners of the Defeased Bonds in the covenants of the Bond Ordinance and in the Net Revenue (defined under "Security for the Bonds—Pledge of 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 have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. After the Trust Account is established and fully funded, the Defeased Bonds will be deemed 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 purposes. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner set forth in the Bond Ordinance for the redemption of Bonds.

The term "Government Obligations" is defined in the Bond Ordinance to include any securities that are then permissible investments under the State law definition of "government obligations" under RCW 39.53.010. In the Pricing Certificate, the City has limited eligibility to the following types of securities (provided that such securities are then permissible under the applicable statute): (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

Defaults and Remedies; No Acceleration of the Bonds

The Bond Ordinance does not enumerate events of default or remedies upon an event of default. In the event of a default, Bond owners would be permitted to pursue remedies permitted by State law. See "—Failure to Pay Bonds" above and "Security for the Bonds" below.

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal of or interest on the 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 Bonds.

USE OF PROCEEDS

Purpose

The Bonds are being issued to pay for part of the costs of various projects of the City's Drainage and Wastewater System, to refund, subject to market conditions, certain of the City's outstanding obligations (described below under "—Refunding Plan"), and to pay the costs of issuing the Bonds and, if applicable, the costs of administering the Refunding Plan.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

SOURCES OF FUNDS	
Stated Principal Amount of Bonds	$ 111,010,000.00
Original Issue Premium	29,147,169.50
Contribution of Accrued Interest	34,304.65
Bond Fund Contribution	1,070,000.00
Total Sources of Funds	$ 141,261,474.15
USES OF FUNDS	
Construction Account Deposit	$ 132,272,677.00
Refunding Escrow (Cash Deposit)	8,579,304.66
Costs of Issuance[(1)]	409,492.49
Total Uses of Funds	$ 141,261,474.15

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

Refunding Plan

A portion of the proceeds of the Bonds will be used to carry out a current refunding of the City's Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2009B (the "Refunded Bonds"), as shown below, to achieve debt service savings. The Refunded Bonds will be called on the closing date for the Bonds at the redemption price shown in the table below.

REFUNDED BONDS

Bond Component	Maturity Date	Interest Rate (%)	Par Amount	Redemption Date	Redemption Price (%)	CUSIP Number
Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2009B						
Dated 12/17/2009						
Serial	11/1/2021	3.25	$ 1,070,000	6/8/2021	100	812631 JE0
	11/1/2022	4.00	1,105,000	6/8/2021	100	812631 JF7
	11/1/2023	4.00	1,160,000	6/8/2021	100	812631 JG5
	11/1/2024	4.00	1,215,000	6/8/2021	100	812631 JH3
	11/1/2025	4.00	1,270,000	6/8/2021	100	812631 JJ9
Term	11/1/2027	4.00	2,725,000	6/8/2021	100	812631 JL4
Total			$ 8,545,000			

SECURITY FOR THE BONDS

Pledge of Net Revenue

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Drainage and Wastewater System (including all utility local improvement district assessments pledged to Parity Bonds ("ULID Assessments"), if any) and by money in the Parity Bond Account and the subaccounts therein. Net Revenue (including ULID Assessments, if any) is pledged to make the payments in respect of the Parity Bonds into the Parity Bond Account and the Reserve Subaccount required by the Bond Documents, which pledge constitutes a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever. The Bonds are on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without preference or priority of right or lien. Upon the redemption or defeasance of certain of the Outstanding Parity Bonds, the Bond Documents provide that the Bonds will cease to be secured by the Reserve Subaccount. The City has covenanted that for as long as any Bond is outstanding, it will not issue any other revenue obligations (or create any special fund or account therefor) which will have a priority over or which will rank on a parity with the payments required in respect of the Parity Bonds and that it will issue Future Parity Bonds only in accordance with the Bond Documents. See "—Additional Obligations" and Appendix A—Bond Ordinance—Section 13 and Section 17.

The City has reserved the right to combine the Drainage and Wastewater System, including its funds and accounts, with other City utility systems, funds, and accounts. See "—Combined Utility Systems."

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

The Parity Bond Account has been created in the Drainage and Wastewater Fund for the sole purpose of paying the principal of and interest on all Parity Bonds, including the Bonds. So long as any Parity Bonds are outstanding, the City has agreed to set aside and pay into the Parity Bond Account all ULID Assessments on their collection and certain amounts from the Net Revenue of the Drainage and Wastewater System sufficient to pay interest, or principal and interest and sinking fund requirements, due and payable on the Parity Bonds on the payment date and to fund the Reserve Subaccount (see "Reserve Subaccount" below). See Appendix A—Bond Ordinance—Section 15.

Reserve Subaccount

The Reserve Subaccount has been created and maintained as a subaccount within the Parity Bond Account for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding. The City covenants that it will at all times, so long as any Parity Bonds are outstanding, maintain the Reserve Subaccount at the least of (i) Maximum Annual Debt Service on all Parity Bonds outstanding at the time of calculation, (ii) 1.25 times Adjusted Annual Debt Service on all Parity Bonds outstanding at the time of calculation, or (iii) the sum of 10% of the proceeds of each series of Parity Bonds then outstanding, as of the delivery of each such series (the "Reserve Requirement"), as it is adjusted from time to time, except for withdrawals authorized by the Bond Documents. Under the Bond Documents, the City must fund any increase in the Reserve Requirement due to the issuance of the Bonds by a deposit of Parity Bond proceeds, Net Revenue in no more than five annual installments, or a Reserve Security.

From and after the date (the "Reserve Covenant Date") of the defeasance or redemption of the Drainage and Wastewater Revenue Bonds, 2009A (Taxable Build America Bonds-Direct Payment) (the "2009A Bonds"); Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2009B (the "2009B Bonds"); Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012 (the "2012 Bonds"); Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2014 (the "2014 Bonds"); and Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2016 (the "2016 Bonds"), the Reserve Subaccount will secure only such Parity Bonds as are designated as "Covered Parity Bonds" and the Reserve Requirement will be calculated based on debt service relating to Covered Parity Bonds only. The Bond Documents provide that, from and after the defeasance or redemption of the Outstanding Parity Bonds, the Bonds will be designated as Parity Bonds that are not Covered Parity Bonds and after the Reserve Covenant Date, the Bonds will no longer be secured by the amounts on deposit in the Reserve Subaccount. See Appendix A—Bond Ordinance—Section 1 for definitions of Covered Parity Bonds and Reserve Requirement and —Section 13.

Upon the issuance of the Bonds, the Reserve Subaccount is expected to be funded as shown in the following table. Under the Bond Documents, each of the surety policies shown in the following table qualifies as a Reserve Security in order to satisfy the Reserve Requirement, as each issuer was assigned a credit rating in the two highest rating categories at the time of issuance. See Appendix A—Bond Ordinance—Section 1 for definitions of Reserve Security and Qualified Insurance. The existing Reserve Securities and cash on deposit securing the Reserve Subaccount are shown in the following table.

CASH AND SURETY BONDS

Provider	Surety Amount	Expiration	Ratings as of 12/31/2020 Moody's	S&P
AMBAC	$1,577,250 (1)	11/01/2027	withdrawn	
NPFG(2)	3,572,313 (1)	11/01/2029	Baa2	NR
NPFG(3)	3,756,104	11/01/2031	Baa2	NR
NPFG(3)	3,866,550	07/01/2032	Baa2	NR
NPFG(2)	3,538,992	09/01/2034	Baa2	NR
NPFG(2)	2,188,810	02/01/2037	Baa2	NR
NPFG(2)	5,053,914	02/01/2037	Baa2	NR
Total Surety Bonds	$23,553,933			
Cash Deposits				
Existing Cash Deposit	$30,872,471			
Total Cash and Surety Bonds	$54,426,404			
Reserve Fund Requirement	$51,955,139			

(1) Bond issue no longer outstanding. Nevertheless, in each case, the policy language provides that the Surety instrument originally purchased in connection with issuance of each of these prior Parity Bonds will remain in effect until the earlier of the termination date or the day on which no Parity Bonds secured by the Reserve Subaccount remain outstanding.

(2) Reinsured by National Public Finance Guarantee Corp. (a wholly-owned subsidiary of MBIA, Inc.) ("NPFG").

(3) Purchased in 2007 independent of a bond issue as a substitution of Reserve Security for cash held in the Reserve Subaccount. Surety originally provided by Financial Guaranty Insurance Company.

Note: Totals may not add due to rounding.

Outstanding Parity Bonds

The outstanding 2009A Bonds, 2009B Bonds (which are designated as the Refunded Bonds), 2012 Bonds, 2014 Bonds, 2016 Bonds, the Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2017 (the "2017 Bonds"), and the WIFIA Bond (which was issued in 2020 but has not yet been drawn upon) issued by the City and secured by Net Revenue on a parity with the Bonds collectively are referred to as the "Outstanding Parity Bonds." The Outstanding Parity Bonds, the Bonds, and any Future Parity Bonds are collectively referred to as the "Parity Bonds." The following table provides a summary of the Outstanding Parity Bonds.

OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal on 5/7/2021
2009A Bonds	$ 102,535,000	$ 89,920,000
2009B Bonds[(1)]	36,680,000	8,545,000
2012 Bonds	222,090,000	163,355,000
2014 Bonds	133,180,000	117,750,000
2016 Bonds	160,910,000	149,845,000
2017 Bonds	234,125,000	212,615,000
WIFIA Bond[(2)]	-	-
Total	$ 889,520,000	$ 742,030,000

(1) These bonds are Refunded Bonds and are being refunded with a portion of the proceeds of the Bonds. See "Use of Proceeds—Refunding Plan."

(2) Issued through WIFIA in the amount of $192,181,651. Not drawn upon yet.

WIFIA Bond. On April 24, 2020, the City entered into a WIFIA Loan Agreement for up to $192,181,651 (the "WIFIA Bond") with the U.S. Environmental Protection Agency (the "WIFIA Lender"). The WIFIA Bond is available to be drawn from time to time in an aggregate principal amount not to exceed $192,181,651 solely to pay project costs for a large combined sewage storage facility (the "Ship Canal Water Quality Project"). See "Drainage and Wastewater System—Regulations— Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments." The City expects to begin drawing on the WIFIA Bond in 2021. No draws are permitted after the date that is one year after substantial completion of the project, which is estimated to occur by March 5, 2025. The WIFIA Bond has a final maturity date of July 1, 2055, unless earlier paid, with principal payment dates beginning on July 1, 2026. Amounts drawn bear interest at a fixed rate of 1.01%. The WIFIA Bond is subject to prepayment at the option of the City at any time at par plus accrued interest to the date of prepayment.

State Loan Program Obligations

The City has eight currently outstanding agreements with State agencies for very low interest rate loans from various State- and federally-funded revolving fund programs, including the State's Public Works Assistance Account and several programs funded with a combination of State and federal Clean Water Act dollars through the Washington State Department of Ecology ("Ecology"). The loans are used by the City to pay for the construction of capital improvements.

The City's currently outstanding loans are identified in the table below. All outstanding loans are secured by a lien on Net Revenue of the Drainage and Wastewater System that is junior to the lien of the Parity Bonds. The documents for each loan program differ slightly from one another in various respects. While some of the programmatic documents contain language purporting to permit acceleration, the State Attorney General's Office has provided guidance that none of these provisions would be enforced in the event of a default. Certain of the loan documents and a State statute relating to the revolving fund loans funded by federal grants purport to permit the State to recapture loan debt service payments from other funds payable to the borrower by the State to make the revolving fund whole in the event of a payment default. It is not clear whether such a provision would be enforceable or, if such recapture were to occur, what funds would be charged or how it would be treated from an accounting standpoint.

STATE LOAN PROGRAM OBLIGATIONS

Entity	Year of Agreement	Maturity	Amount Outstanding[1]	Interest Rate
High Point	2004	2029	$ 1,255,413	1.50%
Thornton Creek	2004	2024	783,529	0.50%
South Park	2005	2025	985,614	0.50%
Thornton Creek	2006	2030	3,670,381	1.50%
Midvale	2011	2031	2,329,478	25.00%
Capitol Hill Water Quality	2014	2033	1,367,536	2.60%
Henderson	2015	2037	31,449,380	2.40%
Ship Canal Water Quality Project[2]	2019	2042	12,623,133	2.00%
Pearl Street[2]	2020	2039	1,590,305	1.58%

(1) As of December 31, 2020.

(2) Loans are still in the drawdown period; amounts shown in table reflect principal amounts drawn as of December 31, 2020.

SPU has also entered into an additional Clean Water State Revolving Fund ("CWSRF") loan agreement with Ecology and, as of December 31, 2020, is in final negotiations for a third. All three CWSRF loans are federally funded loan programs for financing of the Ship Canal Water Quality Project. In addition to the WIFIA Bond, the three CWSRF loans will bring funding from federal sources to the maximum of 80% of SPU's total project cost. The 2019 CWSRF loan will be drawn for $25 million, the second for $66 million, and the final for $30 million to $40 million, to be settled when a loan agreement is signed later in 2021. Finally, the Public Works Assistance Account loan for Pearl Street will be fully drawn at $10 million in 2021 with repayments beginning in 2022. All of these loans are secured by a pledge of Net Revenues that is subordinate to the pledge of the Parity Bonds.

Additional Obligations

Future Parity Bonds. The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for any lawful purpose of the Drainage and Wastewater System or to refund a portion of the Parity Bonds upon satisfaction of certain conditions set forth in the Bond Documents. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds,

(i) a certificate of the Director of Finance demonstrating that, during any 12 consecutive calendar months out of the immediately preceding 24 calendar months, Adjusted Net Revenue (as defined in Appendix A—Bond Ordinance) was at least equal to 1.25 times Adjusted Annual Debt Service (the "Coverage Requirement") for all Parity Bonds plus the Future Parity Bonds to be issued (using Average Annual Debt Service on such proposed Future Parity Bonds as the assumed debt service for those proposed bonds during such 12-month period); or

(ii) a certificate of the Director of Finance and the Director of SPU demonstrating that, in their opinion, Adjusted Net Revenue for the five fiscal years next following the earlier of (a) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (b) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue (further adjusted as described in the Bond Documents) will be at least equal to the Coverage Requirement.

If the Future Parity Bonds are for the sole purpose of refunding Parity Bonds, no such coverage certification is required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than $5,000 over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds. See Appendix A—Bond Ordinance—Section 17.

Future Subordinate Lien Bonds. In the Bond Documents, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds. The City has never issued subordinate lien obligations other than the State loans described under "State Loan Program Obligations." The City may enter into additional such loans from State agencies, but currently has no intention of issuing bonds or other types of obligations on a subordinate lien basis.

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

Contract Resource Obligations. The City may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of drainage and wastewater services or other commodity or service relating to the Drainage and Wastewater System. The City may determine that, and may agree under a Contract Resource Obligation to provide that, all payments under that Contract Resource Obligation (including payments prior to the time that drainage or wastewater services or other commodity or service is being provided, or during a suspension or after termination of supply or service) will be an Operating and Maintenance Expense, upon compliance with certain requirements of the Bond Documents. See Appendix A—Bond Ordinance—Section 20. The City has never entered into a Contract Resource Obligation with respect to the Drainage and Wastewater System.

Rate Covenant

The City has covenanted to establish, maintain, revise as necessary, and collect rates and charges for services and facilities provided by the Drainage and Wastewater System so that Adjusted Net Revenue in each fiscal year will be sufficient to meet or exceed the Coverage Requirement. Calculations of historical coverage ratios for the Drainage and Wastewater Fund are provided below in Table 10—Drainage and Wastewater System Operating Results under "Drainage and Wastewater System—Financial Performance."

See Appendix A—Bond Ordinance—Section 1 and Section 16(b).

Rate Stabilization Account

The Rate Stabilization Account has been created as a separate account in the Drainage and Wastewater Fund. The City may at any time, as determined by the Director of Finance, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Drainage and Wastewater System and available therefor and may withdraw any or all of the money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. The City has never funded a Rate Stabilization Account in the Drainage and Wastewater Fund and currently has no plans to fund it. See Appendix A—Bond Ordinance—Section 18.

Other Covenants

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

Separate Utility Systems

The City has reserved the right to create, acquire, construct, finance, own, and operate one or more additional systems for drainage and wastewater service or other commodity or service relating to the Drainage and Wastewater System. The revenue of that separate utility system will not be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand the separate utility system. Neither Gross Revenue nor Net Revenue will be pledged by the City to the payment of any obligations of the separate utility system, except as a Contract Resource Obligation in compliance with the Bond Documents or, with respect to Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—

Bond Ordinance—Section 19. The City has never created any such separate utility system relating to drainage and wastewater service and currently has no intention of doing so.

Combined Utility Systems

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

Debt Service Requirements

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

DEBT SERVICE REQUIREMENTS[(1)]

Year	Outstanding Parity Bonds[(2)]	The Bonds Principal	The Bonds Interest	The Bonds Total	Total Parity Bonds	State Loan Program Obligations[(3)]	Total Debt Service
2021	$ 59,059,525	$ -	$ 1,140,005	$ 1,140,005	$ 60,199,530	$ 2,855,588	$ 63,055,118
2022	58,857,003	2,020,000	4,944,600	6,964,600	65,821,603	2,893,611	68,715,214
2023	57,453,753	2,125,000	4,843,600	6,968,600	64,422,353	2,932,621	67,354,974
2024	57,411,896	2,240,000	4,737,350	6,977,350	64,389,246	2,972,644	67,361,890
2025	57,362,896	2,360,000	4,625,350	6,985,350	64,348,246	2,817,822	67,166,068
2026	56,264,896	2,490,000	4,507,350	6,997,350	63,262,246	2,663,800	65,926,046
2027	56,218,234	2,625,000	4,382,850	7,007,850	63,226,084	2,708,975	65,935,059
2028	56,159,284	2,565,000	4,251,600	6,816,600	62,975,884	2,755,264	65,731,148
2029	56,085,421	10,780,000	4,123,350	14,903,350	70,988,771	2,723,747	73,712,518
2030	52,507,078	11,320,000	3,584,350	14,904,350	67,411,428	2,485,361	69,896,789
2031	52,435,215	11,895,000	3,018,350	14,913,350	67,348,565	2,327,121	69,675,686
2032	49,018,815	9,160,000	2,423,600	11,583,600	60,602,415	2,166,377	62,768,792
2033	45,792,275	1,860,000	2,057,200	3,917,200	49,709,475	2,219,189	51,928,664
2034	45,690,818	1,935,000	1,982,800	3,917,800	49,608,618	2,147,715	51,756,333
2035	41,759,838	2,010,000	1,905,400	3,915,400	45,675,238	2,199,831	47,875,069
2036	41,665,335	2,090,000	1,825,000	3,915,000	45,580,335	2,253,212	47,833,547
2037	41,554,778	2,175,000	1,741,400	3,916,400	45,471,178	1,147,027	46,618,205
2038	39,231,865	2,260,000	1,654,400	3,914,400	43,146,265	-	43,146,265
2039	34,447,765	2,350,000	1,564,000	3,914,000	38,361,765	-	38,361,765
2040	27,664,500	2,445,000	1,470,000	3,915,000	31,579,500	-	31,579,500
2041	27,658,600	2,545,000	1,372,200	3,917,200	31,575,800	-	31,575,800
2042	27,657,200	2,645,000	1,270,400	3,915,400	31,572,600	-	31,572,600
2043	22,393,600	2,750,000	1,164,600	3,914,600	26,308,200	-	26,308,200
2044	22,396,900	2,860,000	1,054,600	3,914,600	26,311,500	-	26,311,500
2045	15,959,500	2,975,000	940,200	3,915,200	19,874,700	-	19,874,700
2046	15,960,800	3,095,000	821,200	3,916,200	19,877,000	-	19,877,000
2047	10,348,000	3,220,000	697,400	3,917,400	14,265,400	-	14,265,400
2048	-	3,350,000	568,600	3,918,600	3,918,600	-	3,918,600
2049	-	3,480,000	434,600	3,914,600	3,914,600	-	3,914,600
2050	-	3,620,000	295,400	3,915,400	3,915,400	-	3,915,400
2051	-	3,765,000	150,600	3,915,600	3,915,600	-	3,915,600
Total	$1,129,015,788	$111,010,000	$ 69,552,355	$180,562,355	$1,309,578,143	$42,269,905	$1,351,848,048

(1) Totals may not add due to rounding.

(2) Excludes the Refunded Bonds. Does not reflect the Tax Credit Subsidy Payments associated with the 2009A Bonds. See “Treatment of Tax Credit Subsidy Payments Under the Bond Documents and Consent to Future Amendments.”

(3) These loans are secured by a lien on Net Revenue of the Drainage and Wastewater System that is junior to the lien of the Parity Bonds. Does not include amortization of loans in the process of being drawn down. See “—State Loan Program Obligations.”

Treatment of Tax Credit Subsidy Payments Under the Bond Documents and Consent to Future Amendments

Tax Credit Subsidy Bond Payments and Future Amendments to Bond Documents. The Drainage and Wastewater Revenue Bonds, 2009A (Taxable Build America Bonds—Direct Payment) (the "2009A Parity Bonds"), were issued as Build America Bonds. The Bond Documents authorizing the Outstanding Parity Bonds and the Bonds do not currently permit the City to net the Tax Credit Subsidy Payments received out of its calculation of Annual Debt Service for purposes of calculating whether the Coverage Requirement has been met, or to include the payments expected to be received as Gross Revenue for purposes of meeting the test for issuing Future Parity Bonds. The City includes the amounts actually received in respect of Tax Credit Subsidy Payments as "Other Income" in calculating current compliance with the Coverage Requirement.

Section 24(g) of the Bond Ordinance provides that purchasers of the Bonds have consented to the adoption by the City of future supplemental or amendatory ordinances or resolutions that would permit the tax credit subsidy payments to be netted against debt service to be paid in the future. See Appendix A—Bond Ordinance—Section 24(g).

Effect of Federal Sequestration. With respect to the City's outstanding 2009A Parity Bonds, the City is eligible for a tax credit subsidy payment of 35% of each interest payment due. As a result of federal sequestration, the interest subsidy payments from the federal government that came due in federal fiscal year 2020 were reduced by 5.9% (approximately $104,000), and payments in federal fiscal year 2021 will be reduced by 5.7% (approximately $98,000). The City has sufficient cash available in the Drainage and Wastewater Fund to make timely debt service payments through its 2021 budget cycle. The City cannot predict how future legislative or budgetary measures could adversely affect the amount of the subsidy payment to the City.

SEATTLE PUBLIC UTILITIES

Administrative Structure

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

Management

SPU consists of the General Manager's Office, which includes groups dedicated to corporate policy, corporate performance, and intergovernmental relations, and six Executive Branches. Three of these provide utility-wide services: People, Culture, and Community; Financial and Risk Services; and Project Delivery and Engineering; and three are lines of business: Drainage and Wastewater, Solid Waste, and Water. This organizational structure grew out of work done for the Strategic Business Plan with implementation beginning in 2019. See "Drainage and Wastewater System—Strategic Business Plan." The General Manager administers SPU in accordance with policies established by the Mayor of the City (the "Mayor") and the City Council. Brief biographies of the members of SPU's executive management team follow.

Mami Hara, ASLA, AICP, General Manager/Chief Executive Officer. Ms. Hara was appointed General Manager and Chief Executive Officer of SPU in 2016. In this role, she is responsible for SPU's annual budget and oversight of its rates and utility funds, as well as conservation of the City's watersheds and compliance with federal and State water quality and environmental laws. She is Board Chair of the U.S. Water Alliance, a board member of the National Association of Clean Water Agencies, a founding member of the Water Agencies Leadership Alliance, and the founder of the Green Infrastructure Leadership Exchange. Through her work at the City, at Philadelphia Water, and as principal of a leading planning and design firm, she has developed just, climate-resilient, and community-centered land and water management investment approaches and practices. She is committed to advancing an equitable and sustainable Seattle and region through collaboration, strategic investment, and partnering with community, and centers this ethic throughout Seattle Public Utilities. She brings her experience in green infrastructure, affordability and assistance, environmental finance, service equity, utility management, and urban planning to her work at SPU and as an advisor to several environmental, philanthropic, planning, and design advocacy organizations. She has taught at Massachusetts Institute of Technology, University of Pennsylvania, and Temple University.

Ms. Hara has a bachelor's degree from the University of Pennsylvania and a master's degree from Harvard University.

Paula Laschober, Chief Financial Officer/Deputy Director of Financial and Risk Services. Ms. Laschober was appointed as CFO in 2019 and oversees the functions of finance, accounting, internal control, real property, contracts and procurement, and risk and quality assurance.~~,~~ Prior to joining SPU, she served for 30 years at Seattle City Light in financial services. Most recently, she was City Light's CFO, responsible for leadership and strategic direction of financial planning, rate setting, budgeting, accounting, internal audit, corporate performance and risk mitigation. She also managed City Light's information technology planning and strategy, via liaison with Seattle Information Technology ("Seattle IT"), a City department. Prior to joining City Light, she was a senior analyst with the utility consulting firm R.W. Beck and Associates in its Seattle headquarters office.

Ms. Laschober has an MBA in Finance and a Ph.D. in Latin American Literature from the University of Washington.

Idris Beauregard. Interim Director, People, Culture, and Community. Mr. Beauregard oversees the Community Affairs, Human Resources, Customer Response, Utility Accounts, and Clean Cities divisions. He has held several roles throughout his career at the City, beginning as a teen development leader for the Seattle Parks Department. Most recently, he served as SPU's Clean Cities Division Director, providing direction for the utility's illegal dumping, litter, sharps, RV remediation, homelessness, and anti-graffiti programs.

Mr. Beauregard earned his Executive Master of Public Administration degree from the Evans School of Public Policy and Governance at the University of Washington.

Keri Burchard-Juarez, PE, PMP, Deputy Director for Project Delivery and Engineering. Ms. Burchard-Juarez joined SPU in 2018 as the Deputy Director for the Project Delivery and Engineering, overseeing the design and construction of drinking water, wastewater, drainage, and solid waste projects. In this role, she oversees Project Management and Controls, Engineering and Technical Services, Project Services, Construction Management, Development Services, and delivery of the Ship Canal Water Quality Project. Previously, she served as the Assistant Director for Engineering and Capital Project Delivery at the City of Austin, Texas, where she worked for 11 years. She started in Austin as a Project Manager, managing drainage and water treatment plant rehabilitation projects, then served as Manager of the Project Management Division. She played a significant role in delivering major infrastructure projects to Austin residents, including a new water treatment plant and a mile-long drainage tunnel through downtown. She also spent time in the private sector, designing public infrastructure and land development projects.

Ms. Burchard-Juarez earned a Bachelor of Science in Civil Engineering from the University of Texas at Austin. She is a licensed Professional Engineer in Texas and Washington and a certified Project Management Professional.

Andrew Lee, PE, PMP, Deputy Director for Drainage and Wastewater Line of Business. Mr. Lee joined SPU in 2019 and oversees planning, program management, regulatory compliance, operations and maintenance, source control, and pollution prevention for the wastewater and stormwater utilities. He has more than 20 years of experience in utilities, having worked for SPU, the San Francisco Public Utilities Commission, Bellevue Utilities, Brown and Caldwell, and Olivia Chen Consultants (now AECOM). He has extensive experience in capital planning and program management, regulatory compliance and negotiations, asset management, and drainage, wastewater, and drinking water engineering, and is a member of the Project Management Institute.

Mr. Lee has a BS degree in Civil and Environmental Engineering and an MS degree in Environmental Engineering and Sciences, both from Stanford University. He is a licensed Professional Engineer in Washington and California and a certified Project and Program Management Professional.

Jeff Fowler, PE, Deputy Director for Solid Waste Line of Business. Mr. Fowler is the Deputy Director of the Solid Waste line of business and Program and Planning Division. He oversees the management of two transfer stations, two household hazardous waste facilities, and multiple closed landfills, administration and compliance of SPU's solid waste collection contracts, and solid waste-related outreach and education. He has been with SPU for 23 years. Most recently, he was the Director of SPU Construction Management, responsible for contract administration and quality assurance on capital improvements.

Mr. Fowler has a Bachelor of Civil Engineering degree from Washington State University and a Master of Civil Engineering degree from the University of Washington. He is a licensed Professional Engineer in Washington.

Alex Chen, PE, Interim Deputy Director for Water Line of Business and Shared Services. As the interim Deputy Director for the Water Line of Business and Shared Services since early 2020, Mr. Chen oversees SPU's drinking water system. He supervises SPU's Watershed Management Division, Water Quality Division, Water Planning and Program Management Division, Water Operations and System Maintenance Division, and Shared Services Maintenance Division. He has been at SPU since 2005, serving nine years as the drinking water treatment plants contract manager and five years as the Division Director for long-term asset management of the drinking water system as well as water supply operations. Prior to joining SPU, he spent seven years as a private design consultant, managing the design and construction of wastewater and drinking water reservoirs, pump stations, and treatment plants for a variety of utility clients, and four years as a treatment plant engineer for the East Bay Municipal Utility District.

Mr. Chen holds Bachelor of Science and Master of Science degrees in Civil/Environmental Engineering from Stanford University. He is a licensed Professional Engineer, a Water Treatment Plant Operator IV, and a Water Distribution Manager IV in Washington.

Employment Retirement System and Employee Relations

As of December 31, 2020, SPU has approximately 1,350 regular employees, approximately 70% of whom are represented under one of ten labor agreements with the Coalition of City Unions. See "The City of Seattle—Labor Relations."

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

Operating and Fiscal Impacts of COVID-19 Pandemic

The spread of COVID-19 is currently affecting local, State, national, and global economic activity. In the City, the COVID-19 pandemic is ongoing and has resulted in significant public health emergency response costs and significant revenue reductions from previously budgeted and forecast levels.

See "Other Considerations—Global Health Emergency Risk and City's Response to the COVID-19 Pandemic" for a discussion of the Mayor's Proclamation of Civil Emergency, the Governor's State-wide "Stay Home-Stay Healthy" proclamation, and the State's move to Phase 3.

Operations. The COVID-19 pandemic and Mayor's Proclamation of Civil Emergency have significantly impacted each of SPU's enterprises. SPU's enterprise fund operations constitute "essential infrastructure" exempt from the State and City Proclamations, as needed to maintain continuity of operations.

Although much of SPU's workforce is working remotely, more than 60% of SPU's workforce continues to report to an SPU facility every day to ensure continuity of services. SPU established an Incident Command Team to standardize its programs, policies, and protocols to ensure the health and safety of its employees and to maintain operations. For on-site staff, SPU has established enhanced cleaning and disinfecting procedures and social distancing for all facilities and vehicles. SPU has also established mandatory health screening protocols for anyone reporting to sites or facilities and field work assignments. SPU continues to provide staff with updates and support intended to ensure compliance with City and State guidelines on office workspaces, including effective use of face coverings, access to personal protective equipment. and the programs mentioned above. For telecommuting staff, SPU updated its Telecommuting and Teleworking Policies, which include training for remote work technologies and other support to enable staff to work effectively and comfortably from home. This includes providing ergonomic workspace support, such as chairs, laptops, monitors, and other technology to provide staff for their home-office setup.

SPU's ability to deliver water, sewer, stormwater, and solid waste services to its customers during the Proclamation period has not been impaired. Furthermore, SPU continues to monitor the pandemic's impacts on its operations and financial performance.

Utility Response and Impacts on Utility Services. SPU has experienced an increase in public health emergency response and other costs associated with mitigating the impacts of the COVID-19 pandemic on the residents of the City, including emergency response and utility discount program expansions.

Wastewater Demand. In 2020, COVID-19 pandemic response measures ended the post-recession demand pattern. Billed wastewater volumes were approximately 1.4 million hundred cubic feet ("ccf") in 2020, 6.7% lower than in 2019. A large portion of the decline was concentrated amongst a few customers. The largest single share, 20% of the 1.4 million ccf decline, was due to the closure of in-person classes and student housing at the University of Washington. Several leading multi-national hospitality firms own and operate large hotels in the City's downtown core, though a majority are operated under brands associated with two of these firms. These two firms alone accounted for another 15% of the decline. The University of Washington is expected to return to full in-person learning when classes start at the end of 2021 Q3, but business travel demand is not expected to fully recover until 2023. Beyond 2023, SPU projects a return to a new-long term trend of negligibly negative to negligibly positive annual growth in wastewater demand.

Drainage Revenue. Drainage revenues are based on land area and surface permeability, neither of which are subject to economic fluctuations. The largest share of drainage revenue is from government landowners and institutionally stable corporate and nonprofit landowners. Government entities include the City, King County, the Federal Government, Seattle Public Schools, State of Washington, and State education institutions including the University of Washington and the community college system. Non-government entities include large railroad and multi-family residential firms on the private side and publicly funded housing systems on the public side. There has been no measured impact on drainage revenues or collections from the pandemic, response policies, or the ensuing economic fallout, nor is there expected to be any given the expected widespread availability of vaccines by the end of 2021.

Operations and Maintenance. As SPU continues to respond to employee health and safety needs, operations and maintenance costs have included additional cleaning and janitorial services, personal protective equipment, and time for work crews that were not able to be deployed to capital projects. In addition to its enterprise fund obligations, SPU provided emergency response, such as public hygiene, that was paid for by the General Fund. SPU has concurrently been able to recognize cost savings related to employee telecommuting. The 2021 budget has been updated to reflect additional funds available to ensure continued responsiveness to health and safety concerns as well as required modifications to the workplace.

Customer Financial Stress. SPU expects that, as a result of the economic impacts to the service area, an increased number of retail customers may face financial challenges in paying their bills. In 2020, wastewater accounts receivable balances aged more than 120 days past due increased from $600,000 to $2.4 million; balances two to four months past due increased from $450,000 to $1.2 million.

In response, SPU has developed a series of emergency response measures to provide relief to customers, including suspending water shut offs due to late payment through July 2021, postponing liens and collections, waiving interest and late fees, and creating flexible payment plans. In addition, SPU expanded its self-certification pilot for enrollment in its Utility Discount Program ("UDP") and expanded the Emergency Assistance Program ("EAP") to allow two applications per family per year. The UDP provides eligible residential customers with a 50% discount on each of their Water, Sewer, Solid Waste, and Drainage bills. SPU does not directly bill multi-family customers, and their discount is reflected in their electric bill, as SPU and Seattle City Light utilize the same billing system. The EAP provides emergency bill assistance to households with income at or below 80% of the State median income. It provides a credit toward the eligible customer's current outstanding balance, up to a maximum dollar limit set in the SMC and revised annually to reflect the growth in SPU's combined bills. For 2021, this dollar limit is $461; the amount of the EAP credit cannot exceed $461 and cannot exceed the customer's outstanding balance. Currently, households without children can receive one of these credits per year, and households with children in the household can receive two of these credits per year. A proposed ordinance would allow households without children to also access two EAP credits in 2021, so that all income-eligible households can access two EAP credits, for a total maximum assistance of $922, in 2021. This proposed change is designed to respond to the growing account delinquencies and arrears that have resulted from the COVID-19 crisis and resulting economic fallout. Expansion of the EAP is supported with $500,000 in General Fund support. In 2020, enrollment in the UDP increased by 4,871 customers compared with year-end 2019 enrollment. SPU anticipates a net decline in 2021 as economic activity increases and customer eligibility declines.

Capital Improvement Program. The impact of COVID-19 and the Proclamations resulted in limited cost reductions in the Drainage and Wastewater Fund's six-year Capital Plan for 2020-2026, due primarily to schedule delays. The largest project in this portfolio, the Ship Canal Water Quality Project, is on budget and on schedule as of March 2021.

DRAINAGE AND WASTEWATER SYSTEM

General

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

Wastewater Services

The wastewater system currently serves a population of more than 760,000, substantially all of which are within the City limits. Table 1 presents an overview of key wastewater operating statistics for the past six years. Between 2015 and 2020, residential wastewater volumes held relatively constant at 7.7 million ccf, while the City's population increased 8%. These trends are the result of increased in-fill development, as older single-family houses with large yards are replaced by more efficient, and yard-less, townhomes and apartment and condominium buildings, both of which are classified as commercial customers.

Demand for wastewater services in SPU's service area peaked in 1990. Wastewater volumes fell half a percent per year through the 1990s, accelerating to 2% per year in the 2000s, partially a result of an early 2000s drought that brought water conservation into focus. The City's post-recession economic expansion increased demand for wastewater services, and volumes grew at 0.1% per year below population growth due to infill development replacing older detached homes with townhomes and apartment buildings. Per capita consumption declined from 74 gallons per day in 2008 to 58 gallons per day in 2019.

The pandemic reduced commercial volumes by 13% but raised residential revenue 4%. The commercial impacts of the pandemic were felt by large volume customers more than small volume ones. Universities, schools, hotels, and office buildings were down 70%, while grocery stores were unaffected.

TABLE 1
WASTEWATER SYSTEM OPERATING STATISTICS

	2016	2017	2018	2019	2020
Population Served	686,800	713,700	730,400	747,300	761,100
Wastewater Revenues (000)	$262,006	$272,085	$280,554	$303,935	$302,829
Billed Wastewater Volume (thousand ccf)					
Residential	$ 7,694	$ 7,699	$ 7,613	$ 7,723	$ 7,851
Commercial	14,127	13,584	13,504	13,554	11,995
Total Billed Wastewater Volume	21,821	21,283	21,117	21,277	19,846
Gallons Billed Per Day Per Capita	65	61	59	58	53
Number of Accounts(1)					
Residential	156,405	153,271	154,050	154,453	155,363
Commercial	21,418	18,531	18,704	19,337	19,600
Total Number of Accounts	177,823	171,802	172,754	173,790	174,963

(1) Change in customer accounts between 2016 and 2017 is partially due to the implementation of the new billing system and a change in counting methodology.

Source: Drainage and Wastewater Fund Audited Annual Financial Statements

Regional Treatment and Disposal. In 1958, a regional sewage treatment agency, the Municipality of Metropolitan Seattle ("Metro"), was formed to provide a regional solution to water quality problems. The City, rather than expanding its own treatment facilities, entered into a contract with Metro for sewage treatment. Metro operates three major regional wastewater treatment plants, two smaller local treatment plants, and four combined sewer overflow ("CSO") treatment facilities, along with an extensive regional interceptor system to route sewage to the plants and stop untreated discharges into Lake Washington and other bodies of water.

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

The County's Regional Wastewater Services Plan ("RWSP") outlines important projects, programs, and policies for the County to implement through 2030 to continue to protect public health and water quality and ensure sufficient wastewater capacity to meet future growth. The current RWSP was first adopted in 1999 and last updated in 2013. Between 1999 and 2020, the County completed $5.0 billion in projects, including Brightwater, a 36-million-gallon-per-day ("mgd") treatment and reclaimed water plant and associated conveyance system, at a cost of $1.86 billion. Between 2021 and 2030, approximately $4 billion of additional investment in the sewer system is planned.

The County finances the capital and operating costs of its sewage treatment and disposal system, including projects from the RWSP, with capacity charges to new customers and wholesale charges to the City and other component agencies, all of which are established by the County Council pursuant to the current agreement. Currently, the City's share of the County's wholesale charge revenue is approximately 40%, and SPU passes this wholesale charge on to the City's Drainage and Wastewater System ratepayers. The County has approximately $3.6 billion of junior and senior lien sewer system debt outstanding (as of December 31, 2020) with a final maturity of 2052. The wholesale charge paid by the City to the County is used by the County to pay a portion of the debt service on these bonds and is included as an Operating and Maintenance Expense of the Drainage and Wastewater Fund under the Bond Ordinance. See Appendix A—Bond Ordinance.

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

City ordinance allows SPU to pass through increases in the County's wastewater treatment charges based on adopted wholesale rates and projected billed consumption. The County, which treats virtually all of the City's wastewater, typically increases its wholesale treatment rate every two years. The following table provides a summary of adopted treatment rates for the last six years, expressed as dollars per residential equivalent unit ("REU").

TABLE 2
ADOPTED COUNTY WASTEWATER TREATMENT RATES

Effective Date	Monthly Rate ($/REU)	Percentage Change
January 2021	$ 47.37	4.5%
January 2020	45.33	0.0
January 2019	45.33	2.5
January 2018	44.22	0.0
January 2017	44.22	5.2
January 2016	42.03	0.0

In 2020, the City Council adopted a 2021 wastewater rate of $16.68 per ccf. The following table shows adopted City wastewater rates since 2016. SPU will submit a rate study to the City Council for rates through 2024, with the anticipation of legislation being enacted in the third quarter of 2021.

TABLE 3
ADOPTED WASTEWATER RATES(1)

Effective Date	Volume Rate ($/ccf)	Percentage Change
January 2021	$ 16.68	7.2%
January 2020	15.55	7.4
January 2019	14.48	7.6
January 2018	13.46	4.1
January 2017	12.93	5.4
January 2016	12.27	3.6

(1) Wastewater rates are inclusive of County treatment charges and all taxes. Typical consumption per single-family residence is 4.3 ccf/month.

The following table shows typical 2021 residential bills for wastewater services in the City and other cities in the region.

TABLE 4
2021 RESIDENTIAL WASTEWATER CHARGES

City	Monthly Bill[(1)]
Bellevue WA[(2)]	$ 88.57
Kirkland WA[(2)]	87.09
Seattle WA[(2)]	**72.00**
Issaquah WA[(2)]	69.72
Redmond WA[(2)]	61.52
Tacoma WA	58.22
Everett WA	53.39
Portland OR	49.66

(1) Bills include taxes except Issaquah, which only taxes water consumption.

(2) County wastewater treatment customers.

Source: Survey by SPU of 2021 rates in effect in each respective city.

SPU accounts are typically billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers currently receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. For a more complete explanation of billing, delinquencies, and application of partial payments, see "—Billing."

The City's wastewater system serves approximately 175,000 accounts in a developed urban area. Commercial accounts have, on average, comprised approximately 10% of the total. SPU generally experiences very little change from year to year in the number of wastewater customers it serves.

The wastewater system's ten largest customers in 2020 are listed in the table below. In total, the revenue from these ten customers was 8.7% of aggregate wastewater service revenues. This is a slight decline from prior years due to the impact of COVID-19 on the University of Washington (3% of 2019 revenue), Marriot International (0.8%) and Hyatt Hotels (0.5%).

TABLE 5
TEN LARGEST WASTEWATER CUSTOMERS IN 2020

Name	Revenue ($000)	% of Total Revenue
Seattle Housing Authority	$ 6,327	2.1%
University of Washington	5,388	1.8%
City of Seattle	3,694	1.2%
Equity Residential Property	2,840	0.9%
Port of Seattle	1,725	0.6%
Darigold	1,505	0.5%
Seattle Children's Hospital	1,292	0.4%
Marriott Internation Inc.	1,237	0.4%
Harborview Medical Center	1,173	0.4%
Essex	1,119	0.4%
Total-Ten Largest Customers	$ 26,299	8.7%
Other Wastewater Customers	276,530	91.3%
Total Billed Revenue	$ 302,829	100.0%

Note: Totals may not add due to rounding.

Source: SPU Wastewater Billing System

Drainage Services

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

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

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

Drainage rates for 2019 through 2021 are shown in the table below, and the annual rates of increase in drainage rates for the period 2016 through 2021 are shown in Table 7.

TABLE 6
DRAINAGE RATE CATEGORIES

Rate Category	Percent Impervious[(1)]	2019 Annual Charge	2020 Annual Charge	2021 Annual Charge
Small Residential		per parcel	per parcel	per parcel
(less than 10,000 square feet)				
0-1,999 sq. ft.		$169.81	$170.59	$195.57
2,000-2,999 sq.ft.		272.51	298.75	320.58
3,000-4,999 sq. ft.		383.43	414.26	445.25
5,000-6,999 sq. ft.		516.72	558.27	599.94
7,000-9,999 sq. ft.		652.61	705.09	757.69
General Service/Large Residential[(2)]		per 1,000 sq.ft.	per 1,000 sq.ft.	per 1,000 sq.ft.
Undeveloped	0-15%			
Regular		$42.62	$46.05	$49.49
Low Impact[(3)]		25.36	27.40	29.45
Light	16-35%			
Regular		$63.64	$68.75	$73.92
Low Impact[(3)]		49.85	53.85	57.87
Medium	36-65%			
Regular		$90.58	$97.86	$105.15
Low Impact[(3)]		73.31	79.21	85.00
High	66-85%	119.86	129.50	139.17
Very High	86-100%	143.10	154.60	165.81

(1) Impervious surface is any hard or impermeable surface such as blacktop, rooftops, parking lots, patios, hardpan, and hard-packed athletic fields, which absorb much less rainwater than pervious surfaces covered with grass, trees, or other vegetation.

(2) Includes single-family and duplex properties of 10,000 square feet or more.

(3) A parcel may qualify for a low impact rate if it has a significant amount of highly pervious surface, *e.g.*, forested land, other unmanaged vegetated areas such as pasturelands and meadows, or certain athletic fields that have been designed to substantially meet the same SPU-defined performance characteristics for infiltrating stormwater.

TABLE 7
ANNUAL DRAINAGE FEE PERCENTAGE INCREASE
(%)

	2016	2017	2018	2019	2020	2021
Residential[(1)]	11.3	10.9	11.2	7.5	8.0	7.6
Commercial	11.6	9.4	9.7	6.0	8.0	7.6

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

The table below compares the typical residential charge for drainage services of comparable cities in the Northwest.

TABLE 8
2021 RESIDENTIAL DRAINAGE CHARGES

City	Typical Monthly Bill
Seattle WA	**$ 50.07**
Portland OR	30.82
Bellevue WA	28.70
Everett WA	27.51
Tacoma WA	26.83
Kirkland WA	19.82
Issaquah WA	17.47
Redmond WA	16.56

Source: Survey by SPU of 2021 rates in effect in each respective city

The City's drainage system serves approximately 221,000 accounts in a developed urban area; the system has experienced a slow, steady increase in the number of customers as in-fill development results in the subdivision of lots. Residential customers make up approximately 70% of the total customers. The ten largest customers of the drainage system in 2020 are listed in the table below. In 2020, revenue billed to these ten customers totaled approximately 18.1% of drainage service revenues.

TABLE 9
TEN LARGEST DRAINAGE CUSTOMERS IN 2020

Name	Revenue ($000)	% of Total Revenue
City of Seattle	$ 10,825	7.1%
King County	3,458	2.3%
Seattle Public Schools	3,385	2.2%
University of Washington	2,986	1.9%
BNSF Railway Company	2,520	1.6%
U.S. Government	1,189	0.8%
Seattle Housing Authority	1,120	0.7%
Union Pacific Railroad Company	950	0.6%
Archdiocese of Seattle	679	0.4%
Prologis Inc.	646	0.4%
Total-Ten Largest Customers	$ 27,759	18.1%
Other Drainage Customers	125,662	81.9%
Total Billed Revenue	$ 153,420	100.0%

Note: Totals may not add due to rounding.

Source: SPU Drainage Billing System

Billing

The City's utility billing function is co-managed by both SPU and the City's electric utility enterprise ("Seattle City Light"). SPU provides customer service through a call center and walk-in center, although access to the walk-in center has been restricted due to the COVID-19 pandemic. Seattle City Light operates and manages the billing system. SPU and Seattle City Light bill and reimburse each other for these services.

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers receive a combined utility bill that itemizes amounts due for water, wastewater, and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a residential customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is then credited to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 20 days past due, customers receive a water shut-off notice. Under State law, SPU has the authority to shut off water when an account is 30 days past due. Delinquent charges bear interest at the rate of 12% per annum. Due to the COVID-19 pandemic, SPU has temporarily stopped charging the delinquency fee and is not shutting off service. Total 90-day-plus outstanding balances for SPU billed water, wastewater, and solid waste services, including inactive accounts, were $8.8 million (approximately 1% of annual direct service revenue billed by SPU) as of December 2020, compared to $3.3 million as of December 2019. These figures include all outstanding amounts going back to 2009.

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

Regulations

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

(i) requires permitting of point source discharges of pollutants into waters of the United States under the National Pollutant Discharge Elimination System ("NPDES") permitting system;

(ii) mandates that states set water quality standards, and requires periodic listing of impaired waters (section 303(d) list);

(iii) mandates "total maximum daily load" analyses for impaired waters; and

(iv) requires programs to encourage control of nonpoint source pollution.

The Clean Water Act creates some state responsibilities directly and allows the U.S. Environmental Protection Agency ("EPA") to delegate other responsibilities state-by-state.

NPDES Municipal Stormwater Permit. Section 402 of the Clean Water Act requires certain municipalities to obtain an NPDES permit for municipal stormwater discharges to receiving waters. In the State, Ecology is responsible for issuing and renewing these permits. Ecology issues a combined NPDES Municipal Stormwater Permit and State Waste Discharge Permit, which covers discharges to ground waters, in a single General Permit. Municipal stormwater discharges are regulated as point sources that should be controlled to reduce discharge of pollutants to the "maximum extent practicable," through a primarily programmatic permit. Under Phase I of the program, large and medium municipal separate storm sewer systems ("MS4s") such as the City's must obtain NPDES permits for the discharges of stormwater to surface waters and ground waters of the State (not including CSOs or discharges from public treatment facilities). As a condition of MS4 permit coverage, permittees are required to develop a stormwater management program, components of which include legal authority, MS4 mapping, coordination, public involvement and participation, controlling runoff from new development, redevelopment and construction sites, stormwater planning, structural source controls, source control for existing development, illicit connections and illicit discharge detection and elimination, operations and maintenance, and education and outreach.

Ecology issued the current Phase I municipal stormwater permit to the City in 2019. The 2019 permit includes requirements that were intended to improve the quality of the receiving waters in the City and includes prescriptive programmatic requirements, measurement guidelines for specific programs, and best management practices based on Ecology's 2019 Stormwater Management Manual for Western Washington. This permit is in effect from 2019 to 2024 and continues many of the previous prescriptive programmatic permit requirements while slightly changing others. The largest change is the addition of a new stormwater management program requirement for stormwater planning.

Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments. The City's wastewater collection system is regulated by Ecology through an NPDES Permit. Ecology first issued the City an NPDES Permit for CSO discharges in 1975. The permit has been reissued periodically (generally every five years), most recently as NPDES Permit WA0031682 issued on March 30, 2016, with an effective date of May 1, 2016. The permit was modified on September 28, 2017, with an expiration date of April 30, 2021. SPU applied for permit renewal on August 31, 2020. Ecology reviewed the application and accepted it as complete on December 29, 2020. The permit will remain in effect and enforceable until Ecology issues a new permit, in accordance with State statute (RCW 34.05.422(3)) and regulations.

Combined Sewer Overflow Agreed Order. In 2008, the EPA Region 10 Office of Compliance and Enforcement audited both the County's and the City's CSO programs to ensure consistency with federal laws and requirements. EPA has audited numerous other combined sewer agencies in the United States. Based on the results of the audit, EPA and the City signed a compliance order in 2009 requiring the City to take specific operations and maintenance actions and complete minor retrofits to reduce dry weather overflows and maximize system capacity, all of which were completed in 2014. In 2010, the City also entered into an agreed order with Ecology, requiring that CSOs from all remaining uncontrolled CSO basins be reduced to an average of one overflow per site per year by December 31, 2025. This agreed order was rescinded by Ecology on February 1, 2016, to avoid having inconsistencies between the agreed order and the Consent Decree (described below).

Sewer Overflow Consent Decree. In 2011, EPA, Ecology, and the U.S. Department of Justice entered into Consent Decree negotiations with the City and the County related to completion of the agencies' CSO reduction programs and management of each agency's wastewater system. The negotiated consent decrees were entered in U.S. District Court in 2013. The City's Consent Decree requires the City to develop and implement plans and projects including a Capacity, Management, Operations, and Maintenance Performance Program Plan, Long-Term Control Plan ("LTCP"), Fats, Oils, and Grease Control Program Plan, revised Floatables Observation Program Plan, Final Post-Construction Monitoring Plan, and the Henderson CSO reduction project, and requires the City and the County to develop and implement a joint operations and systems optimization plan. The final Plan to Protect Seattle's Waterways (including the LTCP) was submitted to EPA and Ecology for approval on May 29, 2015, in accordance with the City's Consent Decree requirements. The Plan was approved by EPA and Ecology on August 26, 2015, and commits SPU to constructing the Ship Canal Water Quality Project, several smaller storage projects and sewer system improvement projects to control all remaining uncontrolled CSO outfalls, and three projects to remove pollutants from stormwater: Natural Drainage Systems ("NDS") Partnering, South Park Water Quality Facility, and Arterial Street Sweeping Expansion. The largest of the CSO storage projects, the sewer system improvement projects, and the stormwater projects were expected to be completed by the end of 2025, and the remaining CSO storage projects were expected to be completed by the end of 2030. The Ship Canal Water Quality Project benefits both the City and the County. The City and the County have signed an agreement to guide construction, operation and maintenance, and cost-sharing of the Ship Canal Project. The City is the lead agency for construction, and will own, operate, and maintain a tunnel and its related structures. SPU and the County's Department of Natural Resources and Parks ("DNRP") have also chartered oversight, project review, and change management committees to provide policy guidance and management oversight, support, and direction to the project.

The Final Post Construction Monitoring Plan ("PCMP") was also submitted to EPA/Ecology on May 29, 2015, for approval in accordance with the City's Consent Decree. The Final PCMP included updates to the City's approved PCMP from 2010. The Final PCMP provided an updated analysis of surrogate CSO outfall sampling locations using 2010-2014 outfall monitoring data. The Final PCMP also included an implementation schedule based on the City's Consent Decree requirements and proposed milestone compliance dates presented in the final Plan to Protect Seattle's Waterways. The Final PCMP was approved by EPA and Ecology in 2015.

On August 6, 2019, SPU submitted a letter to EPA, Ecology and the U.S. Department of Justice ("DOJ") describing its interest in renegotiating the terms of the Consent Decree. The County submitted a similar letter to EPA and Ecology on October 28, 2019. Confidential negotiations involving DOJ, EPA, Ecology, SPU and DNRP were initiated in January 2020.

Over the last four decades, the City has invested more than $700 million in CSO controls. From 2021 through 2025, the City expects to spend an additional $436 million (in 2021 dollars) in CSO improvements, including large CSO storage facilities, sewer system improvement projects, and green stormwater infrastructure projects. See "—Capital Improvement Program."

Financial Policies

Drainage and wastewater rates are set in accordance with financial policies adopted by the City Council, including the Debt Service Coverage Requirement. Revenues to cover depreciation and City taxes are considered available for debt service. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year. The City Council has adopted a coverage target of Adjusted Net Revenue available for debt service in each calendar year at least equal to 1.80 times Adjusted Annual Debt Service. Other adopted internal policy targets in effect since 2004 include generally positive net income, a minimum year-end cash balance equal to the average monthly wastewater treatment cost, and a minimum of 25% cash funding of the CIP based on a four-year rolling average. Between 2016 and 2020, the Drainage and Wastewater System met or exceeded all targets.

Financial Performance

The following table shows actual revenues and expenses of the Drainage and Wastewater System for the years 2016 through 2020 and projected results for 2021 through 2023. Footnotes for the table are on the following page.

SPU does not as a matter of course make public projections as to future sales, earnings or other results. However, the management of SPU has prepared the prospective financial information as set forth below in Table 10—Drainage and Wastewater System Operating Results and under "Capital Improvement Program" to provide readers of this Official Statement information related to projected revenues and expenses of the Drainage and Wastewater System. The accompanying prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of SPU's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Drainage and Wastewater System. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and potential purchasers of the Bonds and the readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

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

The financial statements of the Drainage and Wastewater Fund as of and for the year ended December 31, 2020, included herein as Appendix C, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing herein. SPU has not requested that Moss Adams LLP provide permission for inclusion of its report on the audited financial statements in this official statement, and Moss Adams LLP has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

The debt service coverage ratios provided below have been calculated in accordance with the Bond Documents. Such calculations are derived from definitions of Gross Revenue, Operating and Maintenance Expense, Adjusted Net Revenue, and certain other terms which are defined in Appendix A—Bond Ordinance—Section 1. Such calculations also reflect the application of generally accepted accounting principles as applied to financial results.

The debt service coverage calculations set forth below are intended to reflect compliance with the rate covenant and additional debt covenants contained in the Bond Documents and described under "Security for the Bonds" and for no other purpose. Such calculations may reflect non-recurring or extraordinary accounting transactions permitted under the Bond Documents and generally accepted accounting principles.

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 Documents. 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 10

DRAINAGE AND WASTEWATER SYSTEM OPERATING RESULTS

($000)

	Audited					Projected		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Operating Revenues								
Wastewater [(1)]	$262,006	$273,892	$279,496	$304,832	$299,098	$314,464	$343,829	$361,485
Drainage [(1)]	107,827	119,615	133,837	143,323	155,021	164,707	174,427	184,710
Other	5,208	6,778	6,542	6,227	6,176	6,330	6,488	6,651
Total Operating Revenue	$375,041	$400,284	$419,876	$454,382	$460,295	$485,502	$524,744	$552,845
Operating Expense								
Wastewater Treatment Contract [(2)]	$154,001	$162,758	$163,784	$166,786	$168,150	$165,510	$171,688	$186,023
Other Operations and Maintenance	94,691	103,506	104,025	112,696	123,813	144,659	154,612	161,196
City Taxes [(3)]	44,311	46,724	49,612	53,151	54,336	58,516	63,210	66,565
Total Operating Expenses Before Debt Service	$293,003	$312,989	$317,420	$332,634	$346,298	$368,685	$389,510	$413,784
Net Operating Income	$ 82,038	$ 87,296	$102,456	$121,748	$113,997	$116,817	$135,234	$139,061
Adjustments								
City Taxes [(3)]	$ 44,311	$ 46,724	$ 49,612	$ 53,151	$ 54,336	$ 58,516	$ 63,210	$ 66,565
DSRF Earnings	(274)	(436)	(734)	(761)	(628)	(157)	(78)	(71)
Net Other Non-Operating Revenues/(Expenses)	2,478	7,528	9,691	11,594	12,227	21,451	4,657	3,826
Total Adjustments	$ 46,515	$ 53,816	$ 58,568	$ 63,984	$ 65,936	$ 79,810	$ 67,788	$ 70,321
Adjusted Net Revenue Available for Debt Service	$128,553	$141,111	$161,024	$185,732	$179,933	$196,627	$203,022	$209,382
Annual Debt Service								
Annual Debt Service [(4)]	$ 47,641	$ 52,504	$ 65,973	$ 62,006	$ 61,849	$ 62,678	$ 65,678	$ 70,548
Less: DSRF Earnings	(274)	(436)	(734)	(761)	(628)	(157)	(78)	(71)
Adjusted Annual Debt Service	$ 47,368	$ 52,068	$ 65,239	$ 61,244	$ 61,221	$ 62,521	$ 65,599	$ 70,477
Coverage	2.71	2.71	2.47	3.03	2.94	3.14	3.09	2.97

NOTES TO TABLE 10:

(1) Projections for 2021 include adopted 2021 rate increases. Future years include an assumption for rate increases that have not been approved by the City Council.

(2) Projections for 2021 include adopted 2021 treatment rate increases. Future years include an assumption for treatment rate increases that have not been approved by the County.

(3) The City currently levies a tax on total gross income from drainage and wastewater charges of 11.5% and 12%, respectively. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year.

(4) Reflects only debt service on Parity Bonds and does not include the Ecology and Public Works Assistance Account loans, which are secured by a lien on Net Revenue of the Drainage and Wastewater System that is junior to the lien of the Parity Bonds. The WIFIA Bond does not incur any debt service obligation until 2026. See "Security for the Bonds—State Loan Program Obligations" and "—Debt Service Requirements."

Note: Totals may not add due to rounding.

Source: Drainage and Wastewater System

Management Discussion and Analysis of Operating Results

This section provides a brief discussion of operating results for the period 2016-2020 based on information in Table 10, and the Management's Discussion and Analysis included in Appendix C—2020 Audited Financial Statements of the Drainage and Wastewater Fund.

Between 2016 and 2020, the Drainage and Wastewater System maintained high levels of debt service coverage (well above policy targets), with strong cash performance equal to or above the policy target. Operating cash balances have grown from $100 million to $213 million in that time period, and the Drainage and Wastewater Fund's overall net position has increased by $700 million, from $1.2 billion to $1.9 billion.

Both operating and non-operating revenue performance has been strong. SPU wastewater demand forecasting assumes two counteracting forces: a slow, steady decline in per-capita demand with in-fill development impelling the conversion of older, larger housing stock to more water-efficient alternatives, including townhomes, apartments, and condominiums, mitigated by the expansion of economic activity and population growth. The Seattle area has experienced significant economic expansion since the 2008 Financial Crisis, with a five-year compound growth rate of real GDP of 6%[(1)] and annual population growth of 3%[(2)]. This has buoyed demand from an expectation of a 1% annual decline to flat in the years prior to the pandemic, which saw consumption decline 7% from 2019 to 2020. Wastewater revenue in the four-year period prior to the pandemic increased at 4.3% per year, while the wastewater rate increased 5.1% per year; for the five-year period including 2020, revenue grew 3.3% per year against a 5.6% per year increase in the wastewater rate.

The City Council last approved changes to drainage and wastewater rates in November 2020. Those rate changes were based on an assumption of a prolonged crisis and slow recovery, with the depressive effects of the pandemic remaining in full force through the entirety of 2021. Despite the negative effects of the pandemic, SPU was able to slightly reduce 2021 drainage rates from those established in the 2019-2021 rate study due to strong revenue performance and reduced costs.

With these pandemic-related assumptions incorporated into the demand forecast, SPU expects revenue to be sufficient to meet or exceed debt service coverage, cash balance, cash financing of the CIP, and net income targets through 2023. The forecast for 2022 and 2023 includes rates that have been part of SPU's ongoing development of an update to the Strategic Business Plan, but have not been formally proposed to the City Council.

Payments to the County for wastewater treatment constitute an Operating and Maintenance Expense that must be paid prior to payment of the principal of or interest on any bonds secured by the revenues of the Drainage and Wastewater System, including the Parity Bonds. Approximately 40% of the Drainage and Wastewater System's total operating

(1) BEA series CAGDP1, 2015-2019 for the Seattle-Bellevue-Kent MSA

(2) Washington State Office of Financial Management Annual Population Estimates, 2015-2020

revenue is spent on wastewater treatment. City ordinance allows SPU an expedited process to pass through increases in the County's wastewater treatment expense, bypassing the formal rate-setting process.

Strategic Business Plan

In 2020 and continuing into 2021, SPU has been working with customers and employees to update the Strategic Business Plan to guide its work from 2021 through 2026. The Strategic Business Plan is a three-year plan with a three-year forecast. The Strategic Business Plan Update outlines new investments, cost savings, and a rate path for the six-year period, and is an update of the 2018-2023 Plan. The plan grew out of SPU's efforts to provide greater rate predictability to its customers, while still making important investments for the future. The Strategic Business Plan Update is expected to be adopted by the City Council in mid-2021.

Capital Improvement Program

Each year, SPU prepares a six-year Drainage and Wastewater Capital Improvement Program ("CIP"). The CIP identifies rehabilitation and upgrades that are needed for existing facilities, as well as any new facilities that are required, and includes a financial plan for funding the planned improvements. SPU expects to finance the CIP with a combination of bond proceeds, grants and reimbursements, and current revenues.

The City is currently engaged in planning that will identify capital and operating and maintenance needs for the Drainage and Wastewater System. The City's Plan to Protect Seattle's Waterways (LTCP to reduce CSO and Integrated Plan that addresses both sewage overflows and polluted stormwater runoff), which was approved by the EPA, Department of Justice, and Ecology, requires CIP investments in wastewater and stormwater projects through 2030. Supplementing in the near-term and looking beyond 2030, SPU is in the process of developing a community-centered plan to guide investments in integrated utility infrastructure for the next 50 years (Shape Our Waters Plan).

The table below shows actual CIP spending in 2020 and projected CIP spending in 2021 through 2026 in accordance with the adopted CIP and the Strategic Business Plan.

TABLE 11
DRAINAGE AND WASTEWATER SYSTEM
ADOPTED CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands)

	Actual	Forecast						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**Total 2021-2026**
Program Area								
Combined Sewer Overflows								
Ship Canal Water Quality Project	$54,113	$124,941	$ 94,462	$ 77,261	$ 54,664	$ 13,615	$ 9,611	$ 374,554
Other CSO	34,539	9,169	8,080	10,317	22,839	15,344	9,918	75,667
Protection of Beneficial Uses	7,653	21,139	46,286	42,151	35,025	32,132	29,718	206,451
Sediments	3,177	3,867	4,579	4,340	7,287	16,686	13,594	50,353
Rehabilitation	28,439	38,268	43,269	40,810	41,352	41,885	44,775	250,359
Flooding/Sewer Backup and Landslides	13,944	42,899	19,760	14,004	15,904	35,504	52,640	180,711
Shared Cost Projects	20,235	32,957	37,993	31,361	22,165	20,571	24,489	169,537
Technology	4,739	5,151	4,299	4,299	4,299	4,299	4,299	26,646
Total	$ 166,839	$278,390	$258,729	$224,544	$203,535	$ 180,037	$ 189,044	$1,334,278

	Actual	Forecast						
Funding Source	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**Total 2021-2026**
Debt Financing								
Outstanding Bonds	$ 51,191	$ 770	$ -	$ -	$ -	$ -	$ -	$ 770
The Bonds	-	62,006	20,266	-	-	-	-	82,273
Future Bonds	-	-	31,149	111,510	69,222	78,050	97,206	387,138
WIFIA	-	41,311	50,970	49,908	30,833	12,674	3,636	189,331
CWSRF(1)	32,505	35,168	32,134	131	132	862	-	68,426
Public Works Assistance Account(1)	1,562	7,192	1,247	-	-	-	-	8,438
Total Debt Financing	$ 85,258	$146,447	$135,766	$161,549	$100,187	$ 91,585	$ 100,843	$ 736,376
Revenue Financing								
King County	$18,194	$ 41,778	$ 32,452	$ 21,552	$ 16,376	$ 7,232	$ 1,958	$ 121,347
Grants and Reimbursements	1,074	7,779	17,164	3,197	-	-	-	28,140
Internally Generated Funds	62,313	31,448	75,403	101,757	68,739	62,907	69,530	409,784
Total Revenue Financing	$ 81,581	$ 81,004	$125,020	$126,506	$ 85,115	$ 70,139	$ 71,488	$ 559,271
Total	$ 166,839	$227,451	$260,785	$288,055	$185,302	$ 161,724	$ 172,330	$1,295,647

(1) See "Security for the Bonds—State Loan Program Obligations."

Note: Totals may not add due to rounding.

The CIP plan addresses seven program areas:

Combined Sewer Overflows. This program area consists of projects that are mandated by State and federal regulations to control CSOs into the City's receiving waters. Projects include large infrastructure projects (*e.g.*, storage structures, pipes, tunnels, wet weather treatment plants, stormwater separation, and pump stations), smaller retrofits, construction of green infrastructure for CSO control, and development of regulatory-required plans, such as the LTCP. The largest project in this category is the Ship Canal Water Quality Project, a $570 million joint project with the County to control CSOs into the Lake Washington Ship Canal and Salmon Bay. The Ship Canal Water Quality project is funded through a combination of loans from the EPA under the Water Infrastructure Finance and Innovation Act program and Ecology under the Clean Water State Revolving Fund program, contributions from the King County Department of Natural Resources, as the project will control CSO overflows from several basins, some of which are the responsibility of the County, and the Drainage and Wastewater Fund operating cash reserves. SPU does not intend to use any specific revenue bond funds for this project.

Protection of Beneficial Uses. This program area consists of improvements to the City's drainage system to reduce the harmful effects of stormwater runoff on creeks and receiving waters by improving water quality and protecting or enhancing habitat. The program area includes projects to improve water quality, protect creeks, meet regulatory requirements, and use best available science to meet community expectations for habitat.

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

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

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

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

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

Technology. This program area includes administrative information technology such as workstations, cloud computing, telecommunications, and billing. Upgrades to existing geographic information systems infrastructure and updated aerial orthophotography are also included. These will provide more robust and granular surface permeability data to increase the efficiency and accuracy of drainage billing.

Risk Management and Quality Assurance

The Risk and Quality Assurance Program ("RQA") was first established in 2004 and became a separate division in 2011. While housed in the Financial and Risk Services branch, the program reports to a Risk and Quality Assurance Board, which consists of the SPU General Manager, the Executive Team, and a representative from the City Attorney's Office. In 2016, the Safety, Security, Emergency Management, Privacy/PCI, and Customer Appeals programs were brought into the RQA division to enable better alignment and synergy of the overall mission of reducing risk to the organization. The program's goals are to:

(i) provide strategic advice to SPU's Executive Team and guide the development of policies that enable SPU to be more efficient and effective in meeting customers' expectations;

(ii) assess planned and ongoing business practices and procedures to recognize threats and opportunities;

(iii) recommend measures to ensure sufficient internal controls are in place to reduce risks to SPU's employees, customers, and assets;

(iv) investigate, advise, and respond to legal requests and filings on behalf of SPU;

(v) conduct internal investigations, assessments, and audits to ensure that SPU is complying with regulations, policies, and procedures; and

(vi) develop, implement, and review plans that ensure that SPU is protected in the event of harmful incidents or emergencies.

See "The City of Seattle—Risk Management."

Endangered Species Act and Regional Needs Assessment

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

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

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

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

Environmental Liabilities

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

In 2000, the City, the County, the Port of Seattle and The Boeing Company voluntarily began working together to investigate contamination in the Lower Duwamish Waterway. Their group is the Lower Duwamish Waterway Group ("LDWG"). In 2001, EPA listed the Lower Duwamish Waterway as a Superfund site under CERCLA to address contamination in waterway sediments. EPA and Ecology followed the listing with a joint federal and State administrative order on consent ("AOC"), which named certain potentially responsible parties ("PRPs"), including the City (through SPU and Seattle City Light), the County, the Port of Seattle, and The Boeing Company as Potentially Responsible Parties ("PRPs"). The AOC required a Remedial Investigation to determine the nature and extent of contamination in the waterway, studies of risk to people and wildlife, and formulation of cleanup alternatives in a Feasibility Study. The LDWG members conducted and paid for the Remedial Investigation and Feasibility Study. LDWG members also conducted "Early Actions" to address contamination in specific parts of the Site

EPA issued its Record of Decision in 2014 identifying EPA's choice of remedial actions and estimating total cleanup costs of $342 million (2014 present value). SPU's share of liability for this cleanup is uncertain. It depends in part on the extent to which SPU's drainage and wastewater operations are deemed to have contributed to the contamination and in part on the identity of other PRPs who will share the costs. A voluntary, confidential allocation process is expected to be completed by 2022 and is intended to be the basis for an allocation of costs among about 44 PRPs. The original AOC has been amended about four times to include additional pre-design studies and to design the remedy for the upper reach of the waterway. The LDWG members and EPA are currently working on a fifth amendment to the AOC to cover design of the remedy for the middle reach of the waterway.

In 2020, the City (SPU), the County, and the Port of Seattle signed an EPA Settlement Agreement and Administrative Order on Consent to investigate contamination at a site adjacent to the Lower Duwamish, known as Terminal 108. The investigation is called an Engineering Evaluation and Cost Analysis ("EE/CA"). The Port, the City, and the County have an MOA related to the order and are sharing costs on an interim basis. SPU's ultimate share of liability for this site is uncertain, and depends upon the results of the investigation, the remedial actions selected by EPA, and the extent to which SPU's drainage and wastewater operations are deemed to have contributed to the contamination. Other PRPs are expected to share in the total cleanup costs as well as study costs. Planning and investigative work on the site will begin soon and a plan for the cleanup, including an estimate of its cost, is expected by 2024.

Immediately downstream of the Lower Duwamish Waterway is the East Waterway. Contaminated sediments within the East Waterway are an operable unit of the Harbor Island Superfund site, and the Port of Seattle entered into an administrative settlement agreement and order on consent ("ASAOC") with EPA in 2006. The ASAOC covers an East Waterway sediment Remedial Investigation/Feasibility Study ("RI/FS"), which was completed in 2019. A Record of Decision is expected in late 2021 or early 2022. The East Waterway is a Superfund cleanup project with many similar issues to the Lower Duwamish Waterway cleanup. The City (SPU and Seattle City Light), the Port of Seattle, and the County have been sharing the costs to implement the ASAOC on an interim basis. The City's ultimate share of costs for investigation and remediation of the East Waterway is unknown. Although EPA has not selected a cleanup action for the East Waterway, the total cost of cleanup can be estimated to be at least $256 million. Other PRPs are expected to share in any costs.

In 2002, Ecology named the City and Puget Sound Energy as PRPs for the contamination of sediments adjacent to Gas Works Park and the Harbor Patrol areas in the North Lake Union area of the City. The City and Puget Sound Energy signed an Agreed Order with Ecology in 2005 to initiate two RI/FS investigations for the sediment site: one in the western portion of the site led by the City and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that put Puget Sound Energy in the lead of all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 agreement, the City pays for 20% of the shared costs incurred by Puget Sound Energy for the cleanup work. The RI/FS includes an evaluation of the nature and extent of the contamination on the site, an evaluation of multiple alternatives for remediating the sediments, and a recommended preferred alternative. The RI/FS is expected to be completed in 2022. A Clean-up Action Plan is expected from Ecology in 2023.

In addition, the Drainage and Wastewater System could be liable for a portion of the costs of investigation and cleanup at other sediment sites, including some not yet identified. The magnitude of any such potential liability cannot be determined at this time. See Appendix C—2020 Audited Financial Statements of the Drainage and Wastewater Fund-Note 10.

Climate Change

Climate change is projected to have wide-ranging impacts in the Central Puget Sound, including, but not limited to, shifts to the region's water and hydrologic cycle, increases in air temperature, and rising water levels along the marine shoreline. SPU's climate policy work draws on the planning and analysis expertise in each of SPU's lines of business to assess the implications of a changing climate on SPU's assets, services, and business functions and develop adaptation options that can be integrated into SPU's operations, capital planning, and overall decision-making processes. SPU's enterprise-wide climate work focuses on building collaborative partnerships to share and enhance knowledge, engaging in applied research to advance SPU's understanding of the implications of climate change, and fostering an enabling environment to support decision-making. In addition, SPU's climate policy team is responsible for implementing SPU's carbon neutrality initiative.

In partnership with SPU's climate policy team, the Drainage and Wastewater Planning and Program Management Division evaluated the exposure of SPU assets to sea level rise along the marine shoreline of the City, and modeled the combined effects of sea level rise with extreme precipitation events on system capacity. In 2017, SPU conducted an analysis of historical rainfall in the City to update its intensity, duration, and frequency ("IDF") curves. In 2018, SPU developed "climate-perturbed" rainfall timeseries files, to provide a mechanism to incorporate climate projections into capital investment decisions.

SPU is a founding member of the Water Utility Climate Alliance ("WUCA"), a group of 12 large urban water utilities that collaborates on climate research, decision-making, and adaptation. SPU serves on WUCA's Sea Level Rise Committee and has engaged in a WUCA project to advance best practices and guidance for sea level rise adaptation implementation. SPU is also involved with a WUCA project focused on scaling and application of climate projections to stormwater and wastewater utilities. The utility is also active in regional and national climate policy development and leadership focused on urban water resilience via the Puget Sound Climate Preparedness Collaborative, King County-Cities Climate Collaboration, and the U.S. Water Alliance.

Emergency Operations Plan

The City maintains an integrated emergency management system in which all hazards are considered in a central planning structure. See "The City of Seattle—Emergency Management and Preparedness." In addition, SPU has both a Continuity of Operations Plan and an Urban Flood Response Plan.

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 the 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 and utility rates, makes appropriations, and adopts and approves the annual operating budget and capital improvement plans for the City. The City Council members serve on a full-time basis.

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

Budgeting and Forecasting

The CBO is responsible for developing and monitoring the City's annual budget, carrying out budget-related functions, and overseeing fiscal policy and financial planning activities. The CBO provides strategic analysis in relation to the use of revenues, debt, and long-term issues. The department also provides technical assistance, training, and support to City departments in performing financial functions. The CBO is within the executive branch and the Budget Director is appointed by the Mayor.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the CBO pursuant to State statute (chapter 35.32A RCW) and based in part on General Fund revenue forecasts prepared by the CBO; this function is transitioning to a new independent forecasting office being created later in 2021. See "—Forecasting." 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 2021 budget was adopted on November 23, 2020. The City's adopted General Fund budget was approximately $1.480 billion in 2020 and $1.607 billion in 2021.

Forecasting. The CBO currently prepares revenue and economic forecasts approximately three times per year. In September of each year, CBO prepares and submits to the City Council a revenue forecast ("August Revenue Update") with the Mayor's budget proposal. This is followed by a fall revenue update typically submitted to the City Council in November ("November Revenue Update") and a spring update ("April Revenue and Budget Update"). The City Council makes budget adjustments as necessary based on information presented in these revenue and budget updates.

The 2021 Adopted Budget appropriated a total of $480,000 for the initial setup and partial year costs of establishing an independent forecasting office to be created by subsequent ordinance. The appropriation is contingent on passage of the subsequent ordinance, which will be introduced in the summer of 2021. The new independent forecasting office will have the responsibility to develop a regional economic forecast and forecasts for key tax revenues as is currently completed by the City Budget Office. Forecasts from this office will be presented to the Mayor and City Council simultaneously. The office and its manager will be overseen by an oversight board likely consisting of two Councilmembers, the Mayor, and the City's Finance Director.

Fiscal Reserves

Emergency Fund. Under the authority of RCW 35.32A.060, the City maintains the EMF of the General Fund. The EMF is the principal reserve for the City to draw upon when certain unanticipated expenses occur during the fiscal year. Eligible expenses include costs related to storms or other natural disasters. State law limits the amount of money the City can set aside in this reserve to $0.375 per $1,000 of assessed value of property within the City. Prior to 2017, the City's practice had been to fully fund the emergency reserve to this maximum limit. In 2017, the City modified the existing financial policies for the EMF to establish a minimum balance of $60 million and to adjust that minimum each year with the rate of inflation. This policy struck a balance between ensuring that resources will be available to address unanticipated expenditures and making resources available to address current needs.

Due to the COVID-19 pandemic and related economic downturn, the City's revenue forecasts have been significantly reduced from prior expectations. Additionally, the City will continue to realize significant expenses to address the pandemic into 2021. Due to the magnitude of the ongoing emergency, it will not be possible for the City to meet the fund balance requirements for the EMF in the near future. City policy was amended in 2020 to require that the City return to making contributions as soon as is practically possible after a severe event requiring deep spending from the reserve.

In response to the ongoing COVID-19 pandemic, the City withdrew a net $12.8 million from the EMF during 2020. The City anticipates withdrawing a net $18.4 million from the EMF, reducing the reserve balance to $33.7 million at the end of 2021.

Revenue Stabilization Fund. The City maintains a Revenue Stabilization Fund to be used for revenue stabilization for future City operations and to fund activities that would otherwise be reduced in scope, suspended, or eliminated due to unanticipated shortfalls in General Fund revenues.

Certain required transfers into and restrictions on expenditures from the RSF are set forth in the SMC. All expenditures from the RSF require an ordinance, adopted following consideration of projections and recommendations for at least partial replenishment within four years. The RSF is funded by (i) one-time transfers authorized by ordinance, (ii) automatic annual transfers of 0.50% of forecast General Fund tax revenues, and (iii) upon completion of fiscal year accounting, automatic transfer of 50% of the ending General Fund balance, less encumbrances, carryforwards as authorized by ordinance or State law, and planned reserve amounts reflected in the adopted budget, that is in excess of the latest revised estimate of the unreserved ending fund balance for that closed fiscal year (as published in the adopted budget). The phrase "tax revenues" means all tax revenues deposited into the General Fund, including but not limited to tax revenue from the regular property tax levy, business and occupation tax, utility business taxes, the portion of admissions tax not dedicated to the Arts and Culture Fund, leasehold excise tax, gambling taxes, and sales and use taxes.

The SMC also provides that automatic transfers will be suspended to the extent that the balance in the RSF exceeds 5% of the forecast General Fund tax revenues for the year, and when forecasts underlying the adopted budget anticipate a nominal decline in General Fund revenues, as compared to the revenue forecasts underlying the adopted budget for the fiscal year immediately prior. Automatic transfers remain suspended until positive revenue growth is reflected in the revenue forecasts underlying the adopted budget and are reinstated at a level of 0.25% of General Fund tax revenues in the first year showing such recovery, followed by 0.50% thereafter.

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 City's 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 2019 may be obtained from the Department of Finance and Administrative Services and is available at *http://www.seattle.gov*. The Drainage and Wastewater Fund's financial statements are also audited by an independent auditor, and the 2020 Financial Statements are attached as Appendix C

The State Auditor's Office has authority to conduct independent performance audits of State and local government entities. The Office of the City Auditor also reviews the performance of a wide variety of City activities such as span of control, City-wide collections, special events permitting, and specific departmental activities.

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 the State or any local government in the State, 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 in Washington State Investment Board Policy Number 2.05.000.

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.

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. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Services Division of the Department of Finance and Administrative Services in securities described 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, 2020, the combined investment portfolios of the City, not including pensions, totaled $2,545 million at market value. The City's investment portfolio consists solely of City funds. As of December 31, 2020, the earnings yield on the City's investment portfolios was 1.49%, and the weighted average maturity of the City's investment portfolios was 989 days. Approximately 30%, or $739 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 10 years.

Investments were allocated as follows:

U.S. Government Agencies	30%
State Local Government Investment Pool	21%
U.S. Government(1)	18%
Municipal Bonds	12%
U.S. Government Agency Mortgage-Backed	10%
Corporate Bonds	4%
Repurchase Agreements	3%
Supranational	2%
Commercial Paper	0%

(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. Loans of a longer duration require City Council approval.

As of December 31, 2020, the City had outstanding six interfund loans totaling approximately $56.6 million, in amounts ranging from $4.1 million to $29.6 million, including interfund loans for the Waterfront LID improvements to be reimbursed with various revenue sources, including proceeds of the Waterfront LID Bonds. See "Other Considerations—Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program—Waterfront Local Improvement District."

Risk Management

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. Currently the City's excess liability policy provides $35 million limits above a $6.5 million self-insured retention per occurrence, but coverage excludes partial or complete failure of any of the City's hydroelectric dams. The City also purchases all risk property insurance, including earthquake and flood perils, that provides up to $500 million in limits subject to a schedule of deductibles and sublimits. Earthquakes and floods are subject to annual aggregate limits of $100 million. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy. The City purchased cyber insurance in 2019, which coverage includes business interruption, system failure, data asset protection, event management, and privacy and network security liability.

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 and notaries.

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

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.

GASB 67/68 Reporting. Governmental Accounting Standards Board ("GASB") Statements No. 67 ("GASB 67") and No. 68 ("GASB 68") modified the accounting and financial reporting of pensions by pension plans (GASB 67) and by state and local government employers (GASB 68), but did not alter the funding requirements under State law and City ordinance for members, employers, or the State. The SCERS annual financial statements for the fiscal year ended December 31, 2019, and DRS's Comprehensive Annual Financial Report for LEOFF for the fiscal year ended June 30, 2020, were prepared in accordance with GASB 67. The City's financial statements for the fiscal year ended December 31, 2019, were prepared in accordance with GASB 68 and are available at *www.seattle.gov*.

The 2020 Financial Statements, attached as Appendix C, were prepared in accordance with GASB 68. As of December 31, 2020, the Drainage and Wastewater Fund reported a liability of $72.0 million, representing its proportionate share of NPL for SCERS. The NPL was measured as of December 31, 2020, and the TPL used to calculate the NPL was determined by the actuarial valuation as of December 31, 2019. The Drainage and Wastewater Fund's proportion of the NPL was based on contributions to SCERS during the fiscal year ended December 31, 2019. As of December 31, 2019, the Drainage and Wastewater Fund's proportion was 6.74%. Schedules of the Drainage and Wastewater Fund's proportionate share of NPL and of the Drainage and Wastewater Fund's contributions are provided as required supplementary information to the Drainage and Wastewater Fund's 2020 Financial Statements.

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 City Council, the City's 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, 2020), which was approved by the Board on July 9, 2020 (the "2019 Actuarial Valuation"), there were 7,029 retirees and beneficiaries receiving benefits, and 9,440 active members of SCERS. There are an additional 1,420 terminated employees in SCERS who are vested and entitled to future benefits and another 1,392 who are not vested and not entitled to benefits beyond contributions and accumulated interest. From January 1, 2019, to January 1, 2020, the net number of active members in SCERS increased by 0.6%, the net number of retirees receiving benefits increased by 3.5%, and the net number of vested terminated members increased by 6.6%.

Certain demographic data from the 2019 Actuarial Valuation are shown below:

TABLE 12
PLAN MEMBER DEMOGRAPHIC INFORMATION, SCERS

	Retirees and Beneficiaries Receiving Benefits		Active Employees	
Age Range	**Number**	**Percent**	**Number**	**Percent**
<25	-		116	1.2%
25-39	-		2,570	27.2%
40-49	7 (1)	0.1% (1)	2,488	26.4%
50-59	287	4.1%	2,633	27.9%
60-69	2,505	36.1%	1,496	15.8%
70+	4,141	59.7%	137	1.5%

(1) Includes everyone under the age of 50.

Source: 2019 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 "SCERS Annual Report"). The most recent SCERS Annual Report, for the years ended December 31, 2019, and December 31, 2018, was transmitted on July 7, 2020, by CliftonLarsonAllen LLP.

Milliman Consultants and Actuaries, as consulting actuary, has evaluated the funding status of SCERS annually since 2010. The most recent actuarial report, the 2019 Actuarial Valuation (with a valuation date as of January 1, 2020), is available on the City's website at *http://www.seattle.gov/retirement/about-us/board-of-administration#actuarialreports*. Since 2010, the City has had actuarial valuations prepared annually.

At its July 2018 meeting, the Board adopted new assumptions to be used for the 2018 Actuarial Valuation. The assumptions were based on the 2018 Investigation of Experience Report. The adopted assumptions included a decrease in the investment return assumption, a decrease in the consumer price inflation assumption, and an overall increase in life expectancies. The following summarizes some key assumptions utilized in the 2019 Actuarial Valuation and compares those to the assumptions used in the last two actuarial valuations.

TABLE 13
ACTUARIAL ASSUMPTIONS

	2019	**2018**	**2017**
Investment return	7.25%	7.25%	7.50%
Price inflation	2.75%	2.75%	3.25%
Wage growth (price inflation plus wage inflation)	3.50%	3.50%	4.00%
Expected annual average membership growth	0.50%	0.50%	0.50%
Interest on member contributions made on or after January 1, 2012(1)	4.00%	4.00%	4.75%

(1) Contributions made prior to January 1, 2012, are assumed to accrue interest at 5.75%.

Source: 2019, 2018, and 2017 Actuarial Valuations

As of January 1, 2020 (as set forth in the 2019 Actuarial Valuation), the actuarial value of net assets available for benefits was $3,041 million and the actuarial accrued liability was $4,411 million. An Unfunded Actuarial Accrued Liability ("UAAL") exists to the extent that actuarial accrued liability exceeds plan assets.

Per the 2019 Actuarial Valuation, the UAAL increased from $1,339.3 million as of January 1, 2019, to $1,370.4 million as of January 1, 2020. The funding ratio increased from 68.2% as of January 1, 2019, to 68.9% as of January 1, 2020, which increase was primarily due to contributions made in 2019 in excess on the normal cost rate. For the year ending December 31, 2019, SCERS assets experienced an investment gain of about 17.2% on a market basis (net of investment expenses), a rate of return greater than the assumed rate of 7.25% for 2019. The result is an actuarial gain on assets for 2019, but only one-fifth of this gain was 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. Under this methodology, combined with prior years' asset gains and losses, the 2019 return was a positive 6.9% on an actuarial value basis.

The following table provides historical plan funding information for SCERS:

TABLE 14
HISTORICAL SCERS SCHEDULE OF FUNDING PROGRESS (1)
($000,000)

Actuarial Valuation Date (January 1)	Actuarial Value of Assets (AVA)(2)	Actuarial Accrued Liability (AAL)(3)	Unfunded AAL (UAAL)	Funding Ratio	Covered Payroll(4)	UAAL as % of Covered Payroll
2011	2,013.7	2,709.0	(695.4)	74.3%	563.2	123.5 %
2012	1,954.3	2,859.3	(905.0)	68.3%	557.0	162.5 %
2013	1,920.1	3,025.3	(1,105.2)	63.5%	567.8	194.6 %
2014	2,094.3	3,260.1	(1,165.8)	64.2%	597.9	195.0 %
2015	2,266.7	3,432.6	(1,165.9)	66.0%	630.9	184.8 %
2016	2,397.1	3,605.1	(1,208.0)	66.5%	641.7	188.3 %
2017	2,564.1	3,766.4	(1,202.3)	68.1%	708.6	169.7 %
2018	2,755.2	3,941.8	(1,186.6)	69.9%	733.3	161.8 %
2019	2,877.4	4,216.7	(1,339.3)	68.2%	779.1	171.9 %
2020	3,040.7	4,411.1	(1,370.4)	68.9%	819.7	167.2 %

(1) For accounting purposes under GASB 67/68, UAAL is replaced with net pension liabilities. However, because the City continues to set its contribution rates based on an actuarially required contribution 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) Based on five-year asset smoothing.

(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.

Source: Annual Actuarial Valuation Reports

In accordance with GASB 67, the 2019 SCERS audited financial statements included a calculation of TPL and NPL based on the actuarial valuation dated as of January 1, 2019, rolled forward using generally accepted actuarial procedures (assuming a 7.25% investment rate of return and 3.50% salary increases) to December 31, 2019, as follows: TPL was calculated to be $4,406.7 million, plan fiduciary net position ("Plan Net Position") was calculated to be $3,149.9 million, and NPL was calculated to be $1,256.8 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 71.5%. A Schedule of the Drainage and Wastewater Fund's Proportionate Share of the Net Pension Liability and Schedule of the Drainage and Wastewater Fund's Contributions are set forth in the required supplementary information in Appendix C—2020 Audited Financial Statements of the Solid Waste Fund.

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 Actuarially Required Contribution ("ARC") rate is based on amortizing the required contribution over 30 years, meaning that the total contribution rate must be sufficient to pay for the costs of benefits earned during the current year, as well as the annual cost of amortizing the plan's UAAL over 30 years. The City Council may from time to time set the amortization period by resolution, and in 2013, it passed a resolution to close the 30-year amortization period for calculating UAAL as of the January 1, 2013, actuarial valuation. As a result, for purposes of the 2019 Actuarial Valuation calculation, a 23-year amortization period was used. This policy may be revised by the City Council in future years. The 2019 Actuarial Valuation was prepared using the Entry Age Normal Cost ("EANC") method. Under the EANC 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, based on a percentage of employee compensation (exclusive of overtime), are shown in the table below.

TABLE 15
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
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% (3)	10.03%	25.26%	25.00%	101% (3)	N/A	N/A
2019	15.26% (3)	9.85% (4)	25.11%	24.40% (5)	103% (3)	N/A	N/A
2020	16.14%	9.65% (4)	25.79%	25.79% (5)	100%	N/A	N/A
2021	16.10%	9.46% (4)	25.56%	25.56%	100%	N/A	N/A

(1) Reflects total actuarial required contribution (*i.e.*, employer plus employee contribution rates). Since November 21, 2011, this rate has been 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 an assumption of no membership growth. 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). Beginning in 2016, GASB Statement No. 27 was superseded by GASB 68, so this calculation is no longer performed.

(3) The City contribution rate is intentionally more than the total ARC in an effort to reduce the projected increase in future contribution rates. See Table 16.

(4) Reflects a blended employee contribution rate based on rates for SCERS 1 and SCERS 2 members.

(5) Since 2019, the ARC reflects a blended normal cost for SCERS 1 and SCERS 2.

Source: Seattle Municipal Code; 2020 and 2021 Budgets; Annual Actuarial Valuation Reports

In 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 15—Employer and Employee SCERS Contribution Rates and Table 16—Projected Actuarially Required Total Contribution Rates for SCERS by Employer and Employee."

The City's contracts with all labor unions that represent SCERS members limit the ability of the City to pass on increases to pension contribution rates to the employee portion. Prior contracts permitted 1% increases in 2011 and 2012 to be reflected in the employee contribution rates, but have eliminated any additional cost-sharing. Future increases to pension contribution rates will be reflected in the City's employer contribution.

As indicated in Table 15, the Total ARC is decreasing to 25.56% as a percent of payroll beginning in January 1, 2021. This compares to the 25.79% Total ARC in the prior year. The employees' share will average 9.46% between SCERS 1 and SCERS 2. The employer's share needed to meet the Total ARC is decreasing from 16.14% to 16.10%. As a result, the City is adjusting its employer contribution rate for 2021 to 16.10%, in order to meet the projected Total ARC in 2021.

Projected total actuarially required contribution rates for SCERS reported in the 2019 Actuarial Valuation are shown in the table below:

TABLE 16
PROJECTED ACTUARIALLY REQUIRED TOTAL CONTRIBUTION RATES FOR SCERS BY EMPLOYER AND EMPLOYEE

Contribution Year(1)	Assuming 7.25% Returns	Confidence Range(2)
2021	16.10%	16.10-16.10
2022	15.83%	14.88-16.77
2023	15.57%	13.53-17.65
2024	15.66%	12.28-19.19
2025	15.13%	10.14-20.41
2026	15.13%	8.20-22.48

(1) Contribution year lags valuation year by one. For example, contribution year 2021 is based on the 2019 Actuarial Valuation (as of January 1, 2020) results, amortized over 23 years beginning in 2020 if the contribution rate change takes place in 2021.

(2) Confidence range for asset returns between the 5th and 95th percentile.

Source: 2019 Actuarial Valuation

Employer contributions were $141.0 million in 2020, of which approximately $9.7 million was from the Drainage and Wastewater Fund. The employer share for employees of the utility funds is allocated to and paid out of those funds. The significant increase from 2019 to 2020 was primarily due a large amount of retroactive payroll associated with the settlement of previously expired labor contracts.

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.

The market value of SCERS' net assets increased by $432.4 million (15.9%) during 2019, including member and employer contributions of $194.4 million and net gain from investment activity totaling $465.8 million. Deductions increased by $4.8 million in 2019, primarily attributed to a $12.9 million increase in retiree benefit payments, offset by reductions in the amount of contributions refunded and administrative expenses.

Table 17 shows the historical market value of SCERS' assets (as of each December 31). Table 18 shows the historical investment returns on SCERS for the last ten years.

TABLE 17
SCERS MARKET VALUE OF ASSETS

Year (As of December 31)	Market Value of Assets (MVA)(1)
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	2,488.5
2017	2,852.9
2018	2,717.4
2019	3,149.9

(1) In millions.
Source: SCERS Actuarial Valuations

TABLE 18
SCERS INVESTMENT RETURNS

Year (As of December 31)	One-Year Annualized Return(1)
2011	-0.4%
2012	12.8%
2013	15.0%
2014	5.3%
2015	0.1%
2016	8.4%
2017	15.7%
2018	-3.7%
2019	17.2%
2020	12.6%

(1) Calculated net of fees.

Source: SCERS Annual Reports

Table 19 below shows the historical distribution of SCERS investments for the years 2014-2018. Table 20 shows similar information for the past three years under a revised investment class categorization.

TABLE 19
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2018	2017	2016	2015	2014
Fixed Income	24.0%	22.9%	28.4%	24.2%	23.7%
Domestic and International Stocks	57.0%	57.4%	53.3%	60.0%	60.8%
Real Estate	10.8%	12.2%	12.8%	11.0%	10.6%
Alternative Investments	8.2%	7.4%	5.4%	4.8%	4.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: SCERS Actuarial Valuations

TABLE 20
HISTORICAL SCERS DISTRIBUTION: REVISED INVESTMENT CLASS CATEGORIZATION

Investment Categories (January 1)	2020	2019	2018
Diversifying Strategies	0.0%	2.0%	1.9%
Fixed Income	26.7%	28.9%	24.6%
Infrastructure	1.2%	0.9%	0.4%
Private Equity	8.6%	8.1%	5.2%
Public Equity	53.1%	48.8%	57.1%
Real Estate	10.5%	11.3%	10.8%
Total	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, 2019, membership in these plans consisted of 590 fire employees and survivors and 658 police employees and survivors. See "Other Post-Employment Benefits" below for a discussion of medical benefits paid to retirees.

In 2015, GASB released Statement No. 73 ("GASB 73"), replacing accounting requirements previously mandated under GASB Statements Nos. 25 and 27 for public pension plans that are not within the scope of GASB 68. The City has determined that both the Firefighters' Pension Fund and the Police Relief and Pension Fund are outside the scope of GASB 67 and GASB 68, and therefore the accounting and financial reporting for these pension plans has been prepared in accordance with GASB 73.

These pension plans do not issue separate financial reports. The most recent actuarial valuations, dated January 1, 2020, use the EANC 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, 5.50%; and projected salary increases, 3.00%. 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, 2.75%; and projected salary increases, 3.00%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the Firefighters' Pension Fund and adopted a policy of fully funding the actuarial accrued liability ("AAL") by the year 2018 (which was subsequently extended to 2028). In accordance with GASB 73, the plan had a TPL of $90.7 million as of December 31, 2019, an increase of $4.8 million from the TPL of $85.9 million as of December 31, 2018. As of January 1, 2020, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was $26.8 million, and the AAL was $89.2 million. As a result, the UAAL was $62.4 million and the funded ratio was 30.0%. In the January 1, 2019, actuarial valuation, the UAAL was $52.1 million and the funded ratio was 28.5%. The City's employer contribution to the fund in 2019 was $8.3 million; 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. In accordance with GASB 73, the plan had a TPL of $92.9 million as of December 31, 2019, an increase of $12.4 million from the TPL of $80.5 million as of December 31, 2018. As of January 1, 2020, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was $8.7 million, and the AAL was $99.8 million. As a result, the UAAL was $91.1 million and the funded ratio was 8.7%. In the January 1, 2019, actuarial valuation, the UAAL was $83.4 million and the funded ratio was 6.5%. The City's employer contribution to the fund in 2019 was $11.5 million; 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 $16.2 million in 2018 and $15.3 million in 2017. The following table outlines the contribution rates of employees and employers under LEOFF.

TABLE 21
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL
(AS OF DECEMBER 31, 2020)

	Plan 1	Plan 2
Employer	0.18% (1)	5.33% (1)
Employee	0.00	8.59%
State	N/A	3.44%

(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 for LEOFF.

According to the Office of the State Actuary's June 30, 2019, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 141% and LEOFF Plan 2 had a funded ratio of 111%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.5% annual rate of investment return for LEOFF Plan 1 and a 7.4% annual rate of investment return for LEOFF Plan 2, 3.50% general salary increases, 2.75% consumer price index increase, and annual growth in membership of 0.95%. Liabilities were valued using the EANC 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. As of December 31, 2019, the City reported an asset of $278.1 million for its proportionate share of the net pension asset as follows: $70.7 million for LEOFF Plan 1 and $207.4 million for LEOFF Plan 2. Schedules of the Drainage and Wastewater Fund's proportionate share of NPL and of the Drainage and Wastewater Fund's contributions are provided as required supplementary information to the Department's 2019 Financial Statements.

For additional information, see Note 11 to the City's 2019 Comprehensive Annual Financial Report, which is available on the City's website.

Other Post-Employment Benefits

The City has liability for two types of 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.

Beginning with the fiscal year ending December 31, 2018, the City has assessed its OPEB liability in accordance with GASB Statement No. 75 ("GASB 75"). While GASB 75 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded.

The City funds its OPEB liabilities 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 based on a measurement date as of January 1, 2020, and was prepared in accordance with GASB 75. It showed the total OPEB liability for the implicit rate subsidy increased to $63.6 million from $61.1 million in the prior valuation. The City's GASB 75 annual expense in 2020 was calculated at $4.5 million, which compares to $4.7 million in 2019. The valuation of the OPEB liability associated with the City's Firefighters' Pension Fund and Police Relief and Pension Fund is updated annually. The most recent valuations were prepared in accordance with GASB 75. As of December 31, 2019, the total OPEB liability in the City's Firefighters' Pension Fund increased to $269.9 million from $268.8 million. The annual OPEB expense for 2019 was $12.6 million and the estimated benefit payments were $11.5 million. As of December 31, 2019, the total OPEB liability in the Police Relief and Pension Fund decreased to

$287.1 million from $297.4 million. The annual OPEB expense for 2019 was $4.7 million and the estimated benefit payments were $15.0 million.

For additional information regarding the City's OPEB liability, see Note 11 to the City's 2019 Comprehensive Annual Financial Report. For additional information regarding the Drainage and Wastewater Fund's portion of the City's OPEB liability, see Appendix C—2020 Audited Financial Statements of the Drainage and Wastewater Fund—Note 6.

State Paid Family and Medical Leave Insurance

On January 1, 2020, the State became the fifth state in the nation to offer paid family and medical leave benefits to State workers, including State and local government employees. The Paid Family and Medical Leave program is a State-wide insurance program that ensures paid leave for State workers when they need time off to give or receive care. Eligible workers are those who have worked at least 820 hours (equivalent to 20.5 full-time weeks) in the qualifying period before the leave begins. The program typically covers 12 weeks of leave (up to 18 weeks in certain circumstances). Workers receive between $100 and $1,000 per week, depending on their income. The program is funded by employer and employee premiums, and will be administered by the Employment Security Department. Assessments for premiums began on January 1, 2019, and benefits became available to be taken starting January 1, 2020.

As of January 1, 2019, the City began paying assessments for premiums based on a percentage of wages. The initial rate of this assessment is 0.4% of wages that are subject to the federal social security tax. The City will continue to pay only the employer share of the 2021 assessment (0.147% of Social Security wages) for most employees, estimated to be $1,695,000, of which approximately $748,000 will be paid from the General Fund and $947,000 will be paid by other enterprise, levy, and internal service funds.

State Long-Term Care Services and Supports Benefit Program

In 2019, the State created a Long-Term Services and Supports ("LTSS") Trust Program to provide certain long-term care benefits to eligible beneficiaries. All individuals employed in the State (including employees of local governments such as the City) may become eligible to receive the benefit when they have paid the LTSS trust premiums while working at least 500 hours per year for either ten years with at least five years uninterrupted, or three of the last six years. A program participant who may receive benefits must have been assessed by the State Department of Social and Health Services with needing assistance with at least three daily living tasks, must be at least 18 years old (and must not have been disabled before the age of 18), and must reside in the State. There is a lifetime cap on the benefit for any individual equal to 365 benefit units, which are assigned a dollar value adjusted annually at a rate not exceeding the CPI. Benefits may be accessed beginning January 1, 2025, and will be paid directly to LTSS providers on behalf of eligible beneficiaries. Administration of the LTSS Trust Program is divided among multiple existing State health and human services agencies and two newly created State bodies, the LTSS Trust Council and the LTSS Trust Commission.

The LTSS Trust Program will be funded through premiums assessed beginning January 1, 2022, at a rate of 0.58% of each employee's wages within the State. Rates will be adjusted every two years by the State Pension Funding Council (based on actuarial studies and valuations to be performed by the State Actuary) to maintain financial solvency of the LTSS Trust, but not to exceed 0.58%. Employers will be required to remit premiums on behalf of all employees other than employees who demonstrate that they have long-term care insurance. There is no employer contribution required under State law.

Labor Relations

This information has been updated as of February 18, 2021, to reflect the engagement of the Labor Relations Unit within the Seattle Department of Human Resources ("Labor Relations") with union representatives in response to the impacts of the COVID 19 emergency upon the City and the employees in the respective bargaining units. Since the Mayor's emergency declaration on March 3, 2020, Labor Relations has been actively addressing the impacts of the emergency on the workplace and working conditions of employees. Negotiation of the first Memorandum of Understanding ("MOU") providing the City with additional flexibility was concluded on May 28, 2020. Most City unions signed except for the sworn Public Safety employees (Police and Fire), Police Dispatchers, and Parking Enforcement Officers. Labor Relations continued to work closely with all of the labor representatives to address the continuing and growing impacts of the pandemic, as well as other social and environmental crises that affected the City and surrounding communities as well as the City's employees, negotiating additional agreements related to the impacts of the pandemic, including addressing the extension of the COVID 19 MOU, the transition following expiration of the MOU and the end of the federal Families First Coronavirus Response Act. Safety protocols, flexibility for employees directly impacted by school closures and remote learning for their children, and other ongoing and evolving impacts of the pandemic are a topic of regular weekly meetings between Labor Relations staff and all of the bargaining representatives.

As of January 2021**,** the City had 38 separate departments and offices with approximately 14,673 employees (including 11,550 regular and 3,123 temporary employees). Twenty-five different unions and 52 bargaining units represent the approximately 75% of regular City employees whose employment is governed by 30 different collective bargaining agreements (contracts). In 2021, the new PROTEC Local 17 bargaining unit, representing most Strategic Advisors in the Legislative Department has completed negotiations with the City for its initial collective bargaining agreement, pending adoption by the City Council and Mayor. At least three other new bargaining units are currently in the certification process, all represented by PROTEC Local 17, including a unit of civilian non-managers and a unit of civilian managers, both at the Seattle Police Department ("SPD"), and Strategic Advisors in two smaller departments.

To date, of the 24 contracts that expired on December 31, 2018, all contracts except the Fire Chiefs Local 2898 contract have been extended or concluded through new agreements. The Seattle Parking Enforcement Officers Guild ("SPEOG") and IAMAW Local 79 (Machinists) agreements were successfully concluded in April and September 2020, respectively, with a new expiration date of December 31, 2021. Also in 2020, the City was in active negotiations with the Seattle Police Management Association ("SPMA") for a new agreement to replace the contract that expired December 31, 2019. In March 2020, both SPMA and Fire Chiefs Local 2898 negotiations were put on hiatus for a number of months due to the pandemic. The City and SPMA are currently negotiating a successor agreement. Negotiations have also resumed with Fire Chiefs Local 2898.

Labor Relations is preparing to open negotiations with the Seattle Police Officers Guild for a new contract to replace the current contract, which expired on December 31, 2020, as well as opening negotiations with IBEW Local 77 on three separate contracts: Power Marketers (expired December 31, 2020), Seattle City Light (expired January 22, 2021), and Seattle Department of Transportation (expired January 22, 2021). These unions will continue to operate under their expired contracts as negotiations begin soon.

Looking ahead, 21 labor agreements that are either part of the Coalition of City Unions or "Coalition-like" have contracts expiring on December 31, 2021. These contracts include approximately 61% of the City's represented employees.

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 is taking a lead role in coordinating various aspects of the City's response to the COVID-19 pandemic. See "Other Considerations—Global Health Emergency Risk and City's Response to the COVID-19 Pandemic."

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 cyber security, and civil disorder), transportation incidents, fires, hazardous materials, infrastructure failure, 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.

If a disaster were to damage or destroy a substantial portion of the taxable property within the City, the assessed value of such property could be reduced, which could result in a reduction of property tax revenues. Other revenue sources, such as sales tax and lodging tax, could also be reduced. In addition, substantial financial and operational resources of the City could be required during any emergency event or disaster and could be diverted to the subsequent repair of damage to City infrastructure.

The City's emergency management program was assessed by a third-party team of emergency management professionals according to the Emergency Management Accreditation Program standards and was accredited in 2016. The City will seek reaccreditation in 2021.

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 adopted 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 2018, the Mayor's Office and released an updated Climate Action Plan that focuses on a set of short- and long-term actions that provide a roadmap for the City to act on the leading contributors of greenhouse gases: transportation and buildings. The Climate Change Action Plan builds on prior studies and plans implemented by the Office of Sustainability and the Environment ("OSE") that detail strategies and actions that can be taken to improve the climate preparedness of City infrastructure and services and to facilitate coordination across City government. The OSE plans include sector-specific strategies for transportation; buildings, and energy (including specific energy consumption and greenhouse gas emissions reduction targets for City buildings); trees and green space; food access; a healthy environment; and environmental justice.

In 2019, the City adopted Resolution 31895, committing to creating a "Green New Deal" for the City to address and mitigate the effects of climate change. The City is monitoring and will be documenting climate impacts and likely climate risks as they arise and has not yet quantified 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.

The City has also developed more specific plans addressing utility operations (including drainage, water supply, solid waste, and the electric system) and community preparedness. For a discussion of climate change considerations specific to the Drainage and Wastewater System, see "Drainage and Wastewater System—Climate Change."

Cyber Security. Cyber security 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 cyber security threats as well as mitigate intrusions and plan for business continuity via data recovery. Cyber security 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 risk assessments based on the National Institute of Standards and Technology ("NIST") 800-53a. Seattle IT continuously reviews and updates processes and technologies to mature security practices leveraging the NIST Cybersecurity Framework. Cyber security 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, and acquired cyber security liability insurance in October 2019. See "—Risk Management."

OTHER CONSIDERATIONS

Global Health Emergency Risk and City's Response to the COVID-19 Pandemic

The spread of COVID-19, the illness caused by the novel coronavirus known as SARS-CoV-2, and its variants is continuing to affect local, State, national, and global economic activity and has contributed to the onset of a recession in the United States. In the City, the COVID-19 pandemic is ongoing and has resulted in significant public health emergency response costs. Ongoing impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the City, cancellations of public events, and disruption of the regional and local economy, with corresponding decreases in the City's revenues, including transient occupancy tax revenue, sales tax revenue, and other revenues.

"Healthy Washington—Roadmap to Recovery" and Phased Reopening Status. The Governor of the State initially declared a state of emergency on February 29, 2020, and on March 23, 2020, issued Proclamation 20-25, Stay Home—Stay Healthy (the "Proclamation"), ordering residents to self-isolate and practice social distancing and limiting non-essential activities. As of March 22, 2021, the State is in Phase 3 of the State's phased reopening plan. Physical distancing and mandatory mask-wearing orders remaining in place; however, Phase 3 allows up to 50% occupancy or 400 people maximum, whichever is lower, for all indoor spaces including restaurants, gyms and fitness centers, and movie theaters. Sports guidance in Phase 3 also changed, with the move to Phase 3 allowing in-person spectators at events for the first time in a year. Spectators are allowed to attend outdoor venues with permanent seating with capacity capped at 25%.

City Response and Impacts to City Services. The City has experienced an increase in public health emergency response and other costs associated with mitigating the impacts of the COVID-19 pandemic on the residents of the City. The costs include emergency response, support to homeless and vulnerable populations and small businesses, food assistance, and expanded childcare services, among others. The Mayor initially issued a Proclamation of Civil Emergency on March 3, 2020, and by Executive Order has implemented or extended a wide variety of relief programs and implemented a series of programs that support artists, nonprofits, small businesses, workers, and vulnerable populations adversely impacted.

These responses included action by SPU to delay utility shutoffs for nonpayment and to expand enrollment in the utility discount plan for persons whose income was adversely affected by the pandemic. See "Seattle Public Utilities—Operating and Fiscal Impacts of COVID-19 Pandemic" for additional discussion of the effects of the pandemic on the Drainage and Wastewater Utility.

In an effort to limit large gatherings of employees, many City personnel are continuing to telecommute or work from alternate locations, and the City has staggered shifts at critical facilities. In addition, on-site personnel are wearing masks and gloves and practicing social distancing while working. To date, the City has not observed material impacts from such measures on core operations and does not expect a material effect in the future. However, there can be no assurance that the absence of employees due to COVID-19 will not adversely impact City leadership or City operations.

Federal Assistance. The additional costs incurred to implement the City's response measures have been offset in part by the federal and State funds that were awarded to the City in 2020 and are anticipated to be provided in 2021. Funds received by the City under the Coronavirus Aid, Relief, and Economic Stabilization Act (the "CARES Act"), signed in March 2020, have been used to address COVID-19-related expenses incurred by the City but are not available to backfill City revenue losses related to COVID-19. CARES Act funding primarily supports general governmental functions and does not significantly affect SPU.

The American Rescue Plan Act of 2021, signed by the President in March 2021, is expected to provide the City with approximately $239 million for direct local relief. Based on the provisions in the bill, the City will receive 50% of the funding in 2021 (approximately 60 days after the bill was signed) and the other 50% of the funding will be received 12 months later, in 2022. This pandemic relief funding is available for a broad range of uses, including responding directly to the health emergency, addressing its negative economic impacts with assistance to households and small businesses, restoring government services reduced in response to pandemic-related revenue losses, and making certain necessary infrastructure improvements. The City has not yet published a specific outline for how the funds will be spent, but planning efforts are underway.

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak and economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the City is unknown at this time. Notwithstanding the foregoing, the COVID-19 outbreak has not adversely affected the City's ability to pay debt service on the Bonds, and the City does not currently believe that the outbreak will affect its ability to pay debt service on the Bonds going forward.

Public Safety Funding Considerations and Social Justice Demonstrations

The City experienced a high level of social justice demonstrations in 2020, responding to incidents of violence against and deaths of African Americans, Native Americans, and persons of other racial and ethnic minorities at the hands of police officers. Peaceful demonstrations in Seattle were marred by incidents of looting, vandalism, and arson that resulted in damage and loss to public and private property. Police, fire, and other City departments deployed additional resources to protect public health and safety. These demonstrations had the effect of placing renewed emphasis on calls to reform the City's approach to public safety. SPD has been engaged in various reform efforts for many years and is currently operating under a 2012 consent decree ("2012 Consent Decree") that was imposed in response to findings by the DOJ in 2011 outlining a "pattern or practice" of unconstitutional use of force within SPD. SPD continues to operate under the 2012 Consent Decree. SPD's 2020 and 2021 budgets were the focus of ongoing discussion and deliberation by the Executive and the City Council in 2020. Funding for SPD in the 2021 Adopted Budget signed by the Mayor in November 2020 reflects an 11% reduction to SPD's budget as compared to the 2020 Adopted Budget, and transfers 911, parking enforcement, emergency management, and victim advocacy functions from SPD to other departments.

Federal Policy Risk and Other Federal Funding Considerations

From time to time, federal funding policies may be enacted or implemented in a way that could negatively or disproportionately affect the City's receipt of federal funds.

Sequestration. The sequestration provisions of the Budget Control Act of 2011 ("Sequestration") have been in effect since 2013 and are currently scheduled to remain in effect through federal fiscal year ("FFY") 2029. This results in a slight reduction in the expected subsidy in respect of certain Build America Bonds and Recovery Zone Economic Development Bonds previously issued by the City. The City does not expect Sequestration to materially adversely affect its ability to make debt service payments in the current or future years.

Federal Grant Funding Conditions. The City receives federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditioned upon compliance with the terms of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the City.

Federal Shutdown Risk. Federal government shutdowns have occurred in the past and could occur in the future. A lengthy federal government shutdown poses potential direct risks to the City's receipt of revenues from federal sources and could have indirect impacts due to the shutdown's effect on general economic conditions. The City has not experienced material adverse impacts from the federal government shutdowns that have occurred in the past but can make no assurances that it would not be materially adversely affected by any future federal shutdown.

Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program

The Alaskan Way Viaduct and Seawall Replacement Program ("AWVSR Program") consists of multiple projects. The most significant piece of this effort was the State's replacement of the State Route 99 ("SR 99") Alaskan Way Viaduct with the SR 99 Tunnel (the "State's Viaduct Replacement Project"), which was completed in 2019 except for remaining surface street improvements near the tunnel's entrances, which are expected to be completed by the end of 2022.

The current activity is centered on the Waterfront Seattle Program, which consists of multiple projects to redevelop the City's central waterfront, including seawall replacement (substantially complete), the creation of approximately 20 acres of new and improved parks and public space, and improved connectivity in and around the City's central waterfront area. See "—Waterfront Seattle Program" below.

City Contracts with the State Affecting Utilities. The various projects comprising the AWVSR 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. The City has a series of written agreements, the most significant of which are with WSDOT, including contracts that cover issues such as the protection, repair, and relocation of the City's utility infrastructure impacted by or constructed as part of the State's Viaduct Replacement Project. 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 Viaduct Replacement Project, plus necessary contingencies.

Waterfront Seattle Program. The Waterfront Seattle Program includes or will include various City capital improvements that span the City's central waterfront area from Pioneer Square to Belltown. The overall budget is approximately $737 million, excluding seawall replacement (completed in 2017) and utility relocations and upgrades. The City is responsible for approximately $530 million of this cost from a variety of sources. The various projects that comprise the Waterfront Seattle Program (other than the seawall replacement) are underway and will be phased, with many elements nearing completion by 2024. The utility relocations and upgrades affecting the Drainage and Wastewater System will be completed in conjunction with these phases.

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% (referendum) 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 City is subject to certain pending legal actions which arise in the ordinary course of business of running a municipality, including various lawsuits and claims involving claims for money damages. Based on its past experience, the City has concluded that its ability to pay principal of and interest on the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the City and the timing of any anticipated payments of judgments that might result from suits and claims.

Approval of Counsel

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

Limitations on Remedies and Municipal Bankruptcies

Any remedies available to the owners of the Bonds 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 Documents 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 Documents 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 1898 federal bankruptcy statute that was superseded by the current Bankruptcy Code. The State Legislature has not amended the 1935 State statute to update the cross-reference to the current Bankruptcy Code, but Washington municipal corporations have nonetheless been permitted to seek relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding under the Bankruptcy Code against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

The opinion to be delivered by 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 B.

Tax Matters

In the opinion of 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) 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) 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 Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) 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) 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.

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) 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 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.

Bond Counsel's opinion 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 (or original issue discount) 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) 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) 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.

CONTINUING DISCLOSURE AGREEMENT

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) ("Rule 15c2-12")), as applicable to a participating underwriter for the Bonds, the Director of Finance is authorized to execute the Continuing Disclosure Agreement (the "CDA") for the benefit of holders of the Bonds, as follows.

Annual Financial Information. 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:

(i) Annual financial information and operating data of the type included in this Official Statement as generally described below under "Type of Annual Information Undertaken to be Provided." The timely filing of unaudited financial statements will satisfy the requirements and filing deadlines pertaining to the filing of annual financial statements under subsection (b) below, provided that audited financial statements are to be 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 listed events with respect to the Bonds:

(a) principal and interest payment delinquencies;

(b) non-payment related defaults, if material;

(c) unscheduled draws on debt service reserves reflecting financial difficulties;

(d) unscheduled draws on credit enhancements reflecting financial difficulties;

(e) substitution of credit or liquidity providers, or their failure to perform;

(f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(g) modifications to rights of holders of the Bonds, if material;

(h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;

(i) defeasances;

(j) release, substitution, or sale of property securing repayment of the Bonds, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership, or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12;

(m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material;

(o) incurrence of a financial obligation of the County, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the County, any of which affect security holders, if material; and

(p) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the County, any of which reflect financial difficulties.

(iii) Timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

For purposes of the CDA, the term "financial obligation" means (i) a debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

(i) annual financial statements of the Drainage and Wastewater System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law;

(ii) a statement of authorized, issued and outstanding bond debt secured by revenues of the Drainage and Wastewater System;

(iii) debt service coverage ratios;

(iv) general customer statistics, such as number and type of customers and revenues by customer class; and

(v) current drainage rates and wastewater rates.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2021. The annual information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

Amendment of 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.

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 then 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 with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the 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. Nonetheless, the City recently discovered that one table of Solid Waste utility operating statistics required by the continuing disclosure undertakings for certain outstanding Solid Waste utility revenue bonds had been omitted from its annual disclosure filings for the years ended December 31, 2017 and 2018, and has since remedied those filings.

OTHER BOND INFORMATION

Ratings on the Bonds

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

Municipal Advisor

The City has retained Piper Sandler & 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.

Purchaser of the Bonds

The Bonds are being purchased by Morgan Stanley & Co. LLC (the "Purchaser") at a price of $140,022,851.84 and will be reoffered at a price of $140,157,169.50. 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 of this Official Statement, 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.

Morgan Stanley & Co. LLC., the Purchaser of the Bonds, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Conflicts of Interest

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

Official Statement

This Official Statement is not to be construed as a contract with the owners of any of the Bonds.

The City of Seattle

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

APPENDIX A

BOND ORDINANCE

Ordinance 125454, as amended by Ordinance 125712 and Ordinance 126222, all of which are set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 124338 (as amended by Ordinance 124914), authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 125454.

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CITY OF SEATTLE

ORDINANCE 125454

COUNCIL BILL 119102

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

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

WHEREAS, the City desires to acquire and construct a system or plan of further additions, improvements, betterments to, and extensions of the Drainage and Wastewater System (the "Plan of Additions") as described in this ordinance, and has a need to borrow funds to pay a portion of the costs of carrying out such Plan of Additions; and

WHEREAS, the City currently has outstanding certain drainage and wastewater revenue bonds (as identified in Exhibit A to this ordinance, the "Outstanding Parity Bonds") and pursuant to the Parity Bond Ordinances permitted the future issuance of additional bonds ("Future Parity Bonds") having a charge and lien on the net revenue of the Drainage and Wastewater System on a parity of lien with those Outstanding Parity Bonds, upon satisfaction of certain conditions (the "Parity Conditions"); and

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

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. **<u>Definitions.</u>** As used in this ordinance, the following capitalized terms shall have the meanings set forth below:

"Accreted Value" means with respect to any Capital Appreciation Bond (a) as of any Valuation Date, the amount determined for such Valuation Date in accordance with the applicable Parity Bond Documents, and (b) as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day months, and (B) the difference between the Accreted Values for such Valuation Dates.

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

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

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

"Annual Debt Service" for any calendar year means the sum of the amounts required in such calendar year to pay the interest due in such calendar year on all Parity Bonds outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; the principal of all outstanding Serial Bonds due in such calendar year; and the Sinking Fund Requirement, if any, for such calendar year. Additionally, for purposes of calculating and determining compliance with the Coverage Requirement, the Reserve Requirement and the conditions for the issuance of Future Parity Bonds and/or entering into Parity Payment Agreements, the following shall apply:

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

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

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

(d) **Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force.** Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement. For example, if the net economic effect of the Payment Agreement and a series of Parity Bonds otherwise bearing interest at a variable rate is to produce an obligation bearing interest at a fixed interest rate, the relevant series of bonds shall be treated as fixed interest rate bonds. And if the net economic effect of the Payment Agreement and a series of Parity Bonds otherwise bearing interest at a fixed rate is to produce an obligation bearing interest at a variable interest rate, the relevant series of bonds shall be treated as Variable Interest Rate Bonds.

Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in or determined pursuant to the applicable Parity Bond Documents, plus Payment Agreement Payments, minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement that includes a variable rate component determined by reference to a pricing mechanism or index that is not the same as the pricing mechanism or index used to determine the variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or index specified by the Payment Agreement is the same as the pricing mechanism or index specified by the applicable Parity Bond Documents. Notwithstanding the other provisions of this definition, the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less.

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

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

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

(f) **Balloon Bonds.** ***Upon the redemption or defeasance of all of the 2008 Bonds, 2009A Bonds, 2009B Bonds, 2012 Bonds, 2014 Bonds, and 2016 Bonds (as such Outstanding Parity Bonds are identified in Exhibit A), the following shall become effective: For purposes of calculating debt service on any Balloon Bonds, the City may assume that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the assumed RBI-based rate, will be amortized in equal annual installments over a term of 30 years.***

(g) **Adjustments for Defeased Bonds.** For purposes of calculating and determining compliance with the Coverage Requirement, the Reserve Requirement, and the Parity Conditions, Annual Debt Service shall be adjusted as set forth in Section 21(d).

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

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

"Balloon Bonds" means any series of Parity Bonds, the aggregate principal amount (including Sinking Fund Requirements) of which becomes due and payable in any calendar year in an amount that constitutes 25% or more of the initial aggregate principal amount of such series of Parity Bonds.

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

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

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

"Bond Insurance" means any municipal bond insurance policy, guaranty, surety bond, or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds, issued by an insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), or by any other financial institution qualified to provide such credit enhancement device.

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

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

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

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

"Bonds" means the Drainage and Wastewater System revenue bonds issued pursuant to this ordinance.

"Book-Entry Form" means a fully registered form in which physical bond certificates are registered only in the name of the Securities Depository (or its nominee), as Registered Owner, with the physical bond certificates held by and immobilized in the custody of the Securities Depository (or its designee), where the system for recording and identifying the transfer of the ownership interests of the Beneficial Owners in those Bonds is neither maintained by nor the responsibility of the City or the Bond Registrar.

"CIP" means those portions of the City's "2017-2022 Capital Improvement Program" relating to the Drainage and Wastewater System, adopted by the City in Ordinance 125207, together with any previously adopted Capital Improvement Program of the City. For purposes of this ordinance, the CIP includes all amendments, updates, supplements or replacements that may be adopted from time to time by ordinance.

"Capital Appreciation Bond" means any Parity Bond, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable Bond Documents and is payable only upon redemption or on the maturity date of such Parity Bond. A Parity Bond that is issued as a Capital Appreciation Bond, but which later converts to an obligation on which interest is paid periodically, shall be a Capital Appreciation Bond until the conversion date and thereafter shall no longer be a Capital Appreciation Bond, but shall be treated as having a principal amount equal to its Accreted Value on the conversion date. For purposes of computing the principal amount of Parity Bonds held by the Owner of any Capital Appreciation Bond in connection with any notice, consent, request, or demand, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value at the time that such notice, consent, request, or demand is given or made.

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

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

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

"Construction Account" means the Drainage and Wastewater Construction Account, 2018, created in the Drainage and Wastewater Fund by this ordinance.

"Continuing Disclosure Agreement" means, for each Series sold in an offering subject to federal securities regulations requiring a written undertaking to provide continuing disclosure, a continuing disclosure agreement entered into pursuant to Section 23, in substantially the form attached as Exhibit B.

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

"Coverage Requirement" means Adjusted Net Revenue equal to at least 1.25 times Adjusted Annual Debt Service on all Parity Bonds then outstanding.

"Covered Parity Bonds" means all Outstanding Parity Bonds, each Series of the Bonds, and each series of Future Parity Bonds. ***From and after the redemption or defeasance of the 2008 Bonds, 2009A Bonds, 2009B Bonds, 2012 Bonds, 2014 Bonds, and 2016 Bonds (the "Reserve Covenant Date"),*** the term "Covered Parity Bonds" shall exclude each series of Parity Bonds for which the Bond Sale Terms provide that, from and after the Reserve Covenant Date, such series shall no longer be treated as a series of Covered Parity Bonds and shall no longer be secured by the amounts in the Reserve Subaccount.

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

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

"Drainage and Wastewater Fund" means the fund created by Ordinance 84390 and later renamed by Ordinance 114155, into which is paid the Gross Revenue of the Drainage and Wastewater System.

"Drainage and Wastewater System" means the drainage and wastewater system of the City, including the sanitary sewerage and storm and surface water drainage systems, as it now exists (except properties, interests, and rights under the jurisdiction of the City's Parks and

Recreation Department, Seattle Center Department, Seattle Public Utilities Water System, City Light Department and Fleets and Facilities Department), and all additions thereto and betterments and extensions thereof at any time made, together with any utility systems of the City hereafter combined with the Drainage and Wastewater System. The Drainage and Wastewater System shall not include any separate utility system that may be created, acquired or constructed by the City as provided in Section 19.

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

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

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

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

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

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

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

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

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

"MSRB" means the Municipal Securities Rulemaking Board.

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

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

"Omnibus Refunding Ordinance" means an ordinance passed simultaneously with this ordinance authorizing the refunding of drainage and wastewater revenue bonds (as it may be amended from time to time), or any other ordinance of the City passed in the future, pursuant to which the Bonds (or any Series of the Bonds) are designated as "Refundable Bonds."

"Operating and Maintenance Expense" means all expenses incurred by the City in causing the Drainage and Wastewater System to be operated and maintained in good repair, working order and condition, including without limitation: (a) deposits, premiums, assessments or other payments for insurance, if any, on the Drainage and Wastewater System; (b) payments into pension funds; (c) State-imposed taxes; (d) amounts due under Contract Resource Obligations in accordance with Section 20; (e) payments made to another person or entity for treatment or disposal of sewage or other commodity or service; and (f) payments with respect to any other expenses of the Drainage and Wastewater System that are properly treated as Operating and Maintenance Expense under generally accepted accounting principles applicable to municipal corporations, including payments (other than payments out of proceeds of Parity Bonds or other obligations not issued to pay current expenses of the Drainage and Wastewater System) into reasonable reserves for items of operating or maintenance expense the payment of which is not immediately required. Operating and Maintenance Expense does not include: depreciation, amortization or other similar recognitions of non-cash expense items made for accounting purposes only; taxes levied or imposed by the City, or payments in lieu of City taxes; payments of claims or judgments; or capital additions or capital replacements of the Drainage and Wastewater System.

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

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

"Parity Bond Account" means the Drainage and Wastewater Revenue Bond Account, 1990, created by Ordinance 115098 in the Drainage and Wastewater Fund for the purpose of paying and securing payment of the principal of and interest on Parity Bonds.

"Parity Bond Documents" means those Bond Documents applicable to a series of Parity Bonds.

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

"Parity Bonds" means the Outstanding Parity Bonds identified in Exhibit A, each Series of the Bonds, and any Future Parity Bonds then outstanding. Parity Bonds may include Parity Payment Agreements in accordance with Section 17.

"Parity Certificate" means a certificate delivered pursuant to Section 17 for purposes of satisfying the Parity Conditions in connection with the issuance of Future Parity Bonds.

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

"Parity Payment Agreement" means 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 charge and lien on Net Revenue equal in rank with the charge and lien upon such Net Revenue required to be paid into the Parity Bond Account to pay and secure the payment of interest on Parity Bonds. For purposes of determining percentages of ownership of Parity Bonds under this ordinance or under applicable Parity Bond Documents, Parity Payment

Agreements shall be deemed to have no principal amount, and any notice, consent, or similar rights (if any) shall be determined only as set forth in the applicable Parity Payment Agreement.

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

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

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

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

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

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

"Principal and Interest Subaccount" means the subaccount of that name created in the Parity Bond Account by Ordinance 115098 for the payment of the principal of and interest on Parity Bonds.

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

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

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

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

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

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

"Rate Stabilization Account" means the account of that name previously established by Section 26 of Ordinance 118974.

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

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

"Refundable Bonds" means Parity Bonds that may be refunded pursuant to the Omnibus Refunding Ordinance.

"Refunding Parity Bonds" means Future Parity Bonds that satisfy the applicable Parity Conditions and are issued pursuant to the Omnibus Refunding Ordinance, or other Future Parity Bond Ordinance, for the purpose of refunding any Refundable Bonds.

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

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

"Reserve Requirement" means the least of (a) Maximum Annual Debt Service on all Parity Bonds outstanding at the time of calculation, (b) 1.25 times Average Annual Debt Service on all Parity Bonds outstanding at the time of calculation, or (c) the sum of 10% of the proceeds of each series of Parity Bonds then outstanding, as of the delivery of each such series. ***From and after the defeasance or redemption of the 2008 Bonds, 2009A Bonds, 2009B Bonds, 2012 Bonds, 2014 Bonds, and 2016 Bonds (as such Outstanding Parity Bonds are identified in Exhibit A), the Reserve Requirement shall mean the least of (a) Maximum Annual Debt Service on all Covered Parity Bonds outstanding at the time of calculation, or (b) 1.25 times Average Annual Debt Service on all Covered Parity Bonds outstanding at the time of calculation. In no event***

shall the Reserve Requirement exceed the sum of 10% of the proceeds of each series of Covered Parity Bonds then outstanding, determined as of the Issue Date of each such series.

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

"Reserve Subaccount" means the subaccount of that name created in the Parity Bond Account by Ordinance 115098 for the purpose of securing the payment of the principal of and interest on Parity Bonds.

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

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

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

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

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

"Sinking Fund Account" means any account created in the Parity Bond Account to amortize the principal or make mandatory redemptions of Term Bonds.

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

"State" means the State of Washington.

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

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

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

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

"Taxable Bond" means any Parity Bond, the interest on which is not intended, as of the Issue Date, to be excludable from gross income for federal income tax purposes.

"Term Bond" means any Parity Bond that is issued subject to mandatory redemption prior to its maturity in Sinking Fund Requirements.

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

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

"Valuation Date" means, with respect to any Capital Appreciation Bond, the date or dates, determined as set forth in the Parity Bond Documents relating to the relevant series of Parity Bonds, on which specific Accreted Values are assigned to that Capital Appreciation Bond.

"Variable Interest Rate" means any interest rate that fluctuates during the stated term of a Parity Bond (or during a stated period during which the Parity Bond is designated as a Variable Interest Rate Bond), whether due to a remarketing, a market index reset, or other mechanism set forth in the applicable Bond Documents. The Bond Documents for any Series of the Bonds bearing interest at a Variable Interest Rate shall set forth: (a) the available method(s) of computing interest (the "interest rate modes"); (b) the particular period or periods of time (or manner of determining such period or periods of time) for which each value of such Variable Interest Rate (or each interest rate mode) shall remain in effect; (c) provisions for conversion from one interest rate mode to another and for setting or resetting the interest rates; and (d) the time or times upon which any change in such Variable Interest Rate (or any conversion of interest rate modes) shall become effective.

"Variable Interest Rate Bond" means, for any period of time, any Parity Bond that bears interest at a Variable Interest Rate during that period. A Parity Bond shall not be treated as a Variable Interest Rate Bond if the net economic effect of: (a) interest rates on a particular series of Parity Bonds, as set forth in the applicable Bond Documents, and (b) either (i) interest rates on another series of Parity Bonds issued at substantially the same time, or (ii) a Payment Agreement related to that particular series of Parity Bonds, is to produce obligations that bear interest at a fixed rate. A Parity Bond with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

Section 2. **Adoption of Plan of Additions.** The City specifies, adopts and orders the Plan of Additions to be carried out as generally provided for in the documents comprising the Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is declared to be $1,031,866,000, of which approximately $210,000,000 is expected to be financed from proceeds of the Bonds and investment earnings thereon.

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

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

(b) **City Council Finding.** The City Council hereby finds that, in creating the Parity Bond Account and in fixing the amounts to be paid into it in accordance with this ordinance and the parameters for the Bond Sale Terms set forth in Section 5, the City Council has exercised due regard for the cost of operation and maintenance of the Drainage and Wastewater System, and is not setting aside into the Parity Bond Account a greater amount than in the judgment of the City

Council, based on the rates established from time to time consistent with Section 16(b), will be sufficient, in the judgment of the City Council, to meet all expenses of operation and maintenance of the Drainage and Wastewater System and to provide the amounts previously pledged for the payment of all outstanding obligations payable out of Gross Revenues and pledged for the payment of the Bonds. Therefore, the City Council hereby finds that the issuance and sale of the Bonds is in the best interest of the City and in the public interest.

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

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

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

(b) **Parameters for Bond Sale Terms.** The Director of Finance is authorized to approve, on behalf of the City, Bond Sale Terms for the sale of the Bonds in one or more Series, and, in connection with each such sale, to execute a Bond Purchase Contract (or, in the case of a competitive sale, a Pricing Certificate) confirming the Bond Sale Terms and such related agreements as may be necessary or desirable, consistent with the following parameters:

(i) **Maximum Principal Amount.** The maximum aggregate principal amount of all Series of the Bonds authorized by this ordinance is not to exceed $210 million.

(ii) **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by the Director of Finance. The initial Issue Date (without restricting any reissuance date with respect to a Series of Variable Interest Rate Bonds) may be no later than December 31, 2020.

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

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

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

(vi) **Final Maturity.** Each Bond shall mature no later than 40 years after its Issue Date.

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

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

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

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

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

(viii) **Price.** The Director of Finance may approve in the Bond Sale Terms an aggregate purchase price for each Series of the Bonds that is, in his or her judgment, the price that produces the most advantageous borrowing cost for the City, consistent with the parameters set forth herein and in any applicable bid documents.

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

(A) **Expected Life of Capital Facilities.** As of the Issue Date of each Series, the Director of Finance must additionally find to his or her satisfaction that the average expected life of the capital facilities to be financed with the proceeds (or allocable share of proceeds) of that Series must exceed the weighted average maturity of such Series (or share thereof) allocated to financing those capital facilities.

(B) **Parity Conditions Satisfied.** As of the Issue Date of each Series, the Director of Finance must find that the Parity Conditions have been met or otherwise satisfied, so that such Series is permitted to be issued as Parity Bonds.

(C) **Additional Terms, Conditions, and Agreements.** The Bond Sale Terms for any Series may provide for Bond Insurance, a Reserve Security, Qualified Letter of Credit, credit enhancement, or for any other Payment Agreement as the Director of Finance may find necessary or desirable. The Bond Sale Terms for any Series may provide for multiple interest rate modes and may include provisions for conversion from any interest rate mode to any other mode. To that end, the Bond Sale Terms may include such additional terms, conditions, and covenants as may be necessary or desirable, including but not limited to: restrictions on investment of Bond proceeds and pledged funds (including any escrow established for the defeasance of the Bonds), provisions for the conversion of interest rate modes, provisions for the reimbursement of a credit enhancement provider or Qualified Counterparty, and requirements to give notice to or obtain the consent of a credit enhancement provider or a Qualified Counterparty. The Director of Finance is authorized to execute, on behalf of the City, such additional certificates and agreements as may be necessary or desirable to reflect such terms, conditions, and covenants.

(D) **Reserve Requirement.** The Bond Sale Terms must establish whether the Series is to be treated as Covered Parity Bonds and must establish the method of providing for the Reserve Requirement, consistent with Section 15.

(E) **Tax Status of the Bonds.** The Director of Finance may determine that any Series of the Bonds may be designated or qualified as Tax-Exempt Bonds, Taxable Bonds or Tax Credit Subsidy Bonds, consistent with Section 22.

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

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

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

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

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

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

(c) **Securities Depository; Book-Entry Form.** Unless otherwise determined by the Director of Finance, the Bonds initially shall be issued in Book-Entry Form and registered in the name of the Securities Depository. The Bonds so registered shall be held fully immobilized in Book-Entry Form by the Securities Depository in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar shall have any responsibility or obligation to participants of the Securities Depository or the persons for whom they act as nominees with respect to the Bonds regarding 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 hereunder (except such notice as is required to be given by the Bond Registrar to the Securities Depository). Registered ownership of a Bond initially held in Book-Entry Form, or any portion thereof, may not be transferred except: (i) to any successor Securities Depository; (ii) to any substitute Securities Depository appointed by the City or such substitute Securities Depository's successor; or (iii) to any person if the Bond is no longer held in Book-Entry Form.

Upon the resignation of the Securities Depository from its functions as depository, or upon a 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 shall no longer be held in Book-Entry Form and ownership may be transferred only as provided herein.

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

(d) **Lost or Stolen Bonds.** In case any Bond shall be lost, stolen or destroyed, the Bond Registrar 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 evidence satisfactory to the Bond Registrar 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.

Section 7. **Payment of Bonds.**

(a) **Payment.** Each Bond shall be payable in lawful money of the United States of America on the dates and in the amounts as provided in the Bond Documents applicable to that Series. Principal of and interest on each Bond issued as a Parity Bond shall be payable solely out of the Parity Bond Account and shall not be a general obligation of the City. No Bonds of any Series shall be subject to acceleration under any circumstances.

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

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

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

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

(b) **Mandatory Redemption.** All or some of the Bonds of any Series may be designated as Term Bonds, subject to mandatory redemption in Sinking Fund Requirements, as set forth in the applicable Bond Documents. If not redeemed or purchased at the City's option prior to maturity, Term Bonds (if any) must be redeemed, at a price equal to 100% of the principal amount to be redeemed plus accrued interest, on the dates and in the years and Sinking Fund Requirements as set forth in the applicable Bond Documents. If the City optionally redeems or purchases a Term Bond prior to maturity, the principal amount of that Term Bond that is so redeemed or purchased (irrespective of its redemption or purchase price) shall be credited against the remaining Sinking Fund Requirements for that Term Bond in the manner as directed by the Director of Finance. In the absence of direction by the Director of Finance, credit shall be allocated to the remaining Sinking Fund Requirements for that Term Bond on a *pro rata* basis.

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

(d) **Selection of Bonds for Redemption; Partial Redemption.** If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance shall select the Series and maturity or maturities to be redeemed. If less than all of the principal amount of a maturity of the selected Series is to be redeemed, if such Series is held in Book-Entry Form, the portion of such maturity to be redeemed shall be selected for redemption by the Securities Depository in accordance with the Letter of Representations, and if the Series is not then held in Book-Entry Form, the portion of such maturity to be redeemed shall be selected by the Bond Registrar randomly in such manner as the Bond Registrar shall determine. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any applicable Authorized Denomination. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar there shall be issued to the Registered

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

(e) **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.

Section 9. **Notice of Redemption; Rescission of Notice.** Unless otherwise set forth in the applicable Bond Documents, 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 the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call.

In the case of an optional or extraordinary 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 shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

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

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

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

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

Section 12. **Construction Account; Deposit of Proceeds.** An account to be known as the Drainage and Wastewater Construction Subaccount, 2018 is created in the Drainage and Wastewater Construction Account within the Drainage and Wastewater Fund. After depositing accrued interest (if any) into the Principal and Interest Subaccount and depositing amounts necessary to provide for the Reserve Requirement (if any) into the Reserve Subaccount, the remaining principal proceeds of the sale of a Series of the Bonds shall be deposited into the Construction Account (or such other fund or account as may be directed by the Director of Finance) to be used (a) to pay part of the costs of carrying out the Plan of Additions, and (b) to pay capitalized interest on (if necessary) and the costs of issuance of the Series. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any Permitted Investments, and the investment earnings may, as determined by the Director of Finance, be either (a) retained in the Construction Account to be spent for the purposes of that account, or (b) deposited in the Parity Bond Account.

Section 13. **Security for the Bonds; Parity with Outstanding Parity Bonds.** The Bonds shall be special limited obligations of the City payable from and secured solely by the Net Revenue (including all ULID Assessments, if any) and money in the Parity Bond Account and the subaccounts therein, ***except that from and after the date on which the 2008 Bonds, 2009A Bonds, 2009B Bonds, 2012 Bonds, 2014 Bonds, and 2016 Bonds have been redeemed or defeased, money in the Reserve Subaccount shall secure only Covered Parity Bonds.*** The Net Revenue (including all ULID Assessments, if any) is pledged to make the payments into the Parity Bond

Account required by this ordinance. This pledge constitutes a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever.

The Bonds shall be issued on parity with the Outstanding Parity Bonds and all Future Parity Bonds, without regard to date of issuance or authorization and without preference or priority of right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other obligations which are a charge or lien upon Net Revenue subordinate to the payments required to be made from Net Revenue into the Parity Bond Account and the subaccounts therein. The City covenants that, for as long as any Bond is outstanding, it will not issue any other revenue obligations (or create any special fund or account therefor), which will have any priority over or which will rank on a parity with the payments required in respect of the Parity Bonds, and that it will issue Future Parity Bonds only accordance with Section 17.

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

Section 14. **Priority Expenditure of Gross Revenue; Flow of Funds.** Gross Revenue shall be deposited as received in the Drainage and Wastewater Fund and used for the following purposes only, in the following order of priority:

(a) To pay the Operating and Maintenance Expense;

(b) To make all payments into the Principal and Interest Subaccount required to be made in order to pay the interest on and principal of all Parity Bonds (including all net payments under Parity Payment Agreements) when due;

(c) To make all payments required to be made into the Reserve Subaccount with respect to Parity Bonds secured by the Reserve Subaccount;

(d) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account, or reserve account created to pay and secure the payment of the principal of and interest on any revenue bonds or short-term obligations of the City having a charge and lien upon Net Revenue subordinate to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(e) Without priority, to any of the following purposes: to retire by redemption or purchase any outstanding revenue bonds or revenue obligations of the Drainage and Wastewater System; to make necessary additions, betterments, improvements, repairs, extensions, and replacements of the Drainage and Wastewater System; to pay City taxes or other payments in lieu of taxes payable from Gross Revenue; to make deposits to the Rate Stabilization Account; or for any other lawful purpose of the Drainage and Wastewater System.

Section 15. **Parity Bond Account.** A special account of the City known as the Parity Bond Account has been previously created and shall be maintained as a separate account within the Drainage and Wastewater Fund, for the sole purpose of paying the principal of and premium, if any, and interest on the Parity Bonds as the same shall become due. The Parity Bond Account consists of the Principal and Interest Subaccount and the Reserve Subaccount, and may additionally include such subaccounts as the Director of Finance may deem necessary, so long as the maintenance of such subaccounts does not conflict with the rights of the owners of Parity Bonds. Principal of, premium (if any) and interest on the Parity Bonds shall be payable out of the Parity Bond Account.

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

(i) Into the Principal and Interest Subaccount on or before each date on which interest on or principal of Parity Bonds (including Sinking Fund Requirements and net payments under any Parity Payment Agreements) shall become due and payable, an amount that will be sufficient, together with other money on deposit therein, to pay such principal, interest, Sinking Fund Requirements, and net payments then due on Parity Payment Agreements as the same shall become due; and

(ii) Into the Reserve Subaccount an amount necessary to provide for the Reserve Requirement within the time and in the manner required by this ordinance and the Bond Sale Terms. The amount necessary, if any, to satisfy the Reserve Requirement upon the issuance of a Series of the Bonds may be funded (A) on the Issue Date, by a deposit of bond sale proceeds, available funds of the Drainage and Wastewater System, or a Reserve Security; or (B) in annual installments from Net Revenue so that the Reserve Requirement is fully funded by no later than the fifth anniversary of the Issue Date of such Series. The manner of funding the Reserve Requirement for the Bonds shall be set forth in the Bond Sale Terms.

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

(b) **Reserve Subaccount.** The Reserve Subaccount previously has been created and maintained as a subaccount within the Parity Bond Account for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding (including amounts due under any Parity Payment Agreements if required under such agreement). The City covenants that it will at all times, so long as any Covered Parity Bonds are outstanding, maintain the Reserve Subaccount at the Reserve Requirement (taking into account scheduled payments to fund the Reserve Requirement over time), as it is adjusted from time to time, except for withdrawals as authorized by this ordinance. Any withdrawals authorized below from subaccounts within the Reserve Subaccount shall be made on a *pro rata* basis except if the provider of a Reserve Security requires all cash and investments in the Reserve Subaccount to be withdrawn before draws on the Reserve Security, or unless the City receives an opinion of Bond Counsel to the effect that such *pro rata* withdrawal is not required to maintain the exclusion of interest on the Parity Bonds then outstanding from gross income for federal income tax purposes.

(i) **Use of Reserve Subaccount for Payment of Debt Service.** In the event of a deficiency in the Principal and Interest Subaccount to meet current installments of either principal (including Sinking Fund Requirements) or interest (including amounts payable under any Parity Payment Agreement), the Director of Finance may make withdrawals of money or proceeds of Reserve Security in the Reserve Subaccount. ***From and after the redemption or defeasance of the 2008 Bonds, 2009A Bonds, 2009B Bonds, 2012 Bonds, 2014 Bonds, and 2016 Bonds, the withdrawals authorized by this paragraph shall be limited to the amounts necessary to meet current installments of either principal (or Sinking Fund Requirements) or interest with respect***

to Covered Parity Bonds. Any deficiency created in the Reserve Subaccount by reason of any such withdrawal or claim against a Reserve Security shall then be made up from the ULID Assessments and Net Revenue first available after making necessary provisions for the required payments into the Principal and Interest Subaccount.

(ii) **Application of Funds in Reserve Account.** The money in the Reserve Subaccount may be applied to the payment of the last outstanding Covered Parity Bonds, and when the total amount in the Parity Bond Account (including investment earnings) equals the total amount of principal and interest for all then-outstanding Covered Parity Bonds to the last maturity thereof, no further payment need be made into the Parity Bond Account in respect of the Covered Parity Bonds. Money in the Reserve Subaccount (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Subaccount and spent for the purpose of retiring Covered Parity Bonds or may be deposited in any other fund or account and spent for any other lawful Drainage and Wastewater System purpose.

(c) **Investment of Money in Parity Bond Account.** All money in the Parity Bond Account may be kept in cash or invested in Permitted Investments maturing not later than the date when needed (for investments in the Principal and Interest Subaccount) or the last maturity of any outstanding Parity Bonds (for investments in the Reserve Subaccount). In no event shall any money in the Parity Bond Account or any other money reasonably expected to be used to pay principal of and/or interest on the Parity Bonds be invested at a yield which would cause any Series issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. Income from investments in the Principal and Interest Subaccount shall be deposited in that subaccount. Income from investments in the Reserve Subaccount shall be deposited in that subaccount until the amount therein is equal to the Reserve

Requirement for all Parity Bonds, and thereafter shall be deposited in the Principal and Interest Subaccount. Notwithstanding the provisions for deposit or retention of earnings in the Parity Bond Account, any earnings which are subject to a federal tax or rebate requirement may be withdrawn from the Parity Bond Account for deposit in a separate fund or account for that purpose. If no longer required for such rebate, money in that separate fund or account shall be returned to the Parity Bond Account.

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

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

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

(b) **Establishment and Collection of Rates and Charges.** The City will establish, maintain, revise as necessary, and collect rates and charges for services and facilities provided by the Drainage and Wastewater System so that Adjusted Net Revenue in each fiscal year will be at least equal to the Coverage Requirement. The failure of the City to comply with this subsection shall not be an Event of Default if the City promptly retains an Independent Utility Consultant to recommend to the City Council adjustments in the rates of the Drainage and Wastewater System necessary to meet the requirements of this subsection and if the City Council adopts the recommended modifications within 180 days of the date the failure became known to the City Council.

(c) **Sale or Disposition of Drainage and Wastewater System.** The City will not sell, lease, mortgage, or in any manner encumber or dispose of all of the property of the Drainage and Wastewater System unless provision is made for the payment into the Parity Bond Account of an amount sufficient to pay the principal of (including redemption premium, if any) and interest on Parity Bonds then outstanding; and it will not sell, lease, mortgage, or in any manner encumber or dispose of (each a "transfer") any part of the property of the Drainage and Wastewater System that is used, useful and material to the operation thereof, except consistent with one or more of the following:

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

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

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

Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

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

Section 17. **Future Parity Bonds.**

(a) **Issuance of Future Parity Bonds.** The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for any lawful purpose of the Drainage and Wastewater System (including for the purpose of refunding a portion of the then-outstanding Parity Bonds) only if, at the time of the issuance of such series of Future Parity Bonds (or upon the effective date of the Parity Payment Agreement), the following conditions are satisfied:

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

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

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

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

(v) For each series of Future Parity Bonds that is to be issued as a series of Covered Parity Bonds, the Bond Documents must provide for the deposit into the Reserve Subaccount of an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds (if any), which requirement may be satisfied: (A) by a deposit, made on the Issue Date of such series, of proceeds of that series of Future Parity Bonds or other money legally available for such purpose; (B) by obtaining one or more Reserve Securities (or a deposit of cash plus Reserve Securities) available to be drawn upon in specific amounts to be paid into the Reserve Subaccount and credited against the deposits required to be maintained in the Reserve Subaccount; or (C) by a deposit of amounts necessary to fund the Reserve Requirement from ULID Assessments and Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments. Immediately prior to the issuance of Future Parity Bonds, amounts then deposited in the Reserve Subaccount shall be valued as determined on the most recent annual financial report of the City applicable to the Drainage and Wastewater System, and the additional amounts, if any, required to be deposited into the Reserve Subaccount to satisfy the Reserve Requirement shall be based on that valuation.

(vi) There must be on file with the City a Parity Certificate as described in subsection (b). However, if the proposed Future Parity Bonds (or any portion thereof) are to be issued for the purpose of refunding outstanding Parity Bonds (referred to as the "Refunding Parity Bonds"), no Parity Certificate shall be required as to that portion issued for refunding purposes if the Director of Finance finds and certifies that the Adjusted Annual Debt Service on the refunding portion of the proposed Refunding Parity Bonds is not more than $5,000 greater than the Adjusted Annual Debt Service on the Parity Bonds to be refunded thereby. Alternatively, Refunding Parity Bonds may be issued upon delivery of a Parity Certificate.

(b) **Parity Certificate.** A Parity Certificate required under subsection (a)(vi) may be provided as follows:

(i) A certificate may be prepared and signed by the Director of Finance, demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that 12-month period was the Average Annual Debt Service for those proposed Future Parity Bonds); or

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

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

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

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

(4) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for drainage and wastewater or other utility service, which revenue was not included in historical Net Revenue of the Drainage and Wastewater System.

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

(d) **Effect of Issuance of Future Parity Bonds.** If the Parity Conditions are met and complied with at the time of the issuance of such Future Parity Bonds, then payments into the

Parity Bond Fund with respect to such Future Parity Bonds shall rank equally with the payments out of the Net Revenue required to be made into the Parity Bond Fund by this ordinance. Nothing set forth herein shall prevent the City from (i) 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; or (ii) issuing Refunding Parity Bonds for the purpose of refunding Outstanding Parity Bonds, upon compliance with the Parity Conditions set forth in this section.

(e) **Reserve Requirement.** Notwithstanding anything in this section to the contrary, in the Bond Sale Terms relating to the issuance or sale of a series of Future Parity Bonds, the City may elect that, ***from and after the redemption or defeasance of the 2008 Bonds, 2009A Bonds, 2009B Bonds, 2012 Bonds, 2014 Bonds, and 2016 Bonds***, such series shall not be deemed to be a series of Covered Parity Bonds, shall not be secured by the amounts in the Reserve Account, and shall be excluded from the calculation of the Reserve Requirement.

Section 18. **Rate Stabilization Account.** The Rate Stabilization Account has been created as a separate account in the Drainage and Wastewater Fund. The City may at any time, as determined by the Director of Finance and consistent with the flow of funds set forth in Section 14, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Drainage and Wastewater System and available for this purpose. The Director of Finance may, upon authorization by the City Council, withdraw any or all of the money in the Rate Stabilization Account for inclusion in Adjusted Gross Revenue for any fiscal year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No deposit of Gross

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

Section 19. **Separate Utility Systems.** The City may create, acquire, construct, finance, own and operate one or more additional systems for drainage and wastewater service or other commodity or service relating to the Drainage and Wastewater System. The revenue of that separate utility system shall not be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither Gross Revenue nor Net Revenue shall be pledged by the City to the payment of any obligations of a separate utility system except (a) as a Contract Resource Obligation, upon compliance with Section 20, or (b) with respect to the Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue.

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

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

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

(ii) There shall be on file a certificate of an Independent Utility Consultant stating that (A) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the commodity or service rendered; (B) any facilities to be constructed to provide the commodity or service are sound from a drainage and wastewater services or other commodity or service planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide such commodity or service no later than a date set forth in the Independent Utility Consultant's certification; and (C) Adjusted Net Revenue (further adjusted by the Independent Utility Consultant's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Adjusted Net Revenue is estimated by the Independent Utility Consultant in accordance with the provisions of and adjustments permitted in Section 17(b), will be at least equal to the Coverage Requirement.

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

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

Section 21. **Refunding and Defeasance of the Bonds.**

(a) **Bonds Designated as Refundable Bonds.** Each Series of the Bonds is hereby designated as a series of "Refundable Bonds" for purposes of the Omnibus Refunding Ordinance.

(b) **Refunding; Defeasance.** The City may issue Refunding Parity 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 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 this ordinance and in Net Revenue and the funds and accounts pledged to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such Owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. After establishing and fully funding such a Trust Account, the Defeased Bonds shall be deemed 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.

(c) **Notice of Defeasance or Refunding.** Unless otherwise specified in the Bond Documents, notice of refunding or defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for the redemption of Bonds.

(d) **Annual Debt Service Calculation Adjustments for Defeased Bonds.** If the refunding or defeasance plan provides (i) that the Defeased Bonds (or the Refunding Parity Bonds issued to redeem those Defeased Bonds) are to be secured by money and/or Government Obligations pending the redemption of the Defeased Bonds, and (ii) that certain money and/or Government Obligations are pledged irrevocably for the redemption of the Defeased Bonds, then only the debt service on such Bonds as are not Defeased bonds (and any Refunding Parity Bonds, the payment of which is not so secured by the refunding plan) shall be included in the calculation of Annual Debt Service.

Section 22. **Provisions Relating to Federal Tax Issues.** The Bond Documents may include such additional terms and covenants relating to federal tax matters as the Director of Finance deems necessary or appropriate, including the following:

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

(b) **Taxable Bonds; Tax Credit Subsidy Bonds.** For each Series of the Bonds issued as Taxable Bonds or as Tax Credit Subsidy Bonds, the Director of Finance is authorized to make provision in the Bonds and other Bond Documents, to execute additional written agreements, and to make additional covenants on behalf of the City, all as he or she may deem necessary or appropriate in order to obtain, maintain, and administer such tax status. In the case of Tax Credit Subsidy Bonds, such additional covenants and agreement may include (without limiting the generality of the foregoing) those necessary in order for the City (i) to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of such Tax Credit Subsidy Bonds, and (ii) to ensure that such Series otherwise become and remain eligible for tax benefits under the Code.

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

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

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

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

Section 24. **Supplemental or Amendatory Bond Documents.** This ordinance and the other applicable Bond Documents for any particular Series of the Bonds may not be supplemented or amended in any respect subsequent to the Issue Date of such Series, except in accordance with and subject to the provisions of this section.

(a) **Amendments Without Bond Owner Consent.** From time to time and at any time, without the consent of or notice to any owners of Parity Bonds, the City may supplement or amend the Bond Documents applicable to any Series of the Bonds for any of the purposes set forth in this subsection (a). Any such supplement or amendment may be passed, adopted, or otherwise approved by the City, without requiring the consent of the registered owners of any Parity Bonds, but may become effective only upon receipt by the City of an opinion of Bond Counsel stating that such supplement or amendment is authorized or permitted by this ordinance and, upon the effective date thereof, will be valid and binding upon the City in accordance with its terms, and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the affected Series of the Bonds, if such Series was issued and sold as Tax-Exempt Bonds. The types of supplements and amendments permitted under this subsection (a) are as follows:

(i) To cure any formal defect, omission, inconsistency, or ambiguity in the Bond Documents for such Series in a manner not adverse to the owners of any Parity Bonds;

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

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

(iv) To confirm, as further assurance, any pledge under (and the subjection to any claim, lien, or pledge created or to be created by) such Bond Documents on any other money, securities, or funds;

(v) To alter the Authorized Denominations of a Series of the Bonds and to make correlative amendments and modifications to the applicable Bond Documents regarding (A) exchangeability of such Bonds for Bonds of different authorized denominations, (B) redemptions of portions of Bonds of particular authorized denominations, and (C) similar amendments and modifications of a technical nature;

(vi) To comply with any future federal law or interpretation to preserve the exclusion of the interest on any Series of the Bonds issued and sold as Tax-Exempt Bonds from gross income for federal income tax purposes and the entitlement of the City to receive from the

United States Treasury the applicable Tax Credit Subsidy Payments in respect of any Series of the Bonds issued and sold as Tax Credit Subsidy Bonds;

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

(viii) To add to the covenants and agreements of (or limitations and restrictions upon) the City set forth in any Bond Documents, such additional or alternative covenants, agreements, limitations, or restrictions to be observed by the City as the City may determine are necessary or convenient to accommodate a provider of Qualified Insurance or provider of a Reserve Security and which are not materially adverse to the owners of the Parity Bonds.

(b) **Amendments With Bond Owner Consent.** With the consent of registered owners of not less than 60% in aggregate principal amount of the Parity Bonds then outstanding, the City may pass, adopt, or otherwise approve any supplement or amendment (other than amendments requiring unanimous consent as set forth in subsection (c)) to any Bond Document that is deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing, or rescinding, in any particular, any of the terms or provisions contained in such Bond Document other than those terms and provisions described in subsection (c).

(c) **Amendments Prohibited Except Upon Unanimous Consent.** Unless approved in writing by or on behalf of the registered owner of each Parity Bond then outstanding, nothing contained in this section shall permit, or be construed as permitting (i) a change in the times, amounts, or currency of payment of the principal of or interest on any outstanding Parity Bond, (ii) a reduction in the principal amount or redemption price of any outstanding Parity Bond, (iii) a change in the method of determining the rate of interest thereon (other than a conversion to a new interest rate mode in accordance with the applicable Bond Documents), (iv) a preference or priority of any Parity Bond over any other Parity Bond, or (v) a reduction in the percentage of the aggregate principal amount of the then-outstanding Parity Bonds required to effect a change under subsection (b).

(d) **Notice to Bond Owners.** If at any time the City passes, adopts, or otherwise approves a supplement or amendment for any of the purposes of subsection (b) or (c), the Bond Registrar shall cause notice of the proposed supplement or amendment to be given by first class mail (i) to all registered owners of the then outstanding Parity Bonds, (ii) to each provider of Bond Insurance or a Reserve Security, and (iii) to each Rating Agency. Such notice shall briefly set forth the nature of the proposed supplement or amendment and shall state that a copy is on file at the office of the City Clerk for inspection by all owners of the then outstanding Parity Bonds.

(e) **Effective Date; Consents.** Any supplement or amendment, substantially as described in the notice mailed pursuant to subsection (d), may go into effect upon delivery to the Bond Registrar of (i) the required consents, in writing, of registered owners of the Parity Bonds, and (ii) an opinion of Bond Counsel stating that such supplement or amendment is authorized or permitted by this ordinance. Upon the effective date thereof, such supplement or amendment will be valid and binding upon the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

If registered owners of not less than the percentage of Parity Bonds required by this section shall have consented to and approved such a supplement or amendment, no owner of any Parity Bond shall have any right (i) to object to the passage, adoption, or approval of such supplement or amendment, (ii) to object to any of the terms and provisions contained therein or the operation thereof, (iii) in any manner to question the propriety of the passage, adoption, or approval thereof, (iv) to enjoin or restrain the City from passing, adopting, or otherwise approving the same, or (v) to enjoin or restrain the City, any authorized official thereof, or the Bond Registrar from taking any action pursuant to the provisions thereof. For purposes of determining whether consents representing the requisite percentage of principal amount of Parity Bonds have been obtained, the Accreted Value of Capital Appreciation Bonds shall be deemed to be the principal amount. It shall not be necessary to obtain approval of the particular form of any proposed supplement, but it shall be sufficient if the consent shall approve the substance thereof.

(f) **Effect of Amendment.** Upon the effective date of any supplement or amendment, this ordinance (or the relevant Bond Document, if not set forth herein) shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the City and all owners of Parity Bonds then outstanding shall thereafter be determined, exercised, and enforced in accordance with and subject in all respects to such modifications and amendments. All the terms and conditions of any such supplement or amendment shall be deemed to be a part of this ordinance and the Bond Documents for any and all purposes.

(g) **Special Amendments.** If and to the extent that it is determined that the written consent of Registered Owners of the Bonds is required under subsection (b) or (c) of this section, the Registered Owners from time to time of the Bonds, by taking and holding the same, are hereby deemed to have consented to any supplement or amendment to the Bond Documents effecting any one or more of the following changes:

(i) When calculating "Annual Debt Service," to permit or require Tax Credit Subsidy Payments expected to be received by the City in any period to be credited against amounts required to be paid in respect of interest on the Parity Bonds in that period; and

(ii) To permit or require Tax Credit Subsidy Payments to be deposited into the Principal and Interest Subaccount and credited against the Net Revenue otherwise required to be deposited into the Principal and Interest Subaccount; and

(iii) To permit the reimbursement obligations of the City under any Qualified Letter of Credit or Qualified Insurance (other than a Qualified Letter of Credit or Qualified Insurance obtained to satisfy all or part of the Reserve Requirement) to be secured by 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 Account to pay and secure the payment of the principal of and interest on Parity Bonds.

Section 25. **Defaults and Remedies.**

(a) **Events of Default.** Each of the following shall constitute an Event of Default with respect to the Bonds:

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

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

Bonds as long as the City has taken active steps within the six months after written notice has been given to remedy the default and is diligently pursuing such remedy.

Notwithstanding anything in this section to the contrary, the failure of the City or any obligated person to comply with the Continuing Disclosure Agreement shall not constitute an Event of Default, and the sole remedy of any holder of a Bond shall be to seek an order of specific performance from an appropriate court to compel the City to comply with the Continuing Disclosure Agreement.

(b) **Bond Owners' Trustee.** So long as such Event of Default has not been remedied, a trustee (the "Bond Owners' Trustee") may be appointed by the registered owners of 25% in principal amount of the then outstanding Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Bond Owners' Trustee, notification thereof being given to the City. That appointment shall become effective immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee appointed under the provisions of this subsection shall be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The bank or trust company acting as Bond Owners' Trustee may be removed at any time, and a successor Bond Owners' Trustee may be appointed, by the registered owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized. The Bond Owners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) The Director of Finance, in his or her discretion and without further action by the City Council, (i) may issue requests for proposals to provide underwriting services or financing facilities (including, without limitation, Qualified Insurance, a Qualified Letter of Credit, or other credit support or liquidity facility), and may execute engagement letters and other agreements with underwriters and other financial institutions (including providers of liquidity or credit support) based on responses to such requests; (ii) may select and make decisions regarding the Bond Registrar, fiscal or paying agents, and any Securities Depository for each Series of the Bonds; (iii) may take any and all actions necessary or convenient to provide for the conversion of interest rate modes for any Series in accordance with the applicable Bond Documents; and (iv) may take such actions on behalf of the City as are necessary or appropriate for the City to designate, qualify, or maintain the tax-exempt treatment with respect to any Series issued as Tax-Exempt Bonds, to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of any Series issued as Tax Credit Subsidy Bonds, and to otherwise receive any other federal tax benefits relating to any Series of the Bonds that are available to the City; and

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

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

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

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

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

Passed by the City Council the 20th day of NOVEMBER, 2017, and signed by me in open session in authentication of its passage this 20th day of NOVEMBER, 2017.

President ____________ of the City Council

Approved by me this 22ND day of November, 2017.

Tim Burgess, Mayor

Filed by me this 28th day of NOVEMBER, 2017.

Monica Martinez Simmons, City Clerk

(Seal)

Attachments:
Exhibit A – Outstanding Drainage and Wastewater System Parity Bonds
Exhibit B – Form of Continuing Disclosure Agreement

EXHIBIT A

OUTSTANDING DRAINAGE AND WASTEWATER SYSTEM PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation: New Money Ord.	Bond Legislation: Refunding Ord.	Bond Legislation: Bond Sale Res.
Drainage and Wastewater Revenue Bonds, 2008	04/16/2008	$84,645,000	Ord. 122637	- -	Res. 31050
Drainage and Wastewater Revenue Bonds, Series 2009A (Taxable Build America Bonds – Direct Payment)	12/17/2009	$102,535,000	Ord. 123055	- -	Res. 31177
Drainage and Wastewater Improvement and Refunding Revenue Bonds, Series 2009B	12/17/2009	$36,680,000	Ord. 123055	Ord. 121938 (as amended by Ord. 122209 and Ord. 122637)	Res. 31177
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012	06/27/2012	$222,090,000	Ord. 123753	Ord. 121938 (as amended by Ord. 122209 and Ord. 122637)	Res. 31387
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2014	07/10/2014	$133,180,000	Ord. 124337	Ord. 124338 (amending and restating Ord. 121938)	Res. 31531
Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2016	06/22/2016	$164,945,000	Ord. 124914	Ord. 124338 (amending and restating Ord. 121938)	Res. 31674
Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2017	06/28/2017	$234,125,000	Ord. 125297	Ord. 124338 (amending and restating Ord. 121938) as amended by Ord. 124914	Res. 31756

EXHIBIT B

FORM OF CONTINUING DISCLOSURE AGREEMENT

The City of Seattle, Washington (the "City") makes the following written Undertaking for the benefit of the Owners of the City's [Drainage and Wastewater Revenue Bonds, 2018] [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 of the Drainage and Wastewater System of the type included in the final official statement for the Bonds and described in subsection (b) of this section ("annual financial information"). 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 enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

(b) <u>Type of Annual Financial Information Undertaken to be Provided</u>. The annual financial information and operating data that the City undertakes to provide in subsection (a) of this section:

(i) Shall consist of (1) annual financial statements of the Drainage and Wastewater System prepared in accordance with applicable generally accepted accounting principles applicable to governmental units (except as otherwise noted herein), as such principles may be changed from time to time and as permitted by applicable state law; (2) a statement of outstanding bonded debt secured by revenues of the Drainage and Wastewater System; (3) debt service coverage ratios; (4) general customer statistics, such as number and type of customers and revenues by customer class; and (5) current drainage rate and wastewater rates;

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

(iii) May be provided in a single document or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the Securities and Exchange Commission.

(c) <u>Amendment of Undertaking</u>. This Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any Owner or holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12, 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 identity, 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 Legislation 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 this Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

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

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

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

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

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

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

(iii) Determining whether any person other than the City is an "obligated person" within the meaning of Rule 15c2-12 with respect to the Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of listed events for that person in accordance with Rule 15c2-12;

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

(v) Effecting any necessary amendment of the Undertaking.

CITY OF SEATTLE

ORDINANCE 125712

COUNCIL BILL 119395

AN ORDINANCE relating to the drainage and wastewater system of The City of Seattle; amending Ordinance 125454 to increase the authorized principal amount of drainage and wastewater revenue bonds to be issued for the purposes of paying all or part of the cost of carrying out the system or plan of additions and betterments to and extensions of the existing drainage and wastewater system; making certain other technical amendments to Ordinance 125454 and Exhibit B thereto; and ratifying and confirming certain prior acts.

WHEREAS, by Ordinance 125454, passed on November 20, 2017, The City of Seattle, Washington (the "City"), provided for the issuance of not to exceed $210,000,000 principal amount of Drainage and Wastewater System Bonds (the "Bonds") for the purposes of paying all or part of the cost of carrying out the Plan of Additions, providing for the Reserve Requirement for the Parity Bonds, and issuing and selling the Bonds; and

WHEREAS, the City deems it desirable to increase the authorized principal amount of drainage and wastewater revenue bonds and make certain other technical amendments to Ordinance 125454; NOW THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. **Definitions**. The meaning of capitalized terms used and not otherwise defined in this ordinance shall be as set forth in Ordinance 125454.

Section 2. **Amendment of Section 2 of Ordinance 125454**. Section 2 of Ordinance 125454 is hereby amended as follows. Deleted information is shown as strikeouts and inserted information is shown as double underlined.

Section 2. Adoption of Plan of Additions. The City specifies, adopts and orders the Plan of Additions to be carried out as generally provided for in the documents comprising the Plan of

Additions. The estimated cost of the Plan of Additions, as near as may be determined, is declared to be ((~~$1,031,866,000~~)) $1,279,666,000, of which approximately ((~~$210,000,000~~))$350,000,000 is expected to be financed from proceeds of the Bonds and investment earnings thereon.

Section 3. **Amendment of Section 5 of Ordinance 125454**. Section 5 of Ordinance 125454 is hereby amended as follows. Deleted information is shown as strikeouts and inserted information is shown as double underlined.

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

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

(b) **Parameters for Bond Sale Terms.** The Director of Finance is authorized to approve, on behalf of the City, Bond Sale Terms for the sale of the Bonds in one or more Series, and, in connection with each such sale, to execute a Bond Purchase Contract (which, in the case of a Series sold to the United States Environmental Protection Agency ("US EPA"), may be in the form of a loan agreement with the US EPA under the Water Infrastructure Finance and Innovation Act ("WIFIA") program, or, in the case of a Series sold at competitive sale, a Pricing

Certificate) confirming the Bond Sale Terms and such related agreements as may be necessary or desirable, consistent with the following parameters:

(i) **Maximum Principal Amount.** The maximum aggregate principal amount of all Series of the Bonds authorized by this ordinance is not to exceed $((~~210~~))350 million.

(ii) **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by the Director of Finance. The initial Issue Date (without restricting any conversion or reissuance date with respect to a Series of Variable Interest Rate Bonds and without restricting the dates of any draws on any Series of the Bonds structured as draw-down obligations) may be no later than December 31, ((~~2020~~))2021.

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

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

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

(vi) **Final Maturity**. Each Bond shall mature no later than 40 years after its Issue Date.

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

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

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

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

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

(viii) **Price**. The Director of Finance may approve in the Bond Sale Terms an aggregate purchase price for each Series of the Bonds that is, in his or her judgment, the price that produces the most advantageous borrowing cost for the City, consistent with the parameters set forth herein and in any applicable bid documents.

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

(A) **Expected Life of Capital Facilities**. As of the Issue Date of each Series, the Director of Finance must additionally find to his or her satisfaction that the average expected life of the capital facilities to be financed with the proceeds (or allocable share of proceeds) of that Series must exceed the weighted average maturity of such Series (or share thereof) allocated to financing those capital facilities.

(B) **Parity Conditions Satisfied**. As of the Issue Date of each Series, the Director of Finance must find that the Parity Conditions have been met or otherwise satisfied, so that such Series is permitted to be issued as Parity Bonds.

(C) **Additional Terms, Conditions, and Agreements**. The Bond Sale Terms for any Series may provide for Bond Insurance, a Reserve Security, Qualified Letter of Credit, credit enhancement, or for any other Payment Agreement as the Director of Finance may find necessary or desirable. The Bond Sale Terms for any Series may provide for multiple interest rate modes and may include provisions for conversion from any interest rate mode to any other mode. To that end, the Bond Sale Terms may include such additional terms, conditions, and covenants as may be necessary or desirable, including but not limited to: restrictions on investment of Bond proceeds and pledged funds (including any escrow established for the defeasance of the Bonds), provisions for the conversion of interest rate modes, provisions for the reimbursement of a credit enhancement provider or Qualified Counterparty, and requirements to give notice to or obtain the consent of a credit enhancement provider or a Qualified Counterparty. The Director of Finance is authorized to execute, on behalf of the City, such additional certificates and agreements as may be necessary or desirable to reflect such terms, conditions, and covenants. In addition and without limiting any of the foregoing, the Bond Purchase Agreement setting forth the Bond Sale Terms for any one or more Series of the Bonds may take the form of a WIFIA Loan Agreement with the US EPA and may provide for such additional terms, conditions and covenants as may be required by US EPA and as are not inconsistent with other provisions of this ordinance.

(D) **Reserve Requirement**. The Bond Sale Terms must establish whether the Series is to be treated as Covered Parity Bonds and must establish the method of providing for the Reserve Requirement, consistent with Section 15.

(E) **Tax Status of the Bonds**. The Director of Finance may determine that any Series of the Bonds may be designated or qualified as Tax-Exempt Bonds, Taxable Bonds or Tax Credit Subsidy Bonds, consistent with Section 22.

Section 4. **Amendment to Exhibit B of Ordinance 125454**. Exhibit B to Ordinance 125454 is hereby amended as shown in the attached Exhibit A. Deleted information is shown as strikeouts and inserted information is shown as double underlined.

Section 5. **General Authorization**. In addition to the specific authorizations in this ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of the City are each authorized and directed to do everything as in his or her judgment may be necessary, appropriate, or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance.

Section 6. **Severability**. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

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

Section 8. **Section Headings**. Section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

Section 9. **Effective Date**. This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

Passed by the City Council the 19th day of November, 2018, and signed by me in open session in authentication of its passage this 19th day of November, 2018.

President ____________ of the City Council

Approved by me this 26th day of November, 2018.

Jenny A. Durkan, Mayor

Filed by me this 26th day of NOVEMBER, 2018.

Monica Martinez Simmons, City Clerk

(Seal)

Exhibits:
Exhibit A – Amended Exhibit B to Ordinance 125454

EXHIBIT A

AMENDED EXHIBIT B TO ORDINANCE 125454

FORM OF CONTINUING DISCLOSURE AGREEMENT

The City of Seattle, Washington (the “City”) makes the following written undertaking (the “Undertaking”) for the benefit of the Owners of the City’s [Drainage and Wastewater Revenue Bonds, 2018] [Series Designation] (the “Bonds”), for the sole purpose of assisting the Purchaser in meeting the requirements of paragraph (b)(5) of Rule 15c2-12 (the “Rule”), 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~~))Ordinance”).

(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 of the Drainage and Wastewater System of the type included in the final official statement for the Bonds and described in subsection (b) of this section (“annual financial information”). 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 enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such "Bankruptcy Events" are defined in the Rule((~~ 15c2-12~~)); (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; ((~~and~~))(14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect holders of the Bonds, if material; and (16) any default, event of acceleration, termination event, modification of terms, or other similar event under the terms of a financial obligation of the City, any of which reflect financial difficulties.

For purposes of this Undertaking, the term "financial obligation" shall mean a debt obligation; derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or a guarantee of either a debt obligation or a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation. The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

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

(i) Shall consist of (1) annual financial statements of the Drainage and Wastewater System prepared in accordance with applicable generally accepted accounting principles applicable to governmental units (except as otherwise noted herein), as such principles may be changed from time to time and as permitted by applicable state law; (2) a statement of outstanding bonded debt secured by revenues of the Drainage and Wastewater System; (3) debt service coverage ratios; (4) general customer statistics, such as number and type of customers and revenues by customer class; and (5) current drainage rates and wastewater rates;

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

(iii) May be provided in a single document or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the Securities and Exchange Commission.

(c) Amendment of Undertaking. This Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any Owner or holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by the 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 identity, nature, or status of the City, or type of business conducted by the City;

(ii) The ((~~undertaking~~))Undertaking, as amended, would have complied with the requirements of the ((~~rule~~))Rule at the time of the primary offering, after taking into account any amendments or interpretations of the ((~~rule~~))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 an approving vote of bondholders pursuant to the terms of the Bond ((~~Legislation~~))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 this Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

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

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

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

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

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

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

(iii) Determining whether any person other than the City is an "obligated person" within the meaning of the Rule((~~ 15c2-12~~)) with respect to the Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of listed events for that person in accordance with the Rule((~~ 15c2-12~~));

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

(v) Effecting any necessary amendment of the Undertaking.

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CITY OF SEATTLE

ORDINANCE 126222

COUNCIL BILL 119922

AN ORDINANCE relating to the drainage and wastewater system of The City of Seattle; amending Ordinance 125454, as amended by Ordinance 125712, to increase the authorized principal amount of drainage and wastewater revenue bonds to be issued for the purposes of paying all or part of the cost of carrying out the system or plan of additions and betterments to and extensions of the existing drainage and wastewater system; extending the initial authorization date of those bonds; and ratifying and confirming certain prior acts.

WHEREAS, by Ordinance 125454, passed on November 20, 2017, The City of Seattle, Washington (the "City"), provided for the issuance of not to exceed $210,000,000 principal amount of Drainage and Wastewater System Bonds (the "Bonds") for the purposes of paying all or part of the cost of carrying out the Plan of Additions, providing for the Reserve Requirement for the Parity Bonds, and issuing and selling the Bonds; and

WHEREAS, by Ordinance 125712, passed on November 19, 2018, the City amended Ordinance 125454 (as amended, the "Amended 2018 DWW Bond Ordinance"), to increase the authorized principal amount of drainage and wastewater revenue bonds in order to take advantage of a loan made available from the U.S. Environmental Protection Agency through the Water Infrastructure Finance and Innovation Act ("WIFIA") program, and made certain other necessary technical amendments to take advantage of the WIFIA Program; and

WHEREAS, on April 24, 2020, the City issued its $192,181,651 par amount Drainage and Wastewater System Improvement Revenue Bond, 2020A (Ship Canal Water Quality Project – N18106WA) to evidence the loan from the WIFIA Program and $157,818,349 remains available for issuance under the Amended 2018 DWW Bond Ordinance; and

WHEREAS, the City deems it desirable to further amend the Amended Ordinance to increase the authorized principal amount of drainage and wastewater revenue bonds and to extend the date by which such bonds must be issued; NOW THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. **Definitions**. The definitions of capitalized terms set forth in the recitals to this ordinance are incorporated by this reference. The meaning of capitalized terms used and not otherwise defined in this ordinance shall be as set forth in Ordinance 125454, as amended by Ordinance 125712 (the "Amended 2018 DWW Bond Ordinance").

Section 2. **Amendment to Section 2 of the Amended 2018 DWW Bond Ordinance**. Section 2 of Ordinance 125454, last amended by Ordinance 125712, is amended as follows:

> Section 2. **Adoption of Plan of Additions**. The City specifies, adopts and orders the Plan of Additions to be carried out as generally provided for in the documents comprising the Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is declared to be $1,279,666,000, of which approximately ((~~$350,000,000~~)) $500,000,000 is expected to be financed from proceeds of the Bonds and investment earnings thereon.

Section 3. **Amendments to Section 5 of the Amended 2018 DWW Ordinance**. Section 5 of Ordinance 125454, last amended by Ordinance 125712, is amended as follows:

> **Section 5. Appointment of Designated Representative; Bond Sale Terms.**
>
> (a) **Designated Representative**. The Director of Finance is appointed to serve as the City's designated representative in connection

with the issuance and sale of the Bonds in accordance with RCW 39.46.040(2) and this ordinance.

(b) **Parameters for Bond Sale Terms**. The Director of Finance is authorized to approve, on behalf of the City, Bond Sale Terms for the sale of the Bonds in one or more Series, and, in connection with each such sale, to execute a Bond Purchase Contract (which, in the case of a Series sold to the United States Environmental Protection Agency ("US EPA"), may be in the form of a loan agreement with the US EPA under the Water Infrastructure Finance and Innovation Act ("WIFIA") program, or, in the case of a Series sold at competitive sale, a Pricing Certificate) confirming the Bond Sale Terms and such related agreements as may be necessary or desirable, consistent with the following parameters:

(i) **Maximum Principal Amount**. The maximum aggregate principal amount of all Series of the Bonds authorized by this ordinance is not to exceed $((~~350~~)) 500 million.

(ii) **Date or Dates**. Each Bond shall be dated its Issue Date, as determined by the Director of Finance. The initial Issue Date (without restricting any conversion or reissuance date with respect to a Series of Variable Interest Rate Bonds and without restricting the dates of any draws on any Series of the Bonds structured as draw-down obligations) may be no later than December 31, ((~~2021~~)) 2023.

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

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

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

(vi) **Final Maturity**. Each Bond shall mature no later than 40 years after its Issue Date.

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

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

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

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

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

(viii) **Price**. The Director of Finance may approve in the Bond Sale Terms an aggregate purchase price for each Series of the Bonds that is, in his or her judgment, the price that produces the most advantageous borrowing cost for the City, consistent with the parameters set forth herein and in any applicable bid documents.

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

(A) **Expected Life of Capital Facilities**. As of the Issue Date of each Series, the Director of Finance must additionally find to his or her satisfaction that the average expected life of the capital facilities to be financed with the proceeds (or allocable share of proceeds) of that Series must exceed the weighted average maturity of such Series (or share thereof) allocated to financing those capital facilities.

(B) **Parity Conditions Satisfied**. As of the Issue Date of each Series, the Director of Finance must find that the Parity Conditions have been met or otherwise satisfied, so that such Series is permitted to be issued as Parity Bonds.

(C) **Additional Terms, Conditions, and Agreements**. The Bond Sale Terms for any Series may provide for Bond Insurance, a Reserve Security, Qualified Letter of Credit, credit enhancement, or for any other Payment Agreement as the Director of Finance may find necessary or desirable. The Bond Sale Terms for any Series may provide for multiple interest rate modes and may include provisions for conversion from any interest rate mode to any other mode. To that end, the Bond Sale Terms may include such additional terms, conditions, and covenants as may be necessary or desirable, including but not limited to: restrictions on investment of Bond proceeds and pledged funds (including any escrow established for the defeasance of the Bonds), provisions for the conversion of interest rate modes, provisions for the reimbursement of a credit enhancement provider or Qualified Counterparty, and requirements to give notice to or obtain the consent of a credit enhancement provider or a Qualified Counterparty. The Director of Finance is authorized to execute, on behalf of the City, such additional certificates and agreements as may be necessary or desirable to reflect such terms, conditions, and covenants. In addition and without limiting any of the foregoing, the Bond Purchase Agreement setting forth the Bond Sale Terms for any one or more Series of the Bonds may take the form of a WIFIA Loan Agreement with the US EPA and may provide for such additional terms, conditions and covenants as may be required by US EPA and as are not inconsistent with other provisions of this ordinance.

(D) **Reserve Requirement**. The Bond Sale Terms must establish whether the Series is to be treated as Covered Parity Bonds and must establish the method of providing for the Reserve Requirement, consistent with Section 15.

(E) **Tax Status of the Bonds**. The Director of Finance may determine that any Series of the Bonds may be designated or qualified as Tax-Exempt Bonds, Taxable Bonds or Tax Credit Subsidy Bonds, consistent with Section 22.

Section 4. **General Authorization**. In addition to the specific authorizations in this ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of the City are each authorized and directed to do everything as in his or her judgment may be necessary, appropriate, or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance.

Section 5. **Severability**. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 6. **Ratification of Prior Acts**. Actions taken consistent with this ordinance, after its passage but prior to the effective date, are ratified, approved, and confirmed.

Section 7. **Section Headings**. Section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

Section 8. **Effective Date**. This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

Passed by the City Council the 23rd day of November, 2020, and signed by me in open session in authentication of its passage this 23rd day of November, 2020.

____

President ____________ of the City Council

Approved by me this 1st day of December, 2020.

Jenny A. Durkan

____

Jenny A. Durkan, Mayor

Filed by me this 1st day of December, 2020.

Monica M. Simmons

____

Monica Martinez Simmons, City Clerk

(Seal)

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APPENDIX B

FORM OF BOND COUNSEL OPINION

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Stradling

Stradling Yocca Carlson & Rauth
A Professional Corporation
601 Union Street, Suite 2424
Seattle, WA 98101
206 829 3000
stradlinglaw.com

[Date of Approving Opinion]

The City of Seattle, Washington

Re: The City of Seattle, Washington
$111,010,000 Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2021

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above referenced bonds (the "Bonds"). In our capacity as bond counsel, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued by the City pursuant to Ordinance 125454, as amended by Ordinance 125712 and Ordinance 126222 (as amended, the "New Money Ordinance"), and Ordinance 125455 (the "Refunding Bond Ordinance," and together, the "Bond Ordinances") to provide the funds (i) to pay for part of the costs of various projects of the Drainage and Wastewater System, (ii) to make a deposit into the Reserve Subaccount, if necessary, (iii) to refund certain of the City's outstanding Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2009B, and (iv) to pay the costs of issuance of the Bonds and administering the Refunding Plan, all as set forth in the Bond Documents (as that term is defined in the Bond Ordinances).

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

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Ordinances 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 Ordinances and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Ordinances and other ordinances and resolutions of the City relating thereto.

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

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

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, 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 C

2020 AUDITED FINANCIAL STATEMENTS OF THE DRAINAGE AND WASTEWATER FUND

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REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS WITH REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND (AN ENTERPRISE FUND OF THE CITY OF SEATTLE)

December 31, 2020 and 2019

MOSSADAMS

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MOSSADAMS

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund), which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Seattle Public Utilities – Drainage and Wastewater Fund as of December 31, 2020 and 2019, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of Seattle Public Utilities' proportionate share of the net pension liability, schedule of Seattle Public Utilities' contributions, and schedule of Seattle Public Utilities' proportionate share of the OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the financial statements. This information, although not a part of the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2021, on our consideration of the Fund'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 solely 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 effectiveness of the Fund's 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 Fund's internal control over financial reporting and compliance.

Moss Adams LLP

Seattle, Washington
April 23, 2021

As management of Seattle Public Utilities (SPU), a department of the City of Seattle (the City), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Drainage and Wastewater Fund (the Fund) for the fiscal years ended December 31, 2020 and 2019. The revenues, expenses, assets, deferred outflows and inflows of resources, and liabilities of the City of Seattle's drainage and wastewater system are recorded in the Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

Overview of the Financial Statements

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

Basic financial statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 12 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The statements of net position present information, as of December 31, 2020 and 2019, on all of the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities and deferred inflows of resources), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The statements of revenues, expenses, and changes in net position present changes in the Fund's net position for the years ended December 31, 2020 and 2019. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The statements of cash flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2020 and 2019. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities for the reporting period.

Notes to the financial statements – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 17 of this report.

Financial Analysis

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2020 and 2019, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in a net position of $535.7 million and $451.8 million, respectively. In 2020, the Fund's overall net position increased $83.9 million (18.6%) as compared to an increase in net position of $72.7 million (19.2%) in 2019.The following summary statements of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets and deferred outflows of resources:

Statements of Net Position

	2020	2019	2018
ASSETS			
Current assets	$ 290,290,608	$ 292,633,791	$ 250,237,660
Capital assets, net	1,340,766,313	1,222,123,319	1,160,660,014
Other	94,755,675	146,614,940	211,526,782
Total assets	1,725,812,596	1,661,372,050	1,622,424,456
DEFERRED OUTFLOWS OF RESOURCES	19,742,729	28,726,503	7,649,631
Total assets and deferred outflows of resources	$ 1,745,555,325	$ 1,690,098,553	$ 1,630,074,087
LIABILITIES			
Current liabilities	$ 81,095,767	$ 78,747,523	$ 91,108,610
Revenue bonds	792,616,317	823,179,448	854,017,579
Other	320,602,583	327,655,004	296,186,563
Total liabilities	1,194,314,667	1,229,581,975	1,241,312,752
DEFERRED INFLOWS OF RESOURCES	15,544,036	8,677,263	9,628,120
NET POSITION			
Net investment in capital assets	531,961,816	448,542,091	392,376,343
Restricted	21,150,712	22,384,553	49,971,545
Unrestricted	(17,415,906)	(19,087,329)	(63,214,673)
Total net position	535,696,622	451,839,315	379,133,215
Total liabilities, deferred inflows of resources, and net position	$ 1,745,555,325	$ 1,690,098,553	$ 1,630,074,087

Financial Analysis (continued)

2020 Compared to 2019

Assets – Current assets decreased $2.3 million (-0.8%) over the prior year primarily due to a $11.9 million decrease in operating cash and equity in pooled investments, a $4.7 million decrease in due from other funds, and a $3.3 million decrease in unbilled revenue. These decreases were offset by increases of $12.9 million in due from other governments and $4.6 million in accounts receivable, net of allowance for doubtful accounts. The decrease in operating cash is primarily due to capital spending increase.

Capital assets increased by $118.6 million (9.7%) from 2019. Construction in progress and other plant assets increased $150.5 million; the increase is mostly due to infrastructure, rehabilitation, and improvements. This change was offset by $31.9 million increase in accumulated depreciation (Note 3).

Other assets decreased by $51.9 million (-35.4%) from 2019. This is mostly attributable to a $49.9 million reduction in restricted cash and equity in pooled investments used to fund capital projects, a $3.7 million reduction in other charges, a $0.3 million reduction in external infrastructure costs, and a $0.3 million reduction in regulatory assets-bond issue costs. The decreases were offset by an increase of a $2.4 million long-term receivable due from another city department.

Deferred outflows of resources – Deferred outflows of resources decreased by $9.0 million (-31.3%) from 2019. This change resulted mainly from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits (OPEB).

Liabilities – Current liabilities increased by $2.3 million (3.0%) from 2019. This is mostly attributable to a $5.4 million increase in accounts payable and a $1.1 million increase in environmental liabilities. This increase was offset by an decrease of $4.0 million in salaries, benefits, and payroll taxes payable, and a $0.3 million decrease in revenue bonds due within one year.

Noncurrent liabilities decreased by $37.6 million (-3.3%) from 2019. This decrease is mostly attributable to a decrease of $30.6 million in revenue bonds and related liabilities, a $19.2 million decrease in net pension liability (Note 9) because of contributions and changes in assumptions, a $1.2 million decrease in long-term environmental liabilities because of changes in estimates, and a $0.4 million decrease in claims payable. The decrease was offset by a $11.0 million increase in loan debt, a $1.6 million increase in other noncurrent liabilities, and a $1.1 million increase in compensated absences payable.

Deferred inflows of resources – Deferred inflow of resources increased by $6.9 million (79.1%) from 2019. This increase is due to assumptions related to pension accounting and difference between expected and actual expense in other post-employment benefits (OPEB).

Financial Analysis (continued)

Net position – The largest portion of the Fund's net position ($532.0 million or 99.3%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2020, net investment in capital assets increased by $83.4 million from 2019 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position ($21.2 million or 3.9%) represents resources that are subject to restrictions on how they may be used. This portion of net position decreased by $1.2 million from 2019.

The remaining portion of the Fund's net position (negative $17.4 million or -3.3%) represents resources that are unrestricted. The unrestricted portion of net position increased by $1.7 million from the prior year.

2019 Compared to 2018

Assets – Current assets increased $42.4 million (16.9%) over the prior year primarily due to $46.0 million increase in operating cash and equity in pooled investments, $3.3 million in accounts receivable, net of allowance for doubtful accounts, $3.7 million in unbilled revenues, and $0.3 million in materials and supplies inventory. These increases are offset by decreases of $10.1 million in amounts due from other funds, and $0.9 million in amounts due from other governments.

Other assets decreased by $64.9 million (-30.7%) from 2018. This is mostly attributable to $64.0 million reduction in restricted cash and equity in pooled investments used to fund capital projects, and $0.9 million reduction in other charges.

Deferred outflows of resources – Deferred outflows of resources increased by $21.1 million (275.5%) from 2018. This increase is attributed to a $21.4 million increase in pension contributions and changes in assumptions related to pension and other post-employment benefits, and offset by a $0.4 million decrease in unamortized loss on refunded debt.

Liabilities – Current liabilities decreased by $12.4 million (-13.6%) from 2018. This is mostly attributable to $19.1 million reduction in due to other funds because of settlements made during the year. This decrease was offset by an increase of $1.2 million in accounts payable and $4.6 million in salaries, benefits, and payroll taxes payable.

Other liabilities increased by $31.5 million (10.6%) from 2018. This is mostly attributable to $6.8 million increase in environmental liabilities because of changes in estimates, $24.9 million in net pension liability (Note 9) because of contributions and changes in assumptions, and $1.5 million increase in other noncurrent liabilities. The increase was offset by $2.4 million reduction in loan debt.

Financial Analysis (continued)

Deferred inflows of resources – Deferred inflow of resources decreased by $1.0 million (-9.9%) from 2018. This decrease is due to assumptions related to pension accounting and difference between expected and actual expense in other post-employment benefits(OPEB).

Net position – The largest portion of the Fund's net position ($448.5 million or 99.3%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2019, net investment in capital assets increased $56.2 million from 2018 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position ($22.4 million or 5.0%) represent resources that are subject to restrictions on how they may be used. This portion of net position decreased by $27.6 million from 2018.

The remaining portion of the Fund's net position (a negative $19.1 million or -4.2%) represents resources that are unrestricted. The unrestricted portion of net position increased by $44.1 million from the prior year.

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

Summary Statements of Revenues, Expenses, and Changes in Net Position

	2020	2019	2018
Operating revenues	$ 460,295,464	$ 454,381,865	$ 419,875,848
Operating expenses	(385,937,282)	(370,768,095)	(355,581,801)
Net operating income	74,358,182	83,613,770	64,294,047
Non-operating revenues and expenses	12,564,569	(2,005,208)	(7,425,190)
Environmental remediation	(3,065,444)	(8,902,462)	(40,699,511)
Change in net position	$ 83,857,307	$ 72,706,100	$ 16,169,346

2020 Compared to 2019

The current year operating revenues increased by $5.9 million (1.3%) from 2019. Drainage has additional revenues of $11.6 million due to an average rate increase of 8.0%. Sewerage has an average rate increase of 7.4%, but due to the impacts of COVID-19, sewer revenue decreased by $5.8 million. Other operating revenues increased by $0.8 million.

Financial Analysis (continued)

The current year operating expenses increased by $15.2 million (4.1%) from 2019. The increase can be attributed to $8.7 million increase in other operating expenses; $3.1 million increase in intergovernmental payments; $2.1 million for services; $1.5 million for depreciation and amortization; and $0.3 million in salaries, wages, and personnel benefits. Of the $8.7 million increase in other operating expenses, $7.8 million is due to increase in capital outlays, $1.2 million due to one-time natural resource damage (NRD) settlement, offset by $0.2 million decrease in other miscellaneous operating expense. For the $3.1 million increase in intergovernmental payments, it consists of $1.7 million for city and state taxes and $1.4 million for wastewater treatment. These increases were offset by a decrease in supplies by $0.5 million.

Nonoperating revenues net expenses in 2020 increased by $14.6 million as compared to 2019. There was a $15.3 million increase in contributions and grants and a $3.9 million decrease in investment income, while there was a $3.2 million reduction in interest expense.

The Fund had an environmental remediation expense of $3.1 million for 2020 as compared to $8.9 million in 2019 (Note 10), resulting from changes in estimated costs for remediation management and construction.

2019 Compared to 2018

Current year operating revenues increased $34.5 million (8.2%) from 2018. This is due to an average rate increase of 7.4% for wastewater and 8.0% for drainage, resulting in additional revenues of $25.7 million and $9.5 million, respectively. Other operating revenues decreased by $0.8 million.

Operating expenses increased by $15.2 million (4.3%) from 2018. The increases can largely be attributed to $6.6 million increase in salaries, wages, and personnel benefits and $7.2 million increase in intergovernmental payments consisting of $4.1 million for city and state taxes and $3.1 million for wastewater treatment. Additional increases consisted of $1.2 million for supplies and $1.2 million for services. These increases were offset by a decrease in other operating expenses by $1.0 million.

Nonoperating revenues (expenses) decreased by $5.4 million (-73%) as compared to 2018. This decrease in net expenses is due to a $6.0 million increase in investment income and $2.8 million reduction in interest expense. The decrease in net expenses is offset by $3.3 million decrease in contributions and grants.

The Fund had an environmental remediation expense of $8.9 million for 2019 as compared to $40.7 million in 2018 (Note 10). This significant reduction resulted from a one-time adjustment in 2018 to record additional estimated costs for remediation management and construction.

Capital Assets

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

Summary of Capital Assets, Net of Accumulated Depreciation

	2020	2019	2018
Land and land rights	$ 46,644,353	$ 40,330,875	$ 40,330,857
Buildings	14,909,819	14,294,425	14,979,994
Infrastructure	936,517,320	893,366,112	881,069,327
Machinery and equipment	61,984,467	65,786,979	61,973,886
Computer systems	21,622,034	22,083,185	25,114,329
Construction in progress	256,896,036	184,069,459	135,164,900
Artwork	2,192,284	2,192,284	2,026,721
Capital assets, net of accumulated depreciation	$ 1,340,766,313	$ 1,222,123,319	$ 1,160,660,014

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

2020 Compared to 2019

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2020, was $1.3 billion. This represented an increase of approximately $118.6 million (9.7%) compared to 2019.

Highlights of the Fund's major capital assets placed in service during 2020 included the following:

- $14.4 million for pipe rehabilitation and improvement
- $14.2 million for pump station improvement
- $8.4 million for environmental remediation
- $4.2 million for combine sewer outfall pipeline and structures improvement
- $3.9 million for culvert replacement
- $3.4 million for drainage pipeline and sewer pipeline
- $3.3 million for combined sewer valve and equipment
- $20.6 million for various other small construction projects

Highlights of the Fund's major construction projects in progress at the end of 2020 include the following:

- $112.1 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- $20.8 million for sewer and storm water system improvement
- $16.2 million to build a pump station facility near 7th Street and Riverside in South Park
- $16.0 million for the Alaskan Way Viaduct and Waterfront combined sewer overflow control
- $8.6 million for pipe improvements in the Alaska Way Viaduct Battery Street Tunnel project
- $7.9 million for improvements to Taylor Creek downstream from Rainier Ave South
- $6.2 million for upgrading pump stations and force main in East Montlake

Capital Assets (continued)

- $4.9 million for construction project artwork
- $4.4 million for infrastructure improvements in South Park
- $4.2 million for raingardens, cisterns and other national drainage improvements
- $4.1 million for roadside bioretention for Longfellow Creek
- $3.3 million for the Delridge 168/169 combined sewer overflow control
- $3.2 million for the South Park Stormwater Treatment Facility
- $2.7 million for building 15-18 blocks of bioretention systems in Thornton Creek
- $2.5 million for upgrading the core Oracle utilities applications
- $2.2 million for replacing the 45th Ave SW culvert

2019 Compared to 2018

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2019, was $1.2 billion. This represented an increase of approximately $61.5 million (5.3%) compared to 2018. Highlights of the Fund's major capital assets placed in service during 2019 included the following:

- $7.8 million for pipe rehabilitation and improvements
- $6.6 million for sewer pipe lining projects
- $6.2 million for emergency force main replacement
- $5.8 million for pump station ventilation upgrades
- $2.1 million for pump stations improvement
- $15.5 million for various other small construction projects

Highlights of the Fund's major construction projects in progress at the end of 2019 include the following:

- $98.6 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- $14.0 million for sewer and storm water system improvements
- $10.5 million to build a pump station facility near 7th Street and Riverside in South Park
- $8.0 million for pipe improvements in the Alaska Way Viaduct Battery Street Tunnel project
- $6.5 million for improvements to Taylor Creek downstream from Rainier Ave South
- $4.3 million for the Alaskan Way Viaduct and Waterfront combined sewer overflow control
- $4.1 million for pump station retrofit in the Magnolia area
- $4.0 million for construction project artwork
- $3.5 million for raingardens, cisterns, and other national drainage improvements
- $3.5 million for infrastructure improvements in South Park
- $3.2 million for culvert replacement at Puget Way SW
- $2.9 million for the South Park Stormwater Treatment Facility
- $2.7 million for construction of combined sewer overflow storage facilities in Henderson North
- $2.5 million for roadside bioretention for Longfellow Creek

Capital Assets (continued)

- $2.3 million for repairing 20 deficient sewer pipes
- $2.3 million for combined sewer overflow retrofit in the Mountlake area

Debt Administration

The Fund's debt primarily consists of bonded debt and loans. Bonded debt is secured solely by drainage and wastewater revenues and provides financing for capital improvements. Loans issued by various Washington State Agencies for certain capital improvements are unsecured. The Fund's credit ratings on its bonds were Aa1 and AA+ by Moody's Investors Service Inc. and Standard & Poor's Rating Services, respectively. Additional details about the Fund's revenue bonds and loans are in Notes 4 and 11 of this report.

2020 Compared to 2019

At the end of 2020, the Fund had $742.0 million in bonded debt, as compared to $769.6 million in 2019, all of which was secured solely by drainage and wastewater system revenues. This decrease of $27.6 million is attributed to payment of debt principal.

At the end of 2020, the Fund had an outstanding loan balance of $56.1 million compared to $45.0 million in 2019. This increase is due to a $12.2 million drawdown from a loan with the Washington State Department of Ecology and a $1.6 million draw drawdown from a new loan with the Washington State Department of Commerce. The increase is offset by a $2.8 million payment of debt principal.

2019 Compared to 2018

At the end of 2019, the Fund had $769.6 million in bonded debt, as compared to $796.0 million in 2018, all of which was secured solely by drainage and wastewater system revenues. This decrease of $26.4 million is attributed to payment of debt principal.

At the end of 2019, the Fund had an outstanding loan balance of $45.0 million compared to $47.4 million in 2018. This decrease is due to $2.7 million payment of debt principal offset by a $0.4 million drawdown from a new loan with the Washington State Department of Ecology.

Requests for Information

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

Seattle Public Utilities –
Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position

	December 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 218,713,930	$ 230,631,233
Receivables		
Accounts, net of allowance	28,968,477	24,374,625
Interest and dividends	290,861	300,369
Unbilled revenues	23,065,535	26,412,619
Due from other funds	549,260	5,228,230
Due from other governments	16,732,054	3,819,492
Materials and supplies inventory	1,895,318	1,832,708
Prepayments and other current assets	75,173	34,515
Total current assets	290,290,608	292,633,791
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	38,208,242	88,092,415
Prepayments long-term	484,017	518,531
Long-term receivable due from another city department	2,362,227	-
Environmental costs and recoveries	2,621,276	2,635,475
External infrastructure costs, net	17,570,958	17,863,808
Regulatory assets - bond issue costs	4,864,855	5,119,856
Other charges	28,644,100	32,384,855
Capital assets		
Land and land rights	46,644,353	40,330,875
Plant in service, excluding land	1,475,448,530	1,404,055,071
Less accumulated depreciation	(440,414,890)	(408,524,370)
Construction in progress	256,896,036	184,069,459
Other property, net	2,192,284	2,192,284
Total noncurrent assets	1,435,521,988	1,368,738,259
Total assets	1,725,812,596	1,661,372,050
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	5,594,783	5,962,106
Pension and OPEB contributions and changes in assumptions	14,147,946	22,764,397
Total deferred outflows of resources	19,742,729	28,726,503
Total assets and deferred outflow of resources	$ 1,745,555,325	$ 1,690,098,553

See accompanying notes.

	December 31, 2020	December 31, 2019
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 16,444,533	$ 11,075,543
Salaries, benefits, and payroll taxes payable	3,532,877	7,577,491
Compensated absences payable	303,286	246,294
Due to other funds	-	10,632
Due to other governments	13,726,395	13,829,482
Interest payable	10,774,345	10,995,428
Taxes payable	432,255	433,100
Revenue bonds due within one year	27,300,000	27,575,000
Claims payable	1,545,720	1,630,749
Environmental liabilities	2,811,563	1,730,070
Loans payable, due within one year	2,852,381	2,792,896
Other	1,372,412	850,838
Total current liabilities	81,095,767	78,747,523
NONCURRENT LIABILITIES		
Compensated absences payable	5,762,426	4,679,584
Claims payable	5,106,321	5,549,328
Environmental liabilities	177,947,420	179,154,291
Loans	53,202,388	42,222,552
Unfunded other post employment benefits	3,101,715	2,968,115
Net pension liability	72,049,064	91,293,054
Other noncurrent liabilities	3,433,249	1,788,080
Revenue bonds	742,030,000	769,605,000
Less bonds due within one year	(27,300,000)	(27,575,000)
Bond discount and premium, net	77,886,317	81,149,448
Total noncurrent liabilities	1,113,218,900	1,150,834,452
Total liabilities	1,194,314,667	1,229,581,975
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension and OPEB	15,544,036	8,677,263
NET POSITION		
Net investment in capital assets	531,961,816	448,542,091
Restricted for		
External infrastructure costs	7,275,625	6,807,082
Other charges	13,875,087	14,291,333
Retainage	-	1,286,138
Unrestricted	(17,415,906)	(19,087,329)
Total net position	535,696,622	451,839,315
Total liabilities, deferred inflows of resources, and net position	$ 1,745,555,325	$ 1,690,098,553

See accompanying notes.

Seattle Public Utilities –
Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Charges for services and other revenues	$ 460,295,464	$ 454,381,865
OPERATING EXPENSES		
Salaries, wages, and personnel benefits	56,137,465	55,874,922
Supplies	2,681,606	3,229,100
Services	45,359,063	43,255,596
Intergovernmental payments	229,641,448	226,517,154
Depreciation and amortization	39,639,090	38,134,482
Other operating expenses	12,478,610	3,756,841
Total operating expenses	385,937,282	370,768,095
OPERATING INCOME	74,358,182	83,613,770
NONOPERATING REVENUES (EXPENSES)		
Investment income	11,044,448	14,954,743
Interest expense	(22,104,486)	(25,294,016)
Contributions and grants	21,685,659	6,382,015
Other, net	1,938,948	1,952,050
Total nonoperating revenues (expenses)	12,564,569	(2,005,208)
INCOME BEFORE SPECIAL ITEMS	86,922,751	81,608,562
ENVIRONMENTAL REMEDIATION	(3,065,444)	(8,902,462)
CHANGE IN NET POSITION	83,857,307	72,706,100
NET POSITION		
Beginning of year	451,839,315	379,133,215
End of year	$ 535,696,622	$ 451,839,315

See accompanying notes.

Statements of Cash Flows

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 451,226,887	$ 461,717,020
Cash paid to suppliers	(222,674,866)	(234,066,948)
Cash paid to employees	(63,398,263)	(50,010,015)
Cash paid for taxes	(60,822,545)	(59,091,556)
Net cash provided by operating activities	104,331,213	118,548,501
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	13,151,712	2,397,668
Payments for environmental liabilities	(3,176,623)	(3,324,535)
Net cash provided by noncapital financing activities	9,975,089	(926,867)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	13,832,217	-
Principal payments on long-term debt	(25,255,792)	(27,958,299)
Capital expenditures and other charges paid	(148,598,885)	(90,312,606)
Interest paid on long-term debt	(35,728,077)	(36,693,933)
Build America Bonds federal interest subsidy	1,632,214	1,686,168
Capital fees and grants received	8,533,947	3,984,348
Proceeds from sale of capital assets	54,856	386,764
Net cash used in capital and related financing activities	(185,529,520)	(148,907,558)
CASH FLOWS FROM INVESTING ACTIVITIES		
Gain on investments	9,421,742	13,273,855
NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS	(61,801,476)	(18,012,069)
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	318,723,648	336,735,717
End of year	$ 256,922,172	$ 318,723,648
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 218,713,930	$ 230,631,233
Noncurrent restricted cash and equity in pooled investments	38,208,242	88,092,415
Total cash at the end of the year	$ 256,922,172	$ 318,723,648

See accompanying notes.

Seattle Public Utilities –
Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows (continued)

	Years Ended December 31, 2020	2019
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 74,358,182	$ 83,613,770
Adjustments to reconcile net operating income to net cash from operating activities		
Adjustment for net pension liability	(3,760,766)	1,948,677
Depreciation and amortization	39,639,090	38,134,482
Nonoperating revenues and expenses	1,884,092	1,643,538
Changes in operating assets and liabilities		
Accounts receivable	(4,593,852)	(830,192)
Unbilled revenues	3,347,084	(3,697,640)
Due from other funds	4,678,970	10,025,579
Due from other governments	(12,912,562)	(1,521,321)
Materials and supplies inventory	(62,610)	(346,159)
Other assets	(2,368,370)	34,515
Accounts payable	5,368,990	1,211,571
Salaries, benefits, and payroll taxes payable	(4,044,614)	4,570,635
Compensated absences payable	1,139,834	576,766
Due to other funds	(10,632)	(19,146,672)
Due to other governments	(103,087)	476,129
Claims payable	(528,036)	215,341
Taxes payable	(845)	(4,517)
Other liabilities	2,300,345	1,643,999
Total adjustments	29,973,031	34,934,731
Net cash from operating activities	$ 104,331,213	$ 118,548,501

See accompanying notes.

Note 1 – Operations and Summary of Significant Accounting Policies

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

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

SPU receives certain services from other departments and agencies of the City, including information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2020 and 2019, paid $24,391,299 and $23,487,277, respectively, to the City for its share of these services. Additionally, the Fund pays a business and occupation utility tax to the City's General Fund. The Fund paid $54,335,864 and $53,151,086 for these taxes in 2020 and 2019, respectively.

The utility billing function is co-managed by SPU and Seattle City Light (SCL). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system. SPU and SCL bill and reimburse each other for these services. SPU reimburses Seattle IT for the information technologies services mentioned above. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of $2,397,843 and $2,256,796 in 2020 and 2019, respectively. The Fund paid $32,076 and $8,390 for the utility billing services in 2020 and 2019, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $3,693,851 in 2020 and $3,198,764 in 2019 from the City for wastewater services provided. The Fund also collected $10,825,403 in 2020 and $10,072,336 in 2019 from the City for drainage services.

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

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

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

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

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

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

Allowance for doubtful accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2020 and 2019, the Fund's allowance for doubtful accounts was $1,338,981 and $712,715, respectively.

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

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

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

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

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

Other charges – Other charges primarily represent costs related to the long term control plan, which direct the Fund's construction and monitoring of several combined sewer overflow projects. The Fund amortizes these charges over a 5 to 30-year period.

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

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

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

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

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

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

Asset depreciation begins in the month the asset is placed in service.

Deferred outflows/inflows of resources – In addition to assets, the statements of net position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt that qualifies for reporting in this category. A deferred loss on refunding debt results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund has also recorded deferred outflows of resources for certain pension activities including the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Notes 6 and 9).

In addition to liabilities, the statements of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Fund has also recorded deferred inflows of resources for the difference between projected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions.

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

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

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

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

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

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the benefit have been determined on the same basis as they are reported by the City. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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

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

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

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

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

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

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

Operating expenses – The Fund's operating expenses include the cost of sales and services, administrative expenses, depreciation on capital assets, and amortization of deferred assets.

Taxes – The Fund is charged a public utility tax by the City at a rate of 12.0% for wastewater revenues and 11.5% for drainage revenues, net of certain credits. In addition, the Fund paid a 3.85% public utility tax to the state on a certain portion of revenues identified as sewer collection revenues. The Fund also paid business and occupation tax to the state on certain drainage and other non-utility revenues at the rate of 1.75%.

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

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2020 and 2019, is related to external infrastructure costs, certain other charges, and retainage. Unrestricted net position is the portion that is not "net investment in capital assets" or "restricted."

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

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2020 and 2019.

Accounting standard changes – GASB has issued Statement No. 87, *Standards of Accounting and Financial Reporting for Leases*. The new GASB standard on leases was issued in June 2017 and was originally scheduled to be effective for reporting periods beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB issued statement No. 95, which delayed the implementation dates of certain statements. As a result, GASB 87 will be effective for the Fund for reporting periods beginning after June 15, 2021. Under this rule, leases are all assumed to be capital financings of the underlying asset with only a narrow range of short-term equipment and motor vehicle leases treated as an ‘operating lease. GASB now assumes that all leases are ‘capital leases’ except for the specific exceptions noted. The Fund is evaluating the impact of this standard on the financial statements.

GASB has also issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a cost of a capital asset reported in a business-type activity or enterprise fund. The Statement was issued in June 2018 and was originally scheduled to be effective for reporting periods beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB issued statement No. 95, which delayed the implementation dates of certain statements. As a result, GASB 89 will be effective for the Fund for reporting periods beginning after December 15, 2020. The Fund plans to invoke regulatory accounting under GASB 62 and will continue to capitalize interest as an expense to projects.

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

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

Note 2 – Cash and Equity in Pooled Investments

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the City's Director of Finance and Administrative Services (FAS) is authorized to invest all moneys in the City Treasury. 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 Fund'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 Fund, may deposit cash at any time and can also withdraw cash out of the pool, up to the amount of the Fund's fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments.

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, 2020 and 2019, 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 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, 2020 and 2019, the City held sufficient cash in its vault for operations. 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.

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.

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

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% of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3% 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% of the Pool's market value. No single issuer rated in the single-A category may exceed 2% 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% of the Pool's market value.

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 12 to 18 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.

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.

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

Investments – The Fund'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 Fund. As of December 31, 2020, and 2019, the Fund did not have any dedicated investments. The City's Statement of Investment Policy was modified on January 1, 2018, with an effective date of March 8, 2018. There have been no subsequent changes to the policy.

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.

- *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.

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*. 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.

As of December 31, 2020, the City held $519.7 million on 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.

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

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

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

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

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

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

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

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

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

The City's investments in U.S. Treasuries are valued as Level 1. The City's remaining investments are valued as Level 2 or measured at amortized cost. The City does not invest in securities that require Level 3 inputs.

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

As of December 31, 2020, the City's pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2020	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Measured at Amortized Cost	Weighted Average Maturity (Days)
U.S. Government Agency Securities	$ 760,599,687	$ 760,599,687	$ -	$ -	$ -	1,111
Local Government Investment Pool	519,690,038	-	-	-	519,690,038	1
U.S. Treasury and U.S. Government-Backed Securities	470,004,815	470,004,815	-	-	-	732
Municipal Bonds	319,681,755	-	319,681,755	-	-	2,597
U.S. Government Agency Mortgage-Backed Securities	268,695,014	-	268,695,014	-	-	1,616
Corporate Bonds	92,745,580	92,745,580	-	-	-	509
Repurchase Agreements	72,592,802	-	-	-	72,592,802	4
International Bank for Reconstruction and Development	41,064,600	41,064,600	-	-	-	1,654
	$ 2,545,074,291	$ 1,364,414,682	$ 588,376,769	$ -	$ 592,282,840	
Weighted Average Maturity of the City's Pooled Investments						1,010

As of December 31, 2019, the City's pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2019	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Measured at Amortized Cost	Weighted Average Maturity (Days)
U.S. Government Agency Securities	$ 693,744,193	$ 693,744,193	$ -	$ -	$ -	1,246
U.S. Treasury and U.S. Government-Backed Securities	583,535,317	583,535,317	-	-	-	902
Local Government Investment Pool	509,563,594	-	-	-	509,563,594	2
Municipal Bonds	354,007,423	-	354,007,423	-	-	2,184
U.S. Government Agency Mortgage-Backed Securities	290,939,453	-	290,939,453	-	-	1,821
Repurchase Agreements	118,189,506	-	-	-	118,189,506	2
Commercial Paper	84,916,181	-	84,916,181	-	-	22
Corporate Bonds	50,188,027	50,188,027	-	-	-	570
International Bank for Reconstruction and Development	44,743,700	44,743,700	-	-	-	1,714
	$ 2,729,827,394	$ 1,372,211,237	$ 729,863,057	$ -	$ 627,753,100	
Weighted Average Maturity of the City's Pooled Investments						1,026

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

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

	2020	2019
Operating cash and equity in pooled investments	$ 218,713,930	$ 230,631,233
Restricted cash and equity in pooled investments	38,208,242	88,092,415
Total	$ 256,922,172	$ 318,723,648
Balance as a percentage of City pool cash and investments	10.1%	11.7%

Concentration of credit 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 and 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 are as follows:

	2020		2019	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Local Government Investment Pool	$ 519,690,038	20%	$ 509,563,594	19%
United States Government	470,004,815	18%	583,535,317	21%
Federal National Mortgage Association	292,500,837	11%	283,978,980	10%
Federal Home Loan Bank	200,784,989	8%	244,714,007	9%
Federal Home Loan Mortgage Corp	193,228,369	8%	293,802,918	11%
Federal Farm Credit Bank	152,404,144	6%	162,187,740	6%

Note 3 – Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2020:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 24,969,031	$ 1,602,147	$ -	$ 26,571,178
Infrastructure	1,199,929,441	66,600,481	(3,908,329)	1,262,621,593
Machinery and equipment	114,564,808	4,305,974	(617,158)	118,253,624
Computer systems	64,591,791	3,410,344	-	68,002,135
Total capital assets, excluding land	1,404,055,071	75,918,946	(4,525,487)	1,475,448,530
Less accumulated depreciation	(408,524,370)	(33,822,537)	1,932,017	(440,414,890)
	995,530,701	42,096,409	(2,593,470)	1,035,033,640
Construction in progress	184,069,459	170,506,892	(97,680,315)	256,896,036
Land and land rights	40,330,875	6,313,478	-	46,644,353
Artwork	2,192,284	-	-	2,192,284
Capital assets, net	$ 1,222,123,319	$ 218,916,779	$ (100,273,785)	$ 1,340,766,313

Capital asset activity consisted of the following for the year ended December 31, 2019:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 24,656,787	$ 312,244	$ -	$ 24,969,031
Infrastructure	1,167,784,504	32,597,517	(452,580)	1,199,929,441
Machinery and equipment	105,465,391	11,497,317	(2,397,901)	114,564,808
Computer systems	72,929,653	849,796	(9,187,658)	64,591,791
Total capital assets, excluding land	1,370,836,335	45,256,874	(12,038,139)	1,404,055,071
Less accumulated depreciation	(387,698,799)	(32,825,355)	11,999,783	(408,524,370)
	983,137,536	12,431,519	(38,356)	995,530,701
Construction in progress	135,164,900	105,534,157	(56,629,598)	184,069,459
Land and land rights	40,330,857	18	-	40,330,875
Artwork	2,026,721	165,563	-	2,192,284
Capital assets, net	$ 1,160,660,014	$ 118,131,257	$ (56,667,954)	$ 1,222,123,319

During 2020 and 2019, the Fund capitalized interest costs relating to construction of $10,514,450 and $8,100,208, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has $30,872,471 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2020 and 2019, were $742,030,000 and $769,605,000, respectively. Revenue bonds outstanding as of December 31, 2020 and 2019, consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding 2020	Bonds Outstanding 2019
2009 Improvement, Series A a (Taxable)	12/17/09	2017-2039	4.2-5.5%	$ 102,535,000	$ 89,920,000	$ 93,210,000
2009 Improvement and Refunding, Series B	12/17/09	2010-2027	2.0-4.0%	36,680,000	8,545,000	9,565,000
2012 Improvement and Refunding	6/27/12	2012-2042	2.0-5.0%	222,090,000	163,355,000	171,790,000
2014 Improvement and Refunding	7/10/14	2015-2044	3.0-5.0%	133,180,000	117,750,000	123,475,000
2016 Improvement and Refunding	6/22/16	2016-2046	4.0-5.0%	160,910,000	149,845,000	153,755,000
2017 Improvement and Refunding	6/28/17	2018-2047	4.0-5.0%	234,125,000	212,615,000	217,810,000
				$ 889,520,000	$ 742,030,000	$ 769,605,000

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

Years Ending December 31,	Principal	Interest	Total
2021	$ 27,300,000	$ 32,996,413	$ 60,296,413
2022	28,610,000	31,651,003	60,261,003
2023	28,640,000	30,228,553	58,868,553
2024	30,035,000	28,800,296	58,835,296
2025	31,495,000	27,297,696	58,792,696
2026 - 2030	166,965,000	113,159,713	280,124,713
2031 - 2035	159,920,000	74,776,960	234,696,960
2036 - 2040	143,300,000	41,264,243	184,564,243
2041 - 2045	100,745,000	15,320,800	116,065,800
2046 - 2047	25,020,000	1,288,800	26,308,800
	$ 742,030,000	$ 396,784,477	$ 1,138,814,477

Note 4 – Revenue Bonds (continued)

The following table shows the revenue bond activity during the year ended December 31, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 769,605,000	$ -	$ (27,575,000)	$ 742,030,000	$ 27,300,000
Add (deduct) deferred amounts					
Issuance premiums	81,600,896	-	(3,286,891)	78,314,005	-
Issuance discounts	(451,449)	-	23,761	(427,688)	-
Total bonds payable	$ 850,754,447	$ -	$ (30,838,130)	$ 819,916,317	$ 27,300,000

The following table shows the revenue bond activity during the year ended December 31, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 796,030,000	$ -	$ (26,425,000)	$ 769,605,000	$ 27,575,000
Add (deduct) deferred amounts					
Issuance premiums	84,887,787	-	(3,286,891)	81,600,896	-
Issuance discounts	(475,209)	-	23,760	(451,449)	-
Total bonds payable	$ 880,442,578	$ -	$ (29,688,131)	$ 850,754,447	$ 27,575,000

Defeasance of debt – The Fund defeases certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the statements of net position. At December 31, 2020, no outstanding bonds are considered defeased.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service of at least equal to 125% of annual debt service. For 2020, net revenue available for debt service, as defined by the bond covenants, was 294% of annual debt service. Management believes the Fund was in compliance with all debt covenants as of December 31, 2020. For more information, see Other Information (page 51).

Note 5 – Leases

The Fund has noncancelable operating lease commitments for real and personal property, with payments of $364,107 and $131,332 and in 2020 and 2019, respectively. The Fund has three leases. The two existing leases at 5821 First Avenue South and 2702 6th Avenue South are extended to February 28, 2025, and July 31, 2025, respectively. The 10-year lease for the property at 4209 21st Avenue West has terms from October 1, 2019, to September 30, 2029. Rents are paid as they become due and payable. Minimum lease payments under the leases for the years ending December 31 are as follows:

2021	$	373,056
2022		381,122
2023		389,195
2024		397,273
2025		362,065
2026 - 2029		1,348,611
	$	3,251,322

Note 6 – Postemployment Benefit Plans

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

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

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

Other postemployment benefits plan description – 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.

Note 6 – Postemployment Benefit Plans (continued)

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 that were established by including the experience of retirees with the experience of active employees for underwriting purposes. 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 provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis.

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:

Actuarial data and assumptions – the demographic assumptions of mortality, termination, retirement, and disability are set equal to the assumptions used for City pension actuarial valuations based on a Seattle City Employees' Retirement System Experience Report for the period 2014-2017.

Actuarial data and assumptions	**2020**
Valuation date	January 1, 2020
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	2.74%
Health care cost trend rates – medical	6.55% in 2020, decreasing to 6.32% in 2021, and decreasing by varying amounts until 2030 thereafter
Health care cost trend rates – Rx	9.00% in 2020, decreasing to 8.50% in 2021, and decreasing by varying amounts until 2030 thereafter
Participation	25% of active employees who retire participate

Note 6 – Postemployment Benefit Plans (continued)

Mortality

General Service (Actives)

Males: RP-2014 Employees Table for Males, adjusted by 60%
Females: RP-2014 Employees Table for Females, adjusted by 95%
Rates are projected generationally using Scale MP-2014 ultimate rates

General Service (Retirees)

Males: RP-2014 Healthy Annuitant Males, adjusted by 95%
Females: RP-2014 Healthy Annuitant Females, adjusted by 95%
Rates are projected generationally using Scale MP-2014 ultimate rates

Marital status – 25% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.

Health care claims development – The sample per capita claim cost assumptions shown below by age, benefit, and plan represent the true underlying baseline experience estimated for the City of Seattle's sponsored postretirement benefits and costs.

	Aetna Preventive Plan			Aetna Traditional Plan		
Age	Medical	Rx	Admin	Medical	Rx	Admin
50	$ 11,520	$ 2,677	$ 358	$ 11,243	$ 2,659	$ 358
52	12,533	2,912	358	12,230	2,893	358
55	14,220	3,305	358	13,877	3,282	358
57	15,499	3,601	358	15,125	3,576	358
60	17,638	4,097	358	17,210	4,069	358
62	19,003	4,415	358	18,543	4,384	358

	Group Health Deductible			Group Health Standard		
Age	Medical	Rx	Admin	Medical	Rx	Admin
50	$ 4,961	$ 1,145	$ 689	$ 5,291	$ 1,171	$ 689
52	5,397	1,246	689	5,755	1,273	689
55	6,123	1,413	689	6,531	1,445	689
57	6,674	1,540	689	7,118	1,574	689
60	7,595	1,752	689	8,100	1,792	689
62	8,182	1,888	689	8,727	1,930	689

Note 6 – Postemployment Benefit Plans (continued)

The average medical and prescription drug per capita claims costs were developed from 2021 calendar year self-funded premium rates. Premium-equivalent rates were provided by City of Seattle's health pricing actuary. The average medical and prescription drug per capita "adult-equivalent" claims costs were based on the respective pre-65 enrollment weighted average of the 2021 four-tier rate structure including the add-on cost of dependent children and trended back from 2021 to 2020 to be centered at 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 rating population, and the assumed health care aging factors shown in the table below.

The average medical and prescription drug per capita claims costs were blended with the 2019 medical/Rx per capita developed claims cost trended forward to the valuation date.

Models are used to estimate underlying per capita medical and drug claims costs, subsequently utilized as assumption inputs for valuation models used to develop the liabilities for the 2020 and future valuations. The Aon consulting team leveraged expertise of Health experts within Aon as it relates to reviewing the models used for development of the per capita claims costs and future trend rates.

Morbidity factors – 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%

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 coverage and will have $0 liability.

Note 6 – Postemployment Benefit Plans (continued)

OPEB liability – The Fund reported an OPEB liability of approximately $3.1 million in 2020 and $3.0 million in 2019. The Fund's proportionate share of the OPEB liability was 5.31% and 4.87% for the years ended December 31, 2020 and 2019, respectively. Based on the actuarial valuation date of January 1, 2019, details regarding the Fund's total OPEB liability, plan fiduciary net position, and net OPEB liability as of December 31, 2020, are shown below.

Changes in Net OPEB Liability

($ in thousands)	**Total OPEB Liability**
Changes recognized for the fiscal year:	
Service cost	$ 179.4
Interest on the total OPEB liability	137.4
Differences between expected and actual experience	369.5
Changes of assumptions	(412.2)
Benefit payments	(131.9)
Contributions from the employer	0.0
Other changes	(8.6)
Net changes	133.6
Balance recognized at 12/31/2019	2,968.1
Balance recognized at 12/31/2020	$ 3,101.7

The Fund recorded an expense for OPEB of $239,525 in 2020 and $$227,322 in 2019. The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

Note 6 – Postemployment Benefit Plans (continued)

Discount rate and healthcare cost trend rates – The discount rate used to measure the total OPEB liability is 2.74 % for 2020 and 4.10% for 2019. The following tables present the sensitivity of net OPEB liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

Discount Rate Sensitivity
(in millions)

	OPEB Liability at December 31, 2020
Discount rate	
1% decrease – 1.74%	$ 3.4
Current discount rate – 2.74%	3.1
1% increase – 3.74%	2.8

Discount Rate Sensitivity
(in millions)

	OPEB Liability at December 31, 2019
Discount rate	
1% decrease – 3.10%	$ 3.2
Current discount rate – 4.10%	3.0
1% increase – 5.10%	2.7

The following table presents the sensitivity of net Health Plan OPEB liability calculation to a 1% increase and a 1% decrease in the health care cost trend rates used to measure the total health plan OPEB liability:

Health Care Cost Trend Rate Sensitivity
(in millions)

	OPEB Liability at December 31,	
	2020	2019
Discount rate		
1% decrease	$ 2.7	$ 2.6
Trend rate	3.1	3.0
1% increase	3.5	3.4

Note 6 – Postemployment Benefit Plans (continued)

Deferred outflows of resources and deferred inflows of resources related to OPEB – The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2020:

(in thousands)	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	$ 762.0	$ -
Assumption changes	-	1,222.8
Contributions made in 2020 after measurement date	155.8	N/A
Total	$ 917.8	$ 1,222.8

The Fund's contributions made in 2020 in the amount of $155,813 are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020. These contributions will be recognized 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 thousands)*	Amortization
2021	$ (70.3)
2022	(70.3)
2023	(70.3)
2024	(70.3)
2025	(70.3)
Thereafter	(109.3)
Total	$ (460.8)

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

Note 7 – Claims Payable

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

For 2020 and 2019, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments of 1.816% and 2.334%, respectively. Claims expected to be paid within one year are $1,545,720 and $1,630,749 as of December 31, 2020 and 2019, respectively.

The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	2020	2019
Beginning liability, discounted	$ 7,180,077	$ 6,964,736
Payments	(1,144,821)	(544,550)
Incurred claims and change in estimate	616,785	759,891
Ending liability, discounted	$ 6,652,041	$ 7,180,077

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

Note 8 – Compensated Absences

The Fund has recorded a liability for earned but unused compensatory and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31, 2020 and 2019:

	2020	2019
Beginning liability	$ 4,925,878	$ 4,349,112
Additions	5,981,336	6,197,063
Reductions	(4,841,502)	(5,620,297)
Ending liability	$ 6,065,712	$ 4,925,878

Note 9 – Pension Benefit Plan

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

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

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.

All permanent Fund employees are eligible to participate in the system.

System benefits – Service retirement benefits are calculated on the basis of age, salary, and service credit.

SCERS I – The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after 10 years of service. 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 five 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 five 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 five years of credited service.

Note 9 – Pension Benefit Plan (continued)

Member and employer contributions – member and employer contributions are:

	YEAR	SCERS I	SCERS II
Member contribution	2020	10.03%	7.00%
	2019	10.03%	7.00%
Employer contribution	2020	16.20%	15.76%
	2019	15.23%	14.42%

Member and employer rates are established by the Seattle Municipal Code Chapter 4.36. The Fund's contributions to the System for the years ended December 31, 2020 and 2019, were $ 9,697,951 and $7,273,022 respectively.

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

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2020 and 2019, the Fund reported a liability of $72,049,064 and $91,293,054, respectively, of its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2020 and 2019, the Fund's proportion was 6.74% and 6.26%, respectively.

For the years ended December 31, 2020 and 2019, the Fund recognized pension expense of approximately $10,289,000 and $12,121,000, respectively.

Note 9 – Pension Benefit Plan (continued)

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,994	$ 2,565,347
Change of assumptions	3,854,118	-
Difference between projected and actual earnings	-	7,343,352
Contributions made subsequent to measurement date	9,367,024	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	4,412,576
Total	$ 13,230,136	$ 14,321,275

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 33,836	$ 2,011,932
Change of assumptions	5,142,579	-
Difference between projected and actual earnings	10,012,412	-
Contributions made subsequent to measurement date	6,942,096	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	5,656,030
Total	$ 22,130,923	$ 7,667,962

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

2021	$ (4,278,152)
2022	(3,135,273)
2023	643,922
2024	(3,618,977)
2025	(69,683)
Total	$ (10,458,163)

Note 9 – Pension Benefit Plan (continued)

Actuarial assumptions – The total pension liability as of December 31, 2020, was determined using the following actuarial assumptions:

Valuation date	January 1, 2019
Measurement date	December 31, 2019
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Non-asymptotic
Inflation	2.75%
Investment rate of return	7.25% compounded annually, net of expenses
Discount rate	7.25%
Projected general wage inflation	3.5%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2014 mortality tables and using generational projection of improvement using MP-2014 Ultimate projection scale. See 2018 Investigation of Experience report for details.

The actuarial assumptions that determined the total pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2014 – December 31, 2017.

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

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

Note 9 – Pension Benefit Plan (continued)

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2019, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.77%
Equity: Private	7.96%
Fixed Income: Broad	0.67%
Fixed Income: Credit	3.66%
Real Assets: Real Estate	3.76%
Real Assets: Infrastructure	3.95%
Diversifying Strategies	N/A

Sensitivity analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.25%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
$ 103,120,970	72,049,064	$ 46,041,856

Note 10 – Environmental Liabilities

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

Duwamish sites – The U.S. Environmental Protection Agency (EPA) has indicated that it will require the clean-up and remediation of certain Duwamish sites under its Superfund authority. In order to manage the liability, the City has worked with the EPA and other PRPs to complete a Remedial Investigation (RI) and Feasibility Study (FS). On November 2, 2012, the EPA and Ecology approved the Lower Duwamish Waterway Group's FS. The EPA announced their proposed cleanup plan in February 2013 for public comment. The remaining scope of cleanup by potentially responsible parties (PRPs) has been decided by the EPA in the 2014 Record of Decision. The Fund recorded an estimate of its share of the estimated total cost. Remedial design work began in 2019.

Specific "early action sites" have been cleaned up separately under Administrative Orders on Consent (AOC). The Fund, together with other PRPs, has completed two early action sites identified during the RI under EPA issued AOC: Slip 4 and T-117.

East Waterway Site – In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. The Port of Seattle (the Port) alone signed the AOC. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the RI/FS work required by the EPA. The RI and FS are complete. The FS identifies a range of alternatives for cleanup construction that range in cost from $256 million to $411 million (2016 dollars). EPA is currently developing the Proposed Plan, which will be followed by a Record of Decision. The schedule for release of EPA's Proposed Plan is spring 2021. The Record of Decision is expected in late 2021 or early 2022. Remedial design activities would start in late 2022 at the earliest. The Fund recorded an estimate of its share of the estimated total cost.

Gas Works Park Sediment Site – In April 2002, the Department of Ecology (DOE) named the City and another party, Puget Sound Energy, as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and Puget Sound Energy signed an Agreed Order with the DOE in 2005 to initiate two RIs and FSs for the sediment site: one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in fall of 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead for all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 Agreement, the City pays for 20% of the Shared Costs incurred by Puget Sound Energy for the cleanup work. The RI and FS include an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments, and a recommended preferred alternative. Puget Sound Energy collected additional environmental data in 2013 and the draft RI/FS was submitted to DOE in March 2016. A revised draft RI/FS is anticipated to be submitted to DOE in late 2021 A Clean-up Action Plan, which is the State's equivalent to a Record of Decision under the Model Toxics Control Act, is expected in 2022.

Note 10 – Environmental Liabilities (continued)

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

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

Terminal 108 – EPA notified the City in 2019 that it is a Potentially Responsible Party for a site adjacent to the Lower Duwamish Waterway that is known as Terminal 108 or T108. The City's potential liability arises from a former sewage treatment plant that was located there. Other PRPs include the Port of Seattle, which is the current owner of the site, King County, the United States and several private entities. In 2020, the Port of Seattle, City of Seattle (SPU), and King County entered into an agreed Administrative Order with EPA and a cost-sharing agreement among themselves. Work has begun on the investigative phase of cleanup at the T108 site in accordance with the Administrative Order. The Department's ultimate liability is indeterminate.

South Park Marina – The Washington Department of Ecology notified the City in 2016 that it is a Potentially Liable Party for contamination at the South Park Marina, which is adjacent to Terminal 117. The City Light Department is the lead department for the City at this site. The Potentially Liable Parties (PLPs), which are the City, the Port, and South Park Marina (SPM), signed a final Agreed Order for a Remedial Investigation (RI) in April 2019. A Common Interest and Cost Sharing Agreement among the PLPs was signed in 2019 with an interim cost share of one-third each. In 2019, the City contracted with a consultant to complete the RI. The City's share is split between City Light (97.5%) and SPU (2.5%). The Department's ultimate liability is indeterminate.

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. For most of the sites, estimated outlays were based on current cost and no adjustments were made for discounting or inflation. The Duwamish site cost estimates were adjusted to remove discounting and to record the costs in 2020 dollars. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs reflect cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; however, as new information becomes available, estimates may vary significantly due to price fluctuations, technological advances, or applicable laws.

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. The Fund's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Fund's estimated environmental liability was $2.6 million as of December 31, 2020, and $2.6 million as of December 31, 2019.

Note 10 – Environmental Liabilities (continued)

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

	2020	2019
Beginning environmental liability, net of recovery	$ 180,884,361	$ 174,621,792
Payments or amortization	(3,176,623)	(3,246,282)
Incurred environmental liability	3,051,245	9,508,851
Ending environmental liability, net of recovery	$ 180,758,983	$ 180,884,361

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

	2020	2019
Environmental liability, current	$ 2,811,563	$ 1,730,070
Environmental liability, noncurrent	177,947,420	179,154,291
Ending liability	$ 180,758,983	$ 180,884,361

Note 11 – Loans

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

In 2019, The Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to $25.0 million to support the Ship Canal Water Quality Project for protecting Lake Washington Ship Canal from combined sewer overflow from Ballard, Fremont, Wallingford, and North Queen Anne. Amounts borrowed under this agreement accrue interest at the rate of 2.0% per annum and estimated initiation of operation date is changed to December 31, 2021. As of December 31, 2020, the Fund had drawn $12,623,133 on the loan.

In 2020, the Fund entered into a 20-year loan agreement with the Washington State Department of Commerce Public Work Board to borrow up to $10 million for Pearl Street Drainage & Wastewater Improvement. Amounts borrowed under this agreement accrue interest at the rate of 1.58%. As of December 31, 2020, the Fund had drawn $1,590,305 on the loan.

Note 11 – Loans (continued)

Loans outstanding as of December 31, 2020 and 2019, are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding 2020	Loans Outstanding 2019
Midvale	2013-2031	0.25%	$ 4,000,000	$ 2,329,478	$ 2,541,249
Thornton Creek Natural Drainage Systems	2006-2024	0.50%	3,700,000	783,529	979,412
High Point Natural Drainage Systems	2010-2029	1.50%	2,679,413	1,255,413	1,392,866
South Park Flood Control and Local Drainage Program	2007-2025	0.50%	3,400,000	985,614	1,182,737
Ballard Green Streets ARRA Project	2011-2020	2.90%	603,209	-	71,233
Thornton Creek Water Quality Project	2011-2030	1.50%	6,983,021	3,670,381	4,027,198
Capital Hill Water Quality Project	2014-2033	2.60%	1,880,598	1,367,536	1,454,831
Henderson CSO	2018-2037	2.40%	36,372,252	31,449,380	32,984,702
Ship Canal Water Quality Project	2022-2042	2.00%	12,623,133	12,623,133	381,221
Pearl Street	2021-2039	1.58%	1,590,305	1,590,305	-
			$ 73,831,931	$ 56,054,769	$ 45,015,448

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

Years Ending December 31,	Principal	Interest	Total
2021	$ 2,852,381	$ 883,107	$ 3,735,488
2022	3,199,102	844,433	4,043,535
2023	3,465,857	1,037,863	4,503,720
2024	3,527,869	973,357	4,501,226
2025	3,395,382	907,467	4,302,849
2026 - 2030	16,546,235	3,524,644	20,070,879
2031 - 2035	14,699,065	1,840,170	16,539,235
2036 - 2040	7,311,784	418,027	7,729,811
2041 - 2045	1,057,094	24,205	1,081,299
	$ 56,054,769	$ 10,453,273	$ 66,508,042

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

	2020	2019
Net loans, beginning of year	$ 45,015,448	$ 47,379,124
Loan proceeds	13,832,217	381,221
Principal payments	(2,792,896)	(2,744,897)
Net loans, end of year	$ 56,054,769	$ 45,015,448
Loans due within one year	$ 2,852,381	$ 2,792,896
Loans, noncurrent	$ 53,202,388	$ 42,222,552

Note 12 – Wastewater Disposal Agreement

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were $167,490,395 and $165,796,390 for fiscal years 2020 and 2019, respectively.

Required Supplementary Information

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

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	14.33%	14.55%	14.73%	15.13%	16.37%	16.96%
Employer's proportionate share of the net pension liability	$ 180,105,232	$ 221,049,893	$ 163,086,154	$ 197,454,529	$ 212,671,200	$ 187,919,945
Employer's covered payroll	$ 112,528,955	$ 111,973,027	$ 107,715,383	$ 106,696,535	$ 105,031,141	$ 102,783,473
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	160.05%	197.41%	151.40%	185.06%	202.48%	182.83%
Plan fiduciary net position as a percentage of the total pension liability	71.48%	64.14%	72.04%	65.60%	64.03%	67.70%

Schedule of Seattle Public Utilities' Contributions

	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	$17,041,133	$ 17,103,559	$ 16,466,270	$ 16,354,089	$ 16,487,154	$ 15,170,276
Contributions in relation to the contractually required employer contribution	(17,041,133)	(17,103,559)	(16,466,270)	(16,354,089)	(16,487,154)	(15,170,276)
Employer contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Employer's covered payroll	$112,528,955	$111,973,027	$107,715,383	$ 106,696,535	$ 105,031,141	$ 102,783,473
Employer contributions as a percentile of covered payroll	15.14%	15.27%	15.29%	15.33%	15.70%	14.76%

Schedule of Seattle Public Utilities' Proportionate Share of the OPEB Liability and Related Ratios

	December 31, 2020	December 31, 2019	December 31, 2018
Total OPEB Liability			
Normal cost	$ 3,378,925	$ 3,842,152	$ 3,821,876
Interest	2,586,942	2,195,238	2,583,105
Differences between expected and actual experience	6,956,579	-	13,491,865
Changes in assumptions	(7,760,776)	(3,886,702)	(22,126,128)
Benefit payment	(2,484,320)	(2,333,610)	(2,289,000)
Total OPEB liability – beginning of year	60,946,911	61,129,833	65,648,115
Total OPEB liability – end of year	$ 63,624,261	$ 60,946,911	$ 61,129,833
Covered-employee payroll	$ 1,124,692,046	$ 1,015,097,334	$ 1,015,097,334
Net OPEB liability as percentage of covered-employee payroll	5.66%	6.00%	6.02%

Other Information (Unaudited)

Drainage Wastewater Debt Service Coverage Calculation 2020

Operating Revenues	
Wastewater	$ 299,098,180
Drainage	155,021,496
Other	6,175,788
Total Operating Revenue	460,295,464
Operating Expense	
Wastewater Treatment Contract	168,149,587
Other Operations and Maintenance	117,326,904
City Taxes	54,335,864
Other Taxes	6,485,837
Total Operating Expenses Before Debt Service	346,298,192
Net Operating Income	113,997,272
Adjustments	
Add: Claim Expense	616,785
Add: City Taxes	54,335,864
Add: Investment Interest	5,505,931
Less: DSRF Earnings	(627,618)
Add: BAB's Subsidy	1,632,214
Add (Less): Net Other Nonoperating Revenues/(Expenses)	4,417,692
Add: Proceeds from Sale of Assets	54,856
Total Adjustments	65,935,724
Net Revenue Available for Debt Service	$ 179,932,996
Net Revenue Available for Debt Service (w/o City Taxes)	$ 125,597,132
Annual Debt Service	$ 61,848,978
Less: DSRF Earnings	(627,618)
Adjusted Annual Debt Service	$ 61,221,360
Coverage	2.94
Coverage without taxes	2.05

Statistics Required for Revenue Bond Continuing Disclosure

Wastewater System Operating Statistics

	2016	2017	2018	2019	2020
Population Served	686,800	713,700	730,400	747,300	761,100
Billed Wastewater Revenues ($1,000's)	$ 262,006	$ 272,085	$ 280,554	$ 303,935	$ 302,829
Billed Wastewater Volume (Thousand CCF)					
Residential	7,694	7,699	7,613	7,723	7,851
Commercial	14,127	13,584	13,504	13,554	11,995
Total	21,821	21,283	21,117	21,277	19,846
Gallons Used Per Day Per Capita	65.07	61.07	59.21	58.31	53.40

Drainage and Wastewater – 2020 Accounts and Billed Revenues

	Drainage	Wastewater
Customer Accounts		
Residential	154,605	155,363
Commercial	66,072	19,600
Total	220,677	174,963

	Drainage	Wastewater
Billed Revenue		
Residential	$ 79,015,227	$ 113,468,431
Commercial	74,405,133	189,361,009
Total	$ 153,420,360	$ 302,829,440

Major Wastewater Customers – 2020 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
Seattle Housing Authority	$ 6,326,793	2.1%
University of Washington	5,387,863	1.8%
City of Seattle	3,693,851	1.2%
Equity Residential	2,839,998	0.9%
Port of Seattle	1,724,552	0.6%
Darigold	1,505,465	0.5%
Seattle Children's Hospital	1,291,931	0.4%
Marriott International Inc	1,237,358	0.4%
Harborview Medical Center	1,172,513	0.4%
Essex	1,118,771	0.4%

Major Drainage Customers – 2020 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
City of Seattle	$ 10,825,403	7.1%
King County	3,457,690	2.3%
Seattle Public Schools	3,385,364	2.2%
University of Washington	2,985,609	1.9%
BNSF	2,520,317	1.6%
Federal Government	1,188,514	0.8%
Seattle Housing Authority	1,120,250	0.7%
Union Pacific	950,039	0.6%
Archdiocese of Seattle	678,981	0.4%
Prologis Inc	646,421	0.4%

Wastewater Rates

	2016	2017	2018	2019	2020	2021
Volume rate per ccf	$ 12.27	$ 12.93	$ 13.46	$ 14.48	$ 15.55	$ 16.67

Note: 1 CCF equals 748 gallons. Wastewater rate increased 7.4% and 7.6% in 2020 and 2019, respectively.

Drainage Rates

Flat Rate per Parcel	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**% Impervious Space**
Single Family Residential*								
0-1,999 sq. ft.		$ 123.81	$ 140.46	$ 159.68	$ 169.81	$ 183.47	195.57	
2,000 - 2,999 sq. ft.	$ 198.83	$ 206.93	$ 231.47	$ 259.68	$ 276.51	$ 298.75	320.58	
3,000 - 4,999 sq. ft.	$ 258.06	$ 286.63	$ 319.05	$ 356.15	$ 383.43	$ 414.26	445.25	
5,000 - 6,999 sq. ft.	$ 350.40	$ 390.03	$ 432.45	$ 480.86	$ 516.72	$ 558.27	599.94	
7,000 - 9,999 sq. ft.	$ 443.55	$ 491.40	$ 543.98	$ 603.90	$ 652.61	$ 705.09	757.69	
Rate per 1,000 sq. ft.								
Undeveloped								0 - 15%
Regular	$ 28.25	$ 31.24	$ 34.76	$ 38.78	$ 42.62	$ 46.05	$ 49.49	
Low Impact	$ 16.54	$ 18.57	$ 20.67	$ 23.06	$ 25.36	$ 27.40	$ 29.45	
Light								16 - 35%
Regular	$ 43.69	$ 48.52	$ 53.54	$ 59.24	$ 63.64	$ 68.75	73.92	
Low Impact	$ 34.36	$ 38.31	$ 42.26	$ 46.74	$ 49.85	$ 53.85	$ 57.87	
Medium								36 - 65%
Regular	$ 63.45	$ 70.67	$ 77.60	$ 85.45	$ 90.58	$ 97.86	$ 105.15	
Low Impact	$ 51.04	$ 57.21	$ 62.86	$ 69.28	$ 73.31	$ 79.21	$ 85.00	
High	$ 85.12	$ 93.56	$ 102.48	$ 112.57	$ 119.86	$ 129.50	$ 139.17	66 - 85%
Very High	$ 100.69	$ 112.38	$ 122.94	$ 134.85	$ 143.10	$ 154.60	$ 165.81	86 - 100%

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

APPENDIX D

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the twelfth most populous county in the United States. Of the State's population, nearly 30% reside in the County, and of the County's population, 34% live in the City of Seattle.

Population

Historical and current population figures for the State of Washington, the County, the City, and the unincorporated areas of the County are given below.

POPULATION

Year	Washington	King County	Seattle
1980 (1)	4,130,163	1,269,749	493,846
1990 (1)	4,866,692	1,507,319	516,259
2000 (1)	5,894,121	1,737,034	563,374
2010 (1)	6,724,540	1,931,249	608,660
2011 (2)	6,767,900	1,942,600	612,100
2012 (2)	6,817,770	1,957,000	616,500
2013 (2)	6,882,400	1,981,900	626,600
2014 (2)	6,968,170	2,017,250	640,500
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
2019 (2)	7,546,410	2,226,300	747,300
2020 (1)	7,656,200	2,260,800	761,100

(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 County, the State, and the United States.

PER CAPITA INCOME

	2015	2016	2017	2018	2019
Seattle MD	$ 68,792	$ 71,903	$ 75,973	$ 81,201	$ 85,284
King County	76,122	79,742	84,542	90,438	94,974
State of Washington	53,840	55,884	58,550	62,026	64,758
United States	48,978	49,870	51,885	54,446	56,490

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 within the City. The value of public construction is not included in this table.

CITY OF SEATTLE
RESIDENTIAL BUILDING PERMIT VALUES

	New Single Family Units		New Multi-Family Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total Value($)**
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
2018	523	141,737,845	7,395	892,514,843	1,034,252,688
2019	507	139,195,045	10,277	1,554,462,494	1,693,657,539
2020	256	111,540,297	6,082	824,236,830	935,777,127
2020(1)	77	21,401,002	1,162	156,933,494	178,334,496
2021(1)	37	15,904,494	1,619	203,821,469	219,725,963

(1) Estimates with imputations through February.

Source: U.S. Bureau of the Census

Retail Activity

The following tables present information on taxable retail sales in King County and the City.

THE CITY OF SEATTLE AND KING COUNTY
TAXABLE RETAIL SALES

Year	King County	City of Seattle
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
2018	69,018,354,390	28,292,069,881
2019	72,785,180,223	29,953,200,188
2019(1)	53,511,071,448	21,962,409,065
2020(1)	48,349,134,083	18,863,518,272

(1) Through third quarter.

Source: Quarterly Business Review, Washington State Department of Revenue

Employment

The following table presents total employment in Washington State as of December 31, 2019 (unless otherwise noted) for certain major employers in the Puget Sound area.

PUGET SOUND
MAJOR EMPLOYERS

Employer	Employees
The Boeing Company	71,800[(1)]
Amazon.com Inc.	60,000[(2)]
Microsoft Corp.	55,100
Joint Base Lewis-McChord	54,000[(3)]
University of Washington Seattle	46,800
Providence Health & Services	43,000[(4)]
Safeway Inc. & Albertsons LLC	21,300[(4)]
Wal-Mart Stores, Inc.	19,400
Costco Wholesale Corp.	18,000
MultiCare Health System	17,200
Fred Meyer Stores	16,200
King County Government	15,900
City of Seattle	15,800
Starbucks Corp.	14,000
CHI Franciscan Health	12,500
Seattle Public Schools	11,900
Kaiser Permanente	10,000
Alaska Air Group Inc.	9,600
Nordstrom, Inc.	9,200
Virginia Mason Health System	9,100

(1) Since the date of this table, Boeing has faced financial stress and has significantly reduced its companywide workforce through a combination of buyouts and layoffs and the shift of 787 production out of the State. The State's economic and revenue forecast released in March 2021 expected that aerospace employment in the State (including Boeing and other employers) will be 29,800 lower in December 2021 than January 2020. The State estimates that about 19,000 of these job losses occurred prior to February 2021 and an additional 10,700 jobs will be lost during the remainder of 2021.

(2) Amazon reports more than 60,000 employees but does not provide an exact count. As a result of the layoffs described in footnote (1), it is expected that Amazon is currently the largest employer in the region.

(3) 40,000 are service members and 14,000 are civilian employees.

(4) As of May 2019.

Source: Puget Sound Business Journal, Publication Date June 19, 2020

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

	Annual Average				
	2016	**2017**	**2018**	**2019**	**2020**
Civilian Labor Force	1,184,240	1,213,744	1,238,090	1,264,754	1,290,480
Total Employment	1,134,979	1,167,122	1,194,955	1,224,648	1,254,638
Total Unemployment	49,261	46,622	43,135	40,106	35,842
Percent of Labor Force	4.2%	3.8%	3.5%	3.2%	2.8%

NAICS INDUSTRY	**2016**	**2017**	**2018**	**2019**	**2020**
Total Nonfarm	1,356,900	1,397,408	1,431,933	1,467,817	1,385,242
Total Private	1,178,800	1,216,542	1,254,317	1,292,433	1,213,908
Goods Producing	177,250	177,733	181,550	186,058	172,317
Mining and Logging	525	533	500	500	467
Construction	71,217	74,342	78,108	79,533	76,675
Manufacturing	105,525	102,867	102,925	106,000	95,133
Service Providing	1,179,650	1,219,675	1,250,383	1,281,758	1,212,925
Trade, Transportation, and Utilities	254,142	268,325	274,642	280,933	276,200
Information	96,200	102,883	111,017	121,633	128,017
Financial Activities	70,642	71,450	73,708	75,267	72,567
Professional and Business Services	222,750	227,792	233,092	238,875	234,883
Educational and Health Services	174,042	179,142	185,842	189,592	180,558
Leisure and Hospitality	135,683	140,775	145,050	146,833	101,442
Other Services	48,092	48,442	49,417	53,242	47,925
Government	178,100	180,867	177,617	175,383	171,333
Workers in Labor/Management Disputes	0	0	0	0	0

	Mar. 2021
Civilian Labor Force	1,309,159
Total Employment	1,238,061
Total Unemployment	71,098
Percent of Labor Force	5.4%

(1) Columns may not add to totals due to rounding.
Source: Washington State Employment Security Department.

APPENDIX E

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with DTC or its participants (the "Participants").

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The following information has been provided by the City.

The City and the Bond Registrar may treat DTC (or its nominee) as the sole and exclusive Registered Owner of the Bonds registered in such name for the purposes of payment of the principal of and premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Registered Owners of Bonds under the Bond Documents, registering the transfer of Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds, and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or such participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to Registered Owners of Bonds under the Bond Documents; (v) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner of the Bonds.