

**ERRATA NOTICE DATED JULY 13, 2022**

**\$257,715,000**

**THE CITY OF SEATTLE, WASHINGTON**

**MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2022**

The final Official Statement dated June 28, 2022, for the above referenced Bonds has been revised to make two corrections.

- (i) In preparation for the Issue Date, an error was discovered in the method of calculating the Reserve Fund Requirement, which resulted in an error in the amount of that requirement described in the Official Statement. The following paragraph under the heading “Security for the Bonds—Reserve Fund and Reserve Fund Requirement—Method of Satisfying Reserve Requirement” reflects the corrected amount of the aggregate Reserve Fund Requirement:

As of the Issue Date of the Bonds, the aggregate Reserve Fund Requirement will be equal to \$165,549,983.79, which will be satisfied by the cash on deposit and the amount of the Policy Limit of the Surety Bond. In addition, a deposit to the Reserve Fund of \$5,538,805.54 will be made from proceeds of the Bonds on the Issue Date.

- (ii) The aggregate Debt Service Requirements previously included in the Official Statement inadvertently included bonds that had been defeased in 2021 and are no longer Outstanding Parity Bonds. In Table 13—Debt Service Requirements, the principal, interest, and total columns under the heading “Outstanding Parity Bonds” have been corrected, as reflected in the revised table on the following page.

**TABLE 13**  
**DEBT SERVICE REQUIREMENTS**

Year	Outstanding Parity Bonds <sup>(1)</sup>			The Bonds			Total Parity Bonds		
	Principal	Interest <sup>(2)</sup>	Total	Principal	Interest	Total	Principal	Interest <sup>(2)</sup>	Total
2022 <sup>(3)</sup>	\$ 123,290,000	\$ 112,432,592	\$ 235,722,592	\$ -	\$ -	\$ -	\$ 123,290,000	\$ 112,432,592	\$ 235,722,592
2023	109,495,000	105,789,226	215,284,226	18,180,000	12,456,225	30,636,225	127,675,000	118,245,451	245,920,451
2024	112,575,000	100,279,352	212,854,352	18,695,000	11,976,750	30,671,750	131,270,000	112,256,102	243,526,102
2025	101,865,000	94,601,098	196,466,098	19,635,000	11,042,000	30,677,000	121,500,000	105,643,098	227,143,098
2026	115,445,000	89,663,938	205,108,938	10,920,000	10,060,250	20,980,250	126,365,000	99,724,188	226,089,188
2027	94,565,000	84,111,457	178,676,457	12,400,000	9,514,250	21,914,250	106,965,000	93,625,707	200,590,707
2028	98,655,000	79,380,821	178,035,821	7,905,000	8,894,250	16,799,250	106,560,000	88,275,071	194,835,071
2029	93,385,000	74,998,180	168,383,180	8,295,000	8,499,000	16,794,000	101,680,000	83,497,180	185,177,180
2030	79,555,000	70,968,737	150,523,737	3,905,000	8,084,250	11,989,250	83,460,000	79,052,987	162,512,987
2031	82,800,000	67,293,424	150,093,424	4,100,000	7,889,000	11,989,000	86,900,000	75,182,424	162,082,424
2032	86,110,000	63,540,958	149,650,958	4,300,000	7,684,000	11,984,000	90,410,000	71,224,958	161,634,958
2033	89,525,000	59,679,571	149,204,571	4,520,000	7,469,000	11,989,000	94,045,000	67,148,571	161,193,571
2034	91,995,000	56,007,113	148,002,113	4,745,000	7,243,000	11,988,000	96,740,000	63,250,113	159,990,113
2035	96,010,000	52,058,557	148,068,557	4,980,000	7,005,750	11,985,750	100,990,000	59,064,307	160,054,307
2036	105,085,000	47,833,861	152,918,861	5,230,000	6,756,750	11,986,750	110,315,000	54,590,611	164,905,611
2037	95,610,000	43,325,850	138,935,850	5,490,000	6,495,250	11,985,250	101,100,000	49,821,100	150,921,100
2038	100,775,000	39,012,223	139,787,223	5,765,000	6,220,750	11,985,750	106,540,000	45,232,973	151,772,973
2039	104,010,000	34,628,134	138,638,134	6,055,000	5,932,500	11,987,500	110,065,000	40,560,634	150,625,634
2040	108,065,000	30,126,984	138,191,984	6,355,000	5,629,750	11,984,750	114,420,000	35,756,734	150,176,734
2041	98,280,000	25,840,746	124,120,746	6,675,000	5,312,000	11,987,000	104,955,000	31,152,746	136,107,746
2042	85,600,000	22,109,275	107,709,275	7,010,000	4,978,250	11,988,250	92,610,000	27,087,525	119,697,525
2043	89,160,000	18,558,858	107,718,858	7,360,000	4,627,750	11,987,750	96,520,000	23,186,608	119,706,608
2044	83,155,000	14,859,808	98,014,808	7,725,000	4,259,750	11,984,750	90,880,000	19,119,558	109,999,558
2045	77,450,000	11,394,500	88,844,500	8,115,000	3,873,500	11,988,500	85,565,000	15,268,000	100,833,000
2046	64,875,000	8,491,525	73,366,525	8,520,000	3,467,750	11,987,750	73,395,000	11,959,275	85,354,275
2047	54,215,000	5,757,175	59,972,175	8,945,000	3,041,750	11,986,750	63,160,000	8,798,925	71,958,925
2048	41,955,000	3,442,150	45,397,150	9,390,000	2,594,500	11,984,500	51,345,000	6,036,650	57,381,650
2049	28,180,000	1,922,350	30,102,350	9,860,000	2,125,000	11,985,000	38,040,000	4,047,350	42,087,350
2050	15,590,000	993,000	16,583,000	10,355,000	1,632,000	11,987,000	25,945,000	2,625,000	28,570,000
2051	9,235,000	369,400	9,604,400	10,870,000	1,114,250	11,984,250	20,105,000	1,483,650	21,588,650
2052	-	-	-	11,415,000	570,750	11,985,750	11,415,000	570,750	11,985,750
<b>Total</b>	<b>\$ 2,536,510,000</b>	<b>\$ 1,419,470,864</b>	<b>\$ 3,955,980,864</b>	<b>\$ 257,715,000</b>	<b>\$ 186,449,975</b>	<b>\$ 444,164,975</b>	<b>\$ 2,794,225,000</b>	<b>\$ 1,605,920,839</b>	<b>\$ 4,400,145,839</b>

(1) Excludes the Refunded Bonds.

(2) Reflects taxable rates on bonds issued as taxable bonds with a federal subsidy, but does not reflect the interest credit associated with those bonds. For a description of the effect of federal sequestration on these direct-pay tax credit bonds, see “Other Considerations Relative to the City—Federal Policy Risk and Other Federal Funding Considerations.” Includes candidates for potential cash defeasance that the Department is considering for later in 2022. See “Capital Requirements—Financing Plans.” Assumes interest rate of 4.00% on variable rate bonds, per the Department’s financial plan.

(3) Reflects full year of debt service.

## OFFICIAL STATEMENT

New Issue  
Book-Entry Only

Moody's Rating: Aa2

S&P Rating: AA

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

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

**\$257,715,000**

### THE CITY OF SEATTLE, WASHINGTON

### MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2022

DATED: DATE OF INITIAL DELIVERY

DUE: JULY 1 AS SHOWN ON PAGE i

The City of Seattle, Washington (the "City"), will issue its Municipal Light and Power Improvement and Refunding Revenue Bonds, 2022 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as bond owner and nominee for The Depository Trust Company, New York, New York ("DTC").

DTC will act as initial Securities Depository for the Bonds. Individual purchases of the Bonds will be made in Book-Entry Form, in denominations of \$5,000 or any integral multiple thereof within a maturity of the Bonds. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2023. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently U.S. Bank Trust Company, National Association), to the Securities Depository (DTC), which is obligated 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—Book-Entry Transfer System.

The Bonds are being issued (i) to finance certain capital improvements to and conservation programs for the City's municipal light and power generation, transmission, and distribution system (the "Light System"), (ii) to make a deposit to the Reserve Fund, if necessary, to satisfy the Reserve Fund Requirement, (iii) to refund certain obligations of the Light System, and (iv) to pay the administrative costs of issuing the Bonds and, if applicable, the costs of administering the refunding. See "Use of Proceeds."

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

The Bonds are issued as Parity Bonds and are a special limited obligation of the City payable from and secured solely by Gross Revenues of the Light System available after payment of Operating and Maintenance Expense ("Net Revenue") and by money in the Parity Bond Fund and the Reserve Fund. The pledge of Net Revenue to pay and secure the Parity Bonds constitutes a lien and charge upon Net Revenue prior and superior to all other charges whatsoever. The Bonds will be issued on parity with the Outstanding Parity Bonds and all Future Parity Bonds. Operating and Maintenance Expense includes the unconditional obligation of the City to make payments under certain power purchase contracts, as more fully described in "Power Resources and Cost of Power—Purchased Power Arrangements." See "Security for the Bonds."

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

The Bonds are offered 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 available for delivery at DTC's facilities in New York, New York, or delivered to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about July 13, 2022.

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

**Dated: June 28, 2022**

*The information within this Official Statement has been compiled from official and other sources considered reliable and, while not guaranteed as to accuracy, is believed by the City to be correct as of its date. The City makes no representation regarding the accuracy or completeness of the information in Appendix E—Book-Entry Transfer System, which has been obtained from DTC’s website, the form of opinion of Bond Counsel attached as Appendix B, or information provided under “Other Bond Information—Municipal Advisor” and “—Purchaser of the Bonds.” 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 Ordinance has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.*

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

*The information set forth in the Seattle City Light Department’s Audited Financial Statements that are included in Appendix C speaks only as of the date of the 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.*

*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.*

*CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2022 CUSIP Global Services. All rights reserved. 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. The City takes no 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

**\$257,715,000**

**THE CITY OF SEATTLE, WASHINGTON**

**MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2022**

### SERIAL BONDS

<u>Due July 1</u>	<u>Amounts</u>	<u>Coupons</u>	<u>Yields</u>	<u>Prices</u>	<u>CUSIP Numbers</u>
2023	\$ 18,180,000	5.00%	1.65%	103.198	812643 WX8
2024	18,695,000	5.00%	1.99%	105.776	812643 WY6
2025	19,635,000	5.00%	2.17%	108.087	812643 WZ3
2026	10,920,000	5.00%	2.25%	110.379	812643 XA7
2027	12,400,000	5.00%	2.34%	112.403	812643 XB5
2028	7,905,000	5.00%	2.51%	113.717	812643 XC3
2029	8,295,000	5.00%	2.63%	114.996	812643 XD1
2030	3,905,000	5.00%	2.78%	115.765	812643 XE9
2031	4,100,000	5.00%	2.88%	116.647	812643 XF6
2032	4,300,000	5.00%	2.91%	117.968	812643 XG4
2033	4,520,000	5.00%	3.10% <sup>(1)</sup>	116.182	812643 XH2
2034	4,745,000	5.00%	3.20% <sup>(1)</sup>	115.255	812643 XJ8
2035	4,980,000	5.00%	3.25% <sup>(1)</sup>	114.795	812643 XK5
2036	5,230,000	5.00%	3.30% <sup>(1)</sup>	114.338	812643 XL3
2037	5,490,000	5.00%	3.35% <sup>(1)</sup>	113.882	812643 XM1
2038	5,765,000	5.00%	3.38% <sup>(1)</sup>	113.609	812643 XN9
2039	6,055,000	5.00%	3.43% <sup>(1)</sup>	113.157	812643 XP4
2040	6,355,000	5.00%	3.47% <sup>(1)</sup>	112.797	812643 XQ2
2041	6,675,000	5.00%	3.52% <sup>(1)</sup>	112.349	812643 XR0
2042	7,010,000	5.00%	3.56% <sup>(1)</sup>	111.992	812643 XS8
2043	7,360,000	5.00%	3.58% <sup>(1)</sup>	111.813	812643 XT6
2044	7,725,000	5.00%	3.60% <sup>(1)</sup>	111.636	812643 XU3

### TERM BONDS

<u>Due July 1</u>	<u>Amounts</u>	<u>Coupons</u>	<u>Yields</u>	<u>Prices</u>	<u>CUSIP Numbers</u>
2047	\$ 25,580,000	5.00%	3.70% <sup>(1)</sup>	110.752	812643 XX7
2052	51,890,000	5.00%	3.80% <sup>(1)</sup>	109.877	812643 YC2

(1) Calculated to the July 1, 2032, par call date.

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

**MAYOR AND CITY COUNCIL**

Bruce A. Harrell	Mayor
<b>Council Member</b>	<b>Term Expiration</b>
Lisa Herbold	2023
Debora Juarez	2023
Andrew Lewis	2023
Tammy Morales	2023
Teresa Mosqueda	2025
Sara Nelson	2025
Alex Pedersen	2023
Kshama Sawant	2023
Dan Strauss	2023

**CITY ADMINISTRATION**

Glen M. Lee <sup>(1)</sup>	Director of Finance
Ann Davison	City Attorney

**SEATTLE CITY LIGHT DEPARTMENT**

Debra Smith	General Manager and Chief Executive Officer
Jen Chan	Chief of Staff
Michael Haynes	Assistant General Manager
James Baggs	Regulation and Market Development Officer
Kirsty Grainger	Chief Financial Officer
Michelle Vargo	Chief Operating Officer
Emeka Anyanwu	Energy Innovation and Resources Officer
DaVonna Johnson	People and Culture Officer
Craig Smith	Chief Customer Officer

**BOND COUNSEL AND DISCLOSURE 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 Trust Company, National Association)

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(1) On May 18, 2022, it was announced that Mr. Lee will be leaving the City in mid-2022 upon his confirmation of an appointment as the new Chief Financial Officer for the District of Columbia. Plans for his replacement are being developed as of the date of this Preliminary Official Statement.

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## OFFICIAL STATEMENT

**\$257,715,000**

**THE CITY OF SEATTLE, WASHINGTON**

**MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2022**

### INTRODUCTION

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), the Seattle City Light Department (the “Department”), and its municipal light and power generation, transmission, and distribution system (the “Light System”), in connection with the offering of \$257,715,000 aggregate principal amount of the City’s Municipal Light and Power Improvement and Refunding Revenue Bonds, 2022 (the “Bonds”). This Official Statement contains certain information related to this offering and sale concerning the City, the Bonds, the Light System, and the Department.

Appendix A to this Official Statement is a summary of the Bond Ordinance, as defined below under “Description of the Bonds—Authorization for the Bonds.” Appendix B includes the form of legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington (“Bond Counsel”). Appendix C contains the audited financial statements of the Department as of and for the fiscal year ended December 31, 2021 (the “2021 Audited 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 for book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in the Bond Ordinance (defined below).

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

*Some of the information presented reflects time periods affected by the COVID-19 pandemic, which began in early 2020 and is ongoing. Historical data may not necessarily predict near-term trends accurately. See more specific information set forth throughout this Official Statement and particularly under “Seattle City Light Department—COVID-19 Pandemic” and “Other Considerations—Global Health Emergency Risk and COVID-19 Pandemic.”*

*Certain forecast information provided in this Official Statement was prepared by the Department. 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*

### 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, 39.46, and 39.53 of the Revised Code of Washington (“RCW”), and the Seattle City Charter. The Bonds are issued pursuant to Ordinance 126481, passed on November 22, 2021, and Ordinance 125460, passed November 20, 2017, as amended by Ordinance 125987, passed on November 25, 2019 (together, the “Bond Ordinance”). A summary of the Bond Ordinance is attached to this Official Statement as Appendix A.

The New Money Ordinance delegates to the Director of the Finance Division of the City’s Department of Finance and Administrative Services (the “Director of Finance”) the authority to execute, on behalf of the City, a certificate of bid

award, a pricing certificate (the “Pricing Certificate”), and other documents (collectively, the “Bond Documents”) in accordance with the parameters set forth in the Bond Ordinance.

The New Money Ordinance authorizes the issuance of Parity Bonds in a maximum aggregate amount not to exceed \$375 million. The authorization under the New Money Ordinance expires December 31, 2024. The new-money portion of the Bonds is the first issuance under this authorization and is in the amount of \$210,240,000, leaving \$164,760,000 available under this authorization. See “Capital Requirements—Financing Plans.” In addition, the City has \$90,205,000 remaining under an original authorization of \$350,000,000 established under Ordinance 126221, passed by the City Council on November 23, 2020, and expiring December 31, 2023, and \$51,695,000 remaining under an original authorization of \$250,000,000 established under Ordinance 125987, passed by the City Council on November 25, 2019, and expiring December 31, 2022. The City currently has no plans to issue additional bonds under any of these ordinances.

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

The Bonds will be dated the date of the initial issuance and delivery (the “Issue Date”). The Bonds will mature July 1 in the years and amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2023, 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**

*Book-Entry Form.* The Bonds initially will be issued in Book-Entry Form and registered in the name of the Securities Depository. The Bonds so registered will be held fully immobilized in Book-Entry Form by the Securities Depository in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar, currently U.S. Bank Trust Company, National Association, in Seattle, Washington (or such other fiscal agent or agents as the State may from time to time designate), will have any responsibility or obligation to participants of the Securities Depository or the persons for whom they act as nominees with respect to the Bonds regarding the accuracy of any records maintained by the Securities Depository or its participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Registered Owners under the Bond Ordinance (except such notice as is required to be given by the Bond Registrar 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 utilizing the then-current Securities Depository, the Director of Finance may appoint a substitute Securities Depository. If the Securities Depository resigns from its functions as depository and no substitute Securities Depository can be obtained, or if the Director of Finance determines not to utilize a Securities Depository, then the Bonds will no longer be held in Book-Entry Form and ownership of the Bonds may be transferred only as provided in the Bond 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 maturity, 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**

The Bonds will be payable in lawful money of the United States of America on the dates and in the amounts as provided in the Bond Ordinance. Principal of and interest on the Bonds will be payable solely out of the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”). The Bonds are not general obligations of the City. 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,” in the case of each interest or principal payment date, as the Bond Registrar’s close of business on the 15th day of the month preceding that 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 or before July 1, 2032, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the Bonds maturing on and after July 1, 2033, prior to their stated maturity dates at any time on and after July 1, 2032, 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 Term Bonds maturing on July 1 in the years 2047 and 2052 must be redeemed, at a price equal to 100% of the principal amount to be redeemed, plus accrued interest, on July 1 in the years and Sinking Fund Requirements as follows:

<b>TERM BONDS</b>		<b>TERM BONDS</b>	
<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>
2045	\$ 8,115,000	2048	\$ 9,390,000
2046	8,520,000	2049	9,860,000
2047 <sup>(1)</sup>	8,945,000	2050	10,355,000
		2051	10,870,000
		2052 <sup>(1)</sup>	11,415,000

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(1) Maturity.

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) will 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 will be allocated to the remaining Sinking Fund Requirements for that Term 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 is to be redeemed, if the Bonds are 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 the Bonds are not then held in Book-Entry Form, the portion of such maturity to be redeemed will be selected by the Bond Registrar using such method of random selection as the Bond Registrar determines.

All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any 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 will be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same seniority, maturity, and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

## **Notice Redemption; Rescission of Notice**

*Notice of Redemption.* Notice of redemption of the Bonds while registered in the name of the Securities Depository or its nominee will be given in accordance with the Letter of Representations. The City must cause notice of any intended redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register on the Record Date, and that requirement will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any Bond. Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the notice is rescinded or 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 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 for purchase at any time at any price acceptable to the City plus accrued interest to the date of purchase.

## **Failure to Pay Bonds**

If any Bond is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay, solely from the Parity Bond Fund and the other sources pledged in the Bond Ordinance, interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond. See Appendix A—Summary of Bond Ordinance.

## **Refunding or Defeasance of Bonds**

The City may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source (i) to pay when due the principal of (including premium, if any) and interest on any Bond, or any portion thereof, included in a refunding or defeasance plan (the “Defeased Bonds”), (ii) to redeem and retire, release, refund, or defease the Defeased Bonds, and (iii) to pay the costs of such refunding or defeasance. If money and/or Government Obligations (defined below) maturing at a time or times and in an amount sufficient (together with known earned income from the investment thereof) to redeem and retire, release, refund, or defease the Defeased Bonds in accordance with their terms, is set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the “Trust Account”), then all right and interest of the Owners of the Defeased Bonds in the covenants of the Bond Ordinance and in the Net Revenue and the funds and accounts pledged to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter will cease and become void. Such Owners thereafter will have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. After establishing and fully funding such a Trust Account, the Defeased Bonds will be deemed to be no longer outstanding and the Director of Finance may then apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purpose. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner provided for the redemption of Bonds. See “—Notice of Redemption; Rescission of Notice.”

The term “Government Obligations” is defined in the Bond Ordinance to mean any government obligation as that term is defined in RCW 39.53.010. In the Pricing Certificate for the Bonds, 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.

### USE OF PROCEEDS

#### Purpose

The Bonds are being issued (i) to finance certain capital improvements to and conservation programs for the Light System, (ii) to make a deposit to the Reserve Fund to satisfy the Reserve Fund Requirement, (iii) to refund on a current basis certain obligations of the Light System (described below under “—Refunding Plan,” and (iv) to pay the administrative 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 and other available funds will be applied as follows:

<b>SOURCES OF FUNDS</b>	
Par Amount of Bonds	\$ 257,715,000.00
Reoffering Premium	27,726,802.70
Bond Fund Contribution	<u>1,270,250.00</u>
Total Sources of Funds	<u><u>\$ 286,712,052.70</u></u>
<b>USES OF FUNDS</b>	
Deposit to Project Fund	\$ 228,770,000.00
Deposit to Escrow Fund	51,262,168.45
Deposit to Reserve Fund	5,538,805.54
Payment of Costs of Issuance <sup>(1)</sup>	<u>1,141,078.71</u>
Total Uses of Funds	<u><u>\$ 286,712,052.70</u></u>

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

#### Refunding Plan

A portion of the proceeds of the Bonds will be used to carry out a current refunding of a portion of the City’s Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A (the “Refunded Bonds”), as shown below, to achieve debt service savings. The Refunded Bonds will be called on the date and at the redemption price shown in the table below.

### REFUNDED BONDS

*Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A, Dated 7/17/2012*

	<b>Maturity</b>	<b>Coupon</b>	<b>Par Amount</b>	<b>Call Date</b>	<b>Price</b>	<b>CUSIP</b>
Serial	6/1/2023	5.00%	\$ 16,100,000	8/12/2022	100	812643GR9
	6/1/2024	5.00%	16,920,000	8/12/2022	100	812643GS7
	6/1/2025	5.00%	<u>17,790,000</u>	8/12/2022	100	812643GT5
	Total		<u><u>\$ 50,810,000</u></u>			

The City will enter into a Refunding Trust Agreement with U.S. Bank Trust Company, National Association, as Refunding Trustee, upon the delivery of the Bonds, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the Bonds will be deposited with the

Refunding Trustee as money or invested in direct obligations of the United States of America (the “Escrow Securities”) that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds.

The money, Escrow Securities (if any), and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

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

## SECURITY FOR THE BONDS

### Outstanding Parity Bonds

The Bonds are being issued on a parity basis with the Outstanding Parity Bonds, which currently include 20 series of bonds issued since 2010. See “Department Financial Information—Debt Service Requirements.”

#### OUTSTANDING PARITY BONDS

Series	Original Par Amount	Outstanding Principal as of 6/17/2022
2010A	\$ 181,625,000	\$ 169,820,000
2010C	13,275,000	13,275,000
2011B	10,000,000	10,000,000
2012A <sup>(1)</sup>	293,280,000	102,505,000
2012C	43,000,000	43,000,000
2013	190,755,000	70,085,000
2014	265,210,000	166,665,000
2015A	171,850,000	131,905,000
2016A	31,870,000	31,870,000
2016B	116,875,000	84,390,000
2016C	160,815,000	139,095,000
2017C	385,530,000	367,460,000
2018A	263,755,000	245,845,000
2018C-1 <sup>(2)</sup>	49,245,000	44,885,000
2018C-2 <sup>(2)</sup>	49,245,000	44,885,000
2019A	210,540,000	200,350,000
2019B	140,275,000	95,570,000
2020A	198,305,000	195,895,000
2021A	259,795,000	259,795,000
2021B <sup>(2)</sup>	100,620,000	100,620,000
Total	<u>\$3,135,865,000</u>	<u>\$2,517,915,000</u>

(1) Includes the Refunded Bonds, which are being refunded with a portion of the proceeds of the Bonds.

(2) Issued as multimodal variable rate bonds.



## **Pledge of Revenue**

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

State law provides that the owner of a bond such as the Parity Bonds, the payment of which is pledged from a special fund, has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under State law, any bond owner may bring an action to compel a city to set aside and pay into the special fund, such as the Parity Bond Fund, the amount that a city is obligated to set aside and pay therein.

The Bond Ordinance defines “Net Revenue” for any period as Gross Revenues less Operating and Maintenance Expense. “Gross Revenues” include (i) all income, revenues, receipts, and profits derived by the City through the ownership and operation of the Light System, (ii) the proceeds received by the City directly or indirectly from the sale, lease, or other disposition of any of the properties, rights, or facilities of the Light System, (iii) Payment Agreement Receipts to the extent that such receipts are not offset by Payment Agreement Payments, and (iv) the investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Light System. Gross Revenues do not include (i) insurance proceeds compensating the City for the loss of a capital asset, (ii) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenues, (iii) investment income earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Internal Revenue Code of 1986, as amended (the “Code”), (iv) any gifts, grants, donations, or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations, or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenues under the Bond Ordinance, (v) the proceeds of any borrowing for capital improvements (or the refinancing thereof), and (vi) the proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues).

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

instruments) are permitted to be treated as Operating and Maintenance Expense. See “Power Resources and Cost of Power—Wholesale Energy Risk Management” and “Various Factors Affecting the Electric Utility Industry—Contingent Payment Obligations Unrelated to Debt Obligations.”

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

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

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

### **Priority Expenditure of Gross Revenue; Flow of Funds**

The City has covenanted in the Bond Ordinance that all Gross Revenues are to be deposited as received in the Light Fund and used for the following purposes only, in the following order of priority:

- (i) To pay the Operating and Maintenance Expense of the Light System;
- (ii) To make all payments into the Parity Bond Fund required to be made in order to pay the interest on and principal of all Parity Bonds, including all Parity Bond Sinking Fund Requirements and all net payments under Parity Payment Agreements, and to make all payments (if any) required to be made in respect of Parity Reimbursement Obligations, when due;
- (iii) To make all payments required to be made (if any) into the Reserve Fund necessary to satisfy the Reserve Fund Requirement, to make all payments (if any) required to be made under Section 15(c)(i)(B) into a special account within the Light Fund for the replacement of an Alternate Reserve Security as to which the City has received a notice of cancellation, and to pay any reimbursement obligations under any Alternate Reserve Security;
- (iv) To make all payments required to be made (if any) in respect of Intermediate Lien Reimbursement Obligations;
- (v) To make all payments into the Junior Lien Debt Service Fund required to be made in order to pay the interest on and principal of all Junior Lien Bonds, including all net payments under Junior Lien Payment Agreements and all Junior Lien Reimbursement Obligations, when due;
- (vi) To make all required payments into any revenue bond redemption fund 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 the Junior Lien Bonds; and
- (vii) Without priority, for any of the following purposes: to retire by redemption or purchase any outstanding revenue bonds or revenue obligations of the Light System; to make necessary additions, betterments, repairs, extensions, and replacements of the Light System; to pay City taxes or other payments in lieu of taxes payable from Gross Revenues; to make deposits to the Rate Stabilization Account; or for any other lawful Light System purpose.

See “—Parity Payment Agreements” and “—Subordinate Obligations” below.

### **Rate Covenant**

In the Bond Ordinance, the City has covenanted, among other things, to establish from time to time and maintain such rates for electric energy as will maintain the Light System in sound financial condition and provide sufficient revenues to pay all Operating and Maintenance Expense, to pay into the Parity Bond Fund the amounts that are required by the Bond Ordinance to be applied to the payment of the principal of and interest on the Parity Bonds (which term includes

Parity Payment Agreements, if any) until the Parity Bonds have been paid in full, and to pay all bonds, warrants, and indebtedness for which any revenues of the Light System have been pledged.

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

### **Reserve Fund and Reserve Fund Requirement**

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

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

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

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

*Reserve Fund Requirement.* Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements for each issue of Parity Bonds outstanding. The Bond Ordinance permits the City to establish the Reserve Fund Requirement (which may be \$0) for each issue of Parity Bonds, including the Bonds, and any Future Parity Bonds in connection with approving the sale of each such issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued pursuant to a common set of Bond Sale Terms are treated as a single “issue.”

The Pricing Certificate for the Bonds establishes the Reserve Fund Requirement for the Bonds as an amount equal to the additional amount necessary at the time of issuance to achieve an overall level of funding for the Reserve Fund that is equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund” for the Outstanding Parity Bonds. The incremental amount necessary to meet this requirement as to the Bonds will be calculated based on the debt service requirements for all Parity Bonds that are outstanding as of the Issue Date for the Bonds. Upon the expiration or termination of the Surety Bond, defined below (see “—Method of Satisfying Reserve Fund Requirement” and “—Information Regarding the Surety Bond” below), the Reserve Fund Requirement will be recalculated to exclude the debt service requirements of the multimodal variable rate 2018C-1, 2018C-2, and 2021B Bonds and any other issue of Future Parity Bonds that is excluded pursuant to the documents authorizing such Future Parity Bonds. See “Department Financial Information—Outstanding Variable Rate Parity Bonds.”

The City currently has an Alternate Reserve Security in the form of a surety bond (the “Surety Bond”) purchased from Financial Security Assurance, Inc. See “—Method of Satisfying the Reserve Fund Requirement” and “—Information Regarding the Surety Bond” below. Upon the expiration or termination of the Surety Bond (currently scheduled for August 1, 2029), the incremental Reserve Fund Requirements for the 2018C-1, 2018C-2, and 2021B Bonds, if outstanding at that time, will be reduced to \$0, resulting in a reduction in the aggregate Reserve Fund Requirement for all Parity Bonds secured by the Reserve Fund. Nonetheless, all Parity Bonds then outstanding (including any series of Parity Bonds for which the incremental Reserve Fund Requirement has been set at \$0, such as the Bonds)

will remain secured by the Reserve Fund, despite any resulting reduction in the overall amount of the Reserve Fund Requirement.

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

Under the Bond Ordinance, a surety bond qualifies as an Alternate Reserve Security for purposes of satisfying the Reserve Fund Requirement if the provider's ratings are in one of the top two rating categories at the time the policy is issued. See Appendix A—Summary of Bond Ordinance. The Bond Ordinance does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded. See “—Information Regarding the Surety Bond.”

The City currently uses an Alternate Reserve Security in the form of a Surety Bond with a policy limit (the “Policy Limit”) that is currently \$71,527,073 to satisfy a large proportion of the aggregate Reserve Fund Requirement. See “—Information Regarding the Surety Bond.” As of June 17, 2022, the remainder of the Reserve Fund Requirement is satisfied by \$96,096,503 in cash held in the Reserve Fund.

As of the Issue Date of the Bonds, the aggregate Reserve Fund Requirement will be equal to \$173,162,381, which will be satisfied by the cash already on deposit, the Policy Limit of the Surety Bond, and an additional deposit of \$5,538,806 from proceeds of the Bonds.

*Information Regarding the Surety Bond.* The Surety Bond was issued by FSA in 2005; FSA was acquired by Assured Guaranty Corporation in 2009. In 2009, Assured Guaranty Corporation changed the name of its FSA subsidiary to Assured Guaranty Municipal Corporation (“AGM”). The Surety Bond secures all Parity Bonds and Future Parity Bonds (including Parity Payment Agreements) and expires on August 1, 2029.

Whenever the aggregate Reserve Fund Requirement is reduced, the Policy Limit is reduced irrevocably by a like amount. See “—Method of Satisfying Reserve Fund Requirement.” The Policy Limit would also be reduced temporarily to the extent of any draw on the Surety Bond. In that event, the Policy Limit would be reinstated (up to the limit in effect prior to the draw) upon reimbursement in accordance with the terms of the City's reimbursement agreement with AGM. The City's reimbursement obligation is subordinate to the City's obligation to pay the principal of and interest on the Parity Bonds.

As of the date hereof, AGM is rated A1 and AA by Moody's Investors Service and S&P Global Ratings, respectively. AGM is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements, and other information with the U.S. Securities and Exchange Commission (“SEC”). Certain SEC filings of AGM are available on the company's website, [www.assuredguaranty.com](http://www.assuredguaranty.com). Such reports, proxy statements, and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

### **Future Parity Bonds**

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

- (i) No deficiency may then exist in the Parity Bond Fund or in any of the accounts therein; and
- (ii) Provision must be made to satisfy the Reserve Fund Requirement for all Parity Bonds then outstanding plus any additional amount required in connection with issuance and sale of the proposed Future Parity Bonds (if any) in accordance with the Bond Ordinance; and
- (iii) There must be on file with the City a Parity Certificate, as described below. However, if the proposed Future Parity Bonds (or any portion thereof) are to be issued for the purpose of refunding Outstanding Parity Bonds and the Annual Debt Service on the refunding portion of the proposed Future Parity Bonds is not more than \$5,000 greater than the Annual Debt Service on the Parity Bonds to be refunded thereby, then no Parity Certificate is required as to that portion issued for refunding purposes. If the requirements of the preceding sentence are not satisfied, Refunding Parity Bonds may alternatively be issued upon delivery of a Parity Certificate.

A Parity Certificate (if required) may be provided by either the Director of Finance or by a Professional Utility Consultant, as follows:

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

See Appendix A—Summary of Bond Ordinance.

The Bond Ordinance defines “Adjusted Net Revenue” as Net Revenue, less any deposits into the Rate Stabilization Account (“RSA”) and plus any withdrawals from the RSA. See the discussion of the RSA under “Security for the Bonds—Rate Stabilization Account,” “Department Financial Information—Financial Policies,” and Appendix A—Summary of Bond Ordinance.

In calculating Net Revenue, the Parity Certificate (whether prepared by the Director of Finance or by a Professional Utility Consultant) may include the tax credit subsidy payments the City expects to receive from the federal government in respect to the interest on any tax credit subsidy bonds. See also “Other Considerations Relative to the City—Federal Policy Risk and Other Federal Funding Considerations” for a discussion of the impact of sequestration on federal interest payments for certain Department bonds.

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

### **Other Covenants**

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

## **Amendments**

The Bond Ordinance reserves to the City the right to amend or supplement the Bond Ordinance, in certain cases without the consent of Owners of the Bonds, and in other cases upon the written consent of Owners of certain percentages of the Outstanding Parity Bonds.

*Springing Amendments.* Ordinance 125460 included certain springing amendments that went into effect on the “Parity Covenant Date,” defined in that ordinance as the earlier of the date on which the City has obtained consents of the requisite percentage of Registered Owners of the Parity Bonds then outstanding or the date on which all of certain Outstanding Parity Bonds issued between 2008 and 2015 have been redeemed or defeased. The Parity Covenant Date has occurred and those covenants are now in effect. Subsequently, the City in 2019 adopted an additional set of springing amendments that become effective on the “Second Parity Covenant Date,” as defined in Ordinance 125987, which amended Ordinance 125460, summarized below. Purchasers of the Bonds are deemed to have consented to these amendments, which are further described as follows.

The Second Parity Covenant Date will occur when the City has obtained the consent of the owners of at least 60% of the Outstanding Parity Bonds to these amendments. The owners of all Parity Bonds issued in 2018 or later, including the Bonds, have been deemed to have consented to this set of amendments:

- (i) Section 1: The definition of the term “Annual Debt Service” will be amended to take into account assumed debt service on variable rate bonds calculated using an assumption that the interest rate on those bonds is equal to the highest 12-month rolling average of the SIFMA Municipal Swap Index over the preceding five years. The current language requires use of a ten-year rolling average assumption using the same index.
- (ii) Section 17: The covenant to provide books and financial statements within 120 days of the end of each calendar year will be extended to 180 days.
- (iii) Section 24: Bondholder remedies in an Event of Default will be limited by provisions for a Bond Owners’ Trustee.

See Appendix A—Summary of Bond Ordinance.

## **Parity Payment Agreements**

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

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

## **Rate Stabilization Account**

The RSA has been created as a separate account in the Light Fund. The City may at any time deposit in the RSA Net Revenue and any other money received by the Light System and available to be used for this purpose. Thereafter, the City may withdraw any or all of the money from the RSA for inclusion in Adjusted Net Revenue for any applicable year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable

year for which the deposit or withdrawal will be included as Adjusted Net Revenue. As of December 31, 2021, the balance in the RSA is approximately \$99.4 million. See the discussion of the RSA and the City's current policies under "Department Financial Information—Financial Policies—Rate Stabilization Account" and Appendix A—Summary of Bond Ordinance.

### **Defaults and Remedies; No Acceleration**

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

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

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

Nothing contained in the Bond Ordinance will, in any event or under any circumstance, be deemed to authorize the acceleration of the maturity of principal on the Bonds, and the remedy of acceleration is expressly denied to the registered owners of the Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default. The City is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal of or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds. In addition, owners of variable rate Parity Bonds may have additional events of default, rights, and remedies under direct purchase or continuing covenant agreements that are not granted to Owners of the Bonds. See "Department Financial Information—Outstanding Variable Rate Parity Bonds."

Upon the Second Parity Covenant Date, bondholders' remedies will be limited as set forth in the springing amendments set forth in Section 24 of the Bond Ordinance. See "—Amendments—Springing Amendments" above and Appendix A—Summary of Bond Ordinance.

### **Subordinate Lien Obligations**

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

There are no currently outstanding Junior Lien Bonds. The City may in the future issue Future Junior Lien Bonds in accordance with a Junior Lien Additional Bonds Test, which would be junior to the Parity Bonds, but prior and superior to all other liens and charges. Junior Lien Bonds may not be subject to acceleration. See Appendix A—Summary of Bond Ordinance.

The Bond Ordinance authorizes the Director of Finance to designate some or all of the total par amount authorized as Junior Lien Bonds. In the Pricing Certificate, all of the Bonds have been designated as Parity Bonds and the City does not intend to issue any of the total par amount of bonds authorized by the Bond Ordinance as Junior Lien Bonds.

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

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

## SEATTLE CITY LIGHT DEPARTMENT

### **Introduction**

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

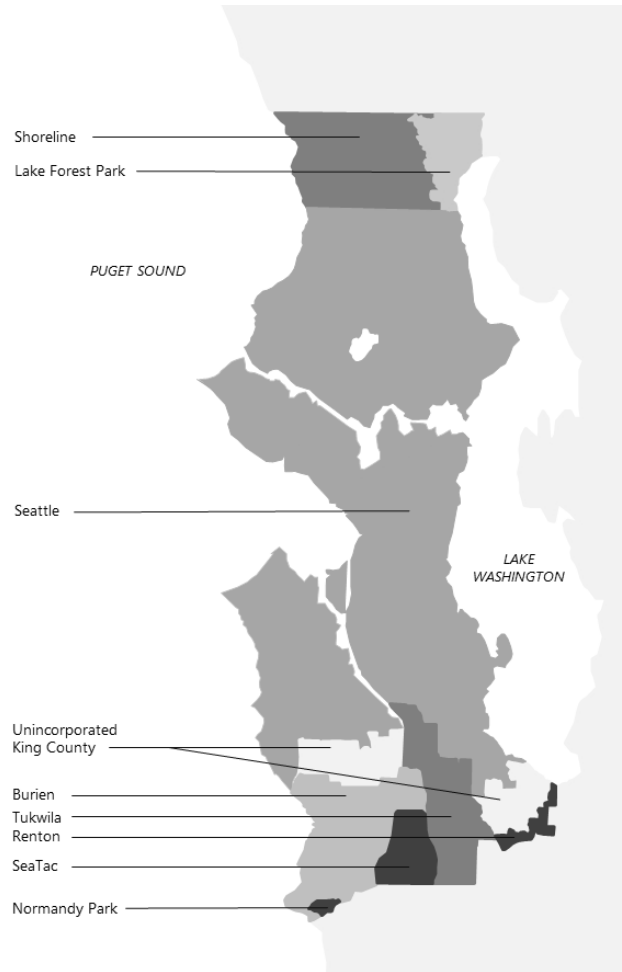
### **Service Area**

The Department's 131-square-mile service area, depicted in the map in Figure 1, consists of all territory within the City plus areas extending three to four miles north and south of the City limits. The growth of the Department's electric load since 1951 has resulted exclusively from development within the service area. The population of the Department's service area is approximately 941,000.

Sales to customers located outside the City's boundaries but within the service area represent approximately 15.2% of retail power sales. See "Department Financial Information—Retail Rates—Rates for Customers Outside the City of Seattle."



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



*Source: Seattle City Light Department, Financial Planning Unit*

### **Management**

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

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

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

The Department consists of seven operating units: Regulation and Market Development; Financial Services; Transmission and Distribution Operations, Generation, and Engineering; Environment, Land and Licensing; Energy Innovation and Resources; People and Culture; and Customer Care and Energy Solutions.

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

*Debra Smith, General Manager and Chief Executive Officer*, joined the Department in October 2018. Prior to joining the Department, she served as CEO and General Manager of the Central Lincoln People's Utility District, which provides electricity on Oregon's central coast, since 2013. She previously spent more than 17 years in various roles, including Assistant General Manager and Chief Financial Officer, at the Eugene Water and Electric Board, another public utility in Oregon. Ms. Smith holds a bachelor's degree in Finance from Arizona State University.

*Jen Chan, Chief of Staff*, joined the General Manager's Office in May 2019. Prior to joining the Department, she was with the City of Seattle for more than 20 years in multiple leadership roles on policy, programming, financial, and operational issues ranging from public safety, human services, public health, capital projects, public/private partnerships, and organizational change management. In addition, she served as the founding Associate Director of Operations for a start-up organization aimed at closing the academic achievement gap across the region. Ms. Chan holds a Bachelor of Arts from Tufts University and a master's degree in Social Work from the University of Washington.

*Michael Haynes, P.E., Assistant General Manager*, was appointed to this position in June 2021 and has responsibility for all utility environment, generation, and technical services functions.. He joined the Department in 2000 and previously held the titles of Chief Operating Officer, Power Supply Officer, Energy Generation Operations and Engineering Officer, and Director of Power Production. He has an extensive background in hydroelectric power generation and engineering. Prior to joining the Department, he served in program management and engineering roles at HDR, Inc. and Puget Sound Energy. Mr. Haynes holds a bachelor's degree in Mechanical Engineering from Seattle University.

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

*Kirsty Grainger, Chief Financial Officer*, has been with the Department since 2007, serving in various roles in Corporate Performance and Finance. Before joining the Department, she worked at Puget Sound Energy and at pharmaceutical company Eli Lilly. Ms. Grainger holds a bachelor's degree in Mathematics from Whitman College and master's degree in Engineering-Economic Systems and Operations Research (now Management Science and Engineering) from Stanford University.

*Michelle Vargo, Chief Operating Officer*, was appointed to this position in June 2021 and has responsibility for all Transmission and Distribution Operations and the System Operations Center. She has been with the utility since 2013 and previously held the titles of Civil, Structural, and Mechanical Engineering Manager, Interim Power Production Director, Network, Substations, and Technical Services Director, and Deputy Chief Operating Officer. She is currently the executive cosponsor of the Department's Service to Bill Program. Prior to joining the Department, she worked for five years with an international cryogenics and industrial gases company as the LNG Technology and Market Development Manager and Midwest Account Manager, and various Engineering Officer positions in the United States Army, with two tours to Operations Iraqi Freedom. Ms. Vargo is a graduate of the United States Military Academy with a bachelor's degree in Civil Engineering and earned a Master of Business Administration from the University of Chicago.

*Emeka Anyanwu, Energy Innovation and Resources Officer*, joined the Department in 2018. He assumed his current role as part of the Department’s reorganization in April 2019, after previously serving as Engineering and Technology Innovation Officer. Prior to joining the Department, he spent 16 years at Kansas City Power & Light Company in various roles in leadership and transmission and distribution operations. Mr. Anyanwu has a B.S. in Electrical Engineering from Iowa State University and a Master of Business Administration from Rockhurst University

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

*Craig Smith, Chief Customer Officer*, joined the Department in 2014 as Conservation Resources Director. He has more than 40 years of experience with the electric utility industry, including serving three years as the CEO of Richard Heath and Associates and six years as Assistant General Manager of Snohomish County Public Utility District. Mr. Smith received a bachelor’s degree in Urban Planning from Antioch College.

### **Department Employment and Labor Relations**

As of February 2022, the Department had approximately 1,800 authorized full-time equivalent positions. Department employees participate in the City’s pension plan and other post-employment retirement benefits. See “The City of Seattle—Pension Plans” and “—Other Post-Employment Benefits,” and Appendix C—2021 Audited Financial Statements of the Department—Notes 13 and 14.

State law requires municipal agencies to bargain in good faith with the recognized bargaining agents. Approximately 84% of the Department’s regular full-time employees are represented by labor unions. Most of the Department’s 15 labor unions are part of the Coalition of City Unions (the “Coalition”).

The collective bargaining agreement with the IBEW Local 77 bargaining unit that is specific to the Department has been successfully negotiated and is now a closed contract through January 22, 2023. The collective bargaining agreement with the IBEW Local 77 Power Marketers bargaining unit that is also specific to the Department expired on December 31, 2020, and was opened for the purposes of negotiations, which remain ongoing. The collective bargaining agreements for the Coalition and AFSCME, the exclusive bargaining agent for the Department’s managers, strategic advisors, and some supervisors, have also been successfully negotiated and are now closed through December 31, 2022. The Department’s non-IBEW Local 77 union contracts are negotiated City-wide through the Seattle Department of Human Resources. See “The City of Seattle—Labor Relations.”

Currently, 25% of the Department’s workforce is eligible to retire. The Department currently has workforce development programs in place to reduce its attrition risk and retain its current employees. The highest retirement risk is in the engineering staff, followed by skilled trades. The Department currently maintains a program of 35 college student interns. The Department operates its own apprenticeship program to ensure that it has high voltage workers available to meet the Department’s needs. Currently 80% of the existing skilled trade workers were trained through the Department’s apprenticeship program.

In 2014, the Department began a proactive plan to mitigate the high percentage of employees who were reaching retirement eligibility. Over the last seven years, the Department has employed a robust training and succession planning program to prepare the existing workforce for this change. For the previous five years, the Department has maintained an annual 39% internal promotion rate on its hiring processes. This has allowed the Department to mitigate the changes in its workforce while continuing to meet its business needs.

### **COVID-19 Pandemic**

On February 29, 2020, State Governor proclaimed a State of Emergency in response to the COVID-19 outbreak and confirmed person-to-person spread.

On March 9, 2020, the Mayor of the City issued Executive Order 2020-03, directing the Department, for the duration of the emergency, to:

- (i) allow extended payment arrangements for residential and commercial customers who cannot pay their bills on time;
- (ii) waive the current 1% late fee on past due balances;
- (iii) discontinue shut-off due to non-payment for customers who establish payment plans; and
- (iv) expedite enrollment of all qualifying low-income households into the City's Utility Discount Program ("UDP").

This Executive Order expired on April 15, 2022.

The Department experienced a sharp increase in overdue receivables at the beginning of the pandemic. Between January 2020 and May 2020, overdue receivables grew by approximately \$20 million. Since then, receivables have continued to increase. As of May 2022, approximately 60,000 commercial and residential customers (12%) have balances more than 30 days past due. See "Department Financial Information—Billing and Collection Processes." The increase in receivables was accounted for in the Allowance for Doubtful Accounts and included as part of expense for 2021 in the Department's audited financial statements. Reductions in 2021 spending largely mitigated the impact of the foregone revenue. With the expiration of Executive Order 2020-3, the Department will resume its full collections process, including disconnects, in August 2022.

The COVID-19 pandemic is ongoing, and the duration and severity of each outbreak and the economic and other actions that may be taken by governmental authorities to contain or treat its impact remain uncertain. Reopening efforts implemented at any time may be reversed whenever conditions warrant. Notwithstanding the foregoing, the COVID-19 pandemic has not affected the Department's ability to pay debt service on its outstanding obligations, and the Department does not currently expect that the pandemic will affect its ability to pay future debt service on its outstanding obligations.

### **Strategic Plan**

The City Council adopted Resolution 32007 approving the 2022-2026 Strategic Plan on July 12, 2021. The original planning timeframe was 2021-2026 but was shortened to five years when the Department postponed finalizing the plan due to the COVID 19 pandemic. The updated plan builds on previous plans and identifies five business strategies: (i) Improve the Customer Experience; (ii) Create Our Energy Future; (iii) Develop Workforce and Organizational Agility; (iv) Ensure Future Financial Stewardship and Affordability; and (v) We Power Seattle (providing customers with affordable, reliable, and environmentally responsible energy services). The 2022-2026 Strategic Plan calls for rate increases averaging 3.5% per year during this period. In 2022, the Department returned to aligning updates to the Strategic Plan with the City's biennial budget process, and recently finalized an update to the Strategic Plan for years 2023-2028. The plan was transmitted to City Council on May 25, 2022, and includes average annual rate increases of 3.5% during the 2023-2028 period.

### **Enterprise Risk and Emergency Response**

The Department evaluates and monitors all strategic risks at the enterprise level, including:

**EMERGENCY RESPONSE.** The Department has an active Emergency Management Program that meets Federal Emergency Management Agency ("FEMA") standards and conducts semi-annual exercises and testing of its emergency response program. The Department's Continuity of Operations Plan defines the Department's program to prepare for and respond to an emergency. It establishes a response organization structure (consistent with the National Incident Management System and Incident Command System structure) designed to enhance coordination with other agencies and improve outage restoration responses. An Incident Management Team, comprised of approximately 200 trained management and staff members, can be activated during any increased readiness mode and serves the function of managing the Department's emergency response activities. The Incident Management Team is handling COVID-19-related issues for the Department during the response and recovery periods of the pandemic.

**SEISMIC RISKS.** Due to the risk of seismic activity in the Puget Sound region and the age of portions of the utility infrastructure, the Department maintains a seismic hazard assessment program for substations and

facilities consistent with requirements identified in documents and standards such as the International Building Code. As upgrades and/or improvements are made to these substations and facilities, appropriate seismic mitigation features are incorporated into the infrastructure. The seismic hazard assessment also includes a method for establishing priorities within the Department's service territory beginning with control centers, substations, and service centers. Similar attention is applied to the generation facilities as part of ongoing Federal Energy Regulatory Commission ("FERC") licensing, inspections, and reporting obligations. Although the Department is making incremental increases to improve the seismic resiliency of the utility, interdependency issues between the Department and other utilities have been largely unaddressed. The Seattle Public Utilities ("SPU") water and wastewater divisions, for example, rely on electric power for their operations, and contingency plans are needed for scenarios when power is not delivered to critical facilities. Wireless communication also partially relies on the Department's towers, which may be compromised due to landslides. There is a need for leadership and further discussion between these and other lifeline partners to better understand vulnerabilities and preparedness related to earthquake hazards. In addition, more needs to be done between the City and the various local and regional agencies to coordinate pre-event systems planning

**CYBER SECURITY.** Cyber attacks continue to become more sophisticated and are increasingly capable of impacting control systems and components. The Department, working in conjunction with the Seattle Information Technology Department ("Seattle IT"), has instituted a program that includes processes, training, and controls to maintain the reliability of its systems and protect against cyber threats as well as mitigate intrusions and plan for business continuity via data recovery. The Department leverages relationships with numerous local, State, and Federal organizations to maintain awareness of cyber threats, collaborate on mitigation best practices, and protect its systems and services. The City also maintains insurance with coverage for cyber security events. The policy covers all City departments, including the Department. See "The City of Seattle—Emergency Management and Preparedness—Cyber Security."

Work plans specific to the Department are developed to address issues and recommendations to support the cyber security program. The Department's program to protect critical infrastructure also conforms to North American Electric Reliability Corporation ("NERC") Critical Infrastructure Protection standards. FERC/NERC standards regularly evolve and change, with Critical Infrastructure Protection standard requirements some of the most dynamic. The Department has established structured and coordinated processes to ensure Department compliance with all current and evolving standard obligations, even as new infrastructure, systems, or contractual obligations are added. See "Transmission and Distribution—Federal Regulations."

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

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

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

## POWER RESOURCES AND COST OF POWER

### Overview of Resources

The Department has three major power sources: the Boundary Hydroelectric Project (the “Boundary Project”), the Skagit Hydroelectric Project, which includes the Ross, Diablo and Gorge hydroelectric plants (the “Skagit Project”), and a long-term contract with the Bonneville Power Administration (“BPA”). Together, these three sources provide approximately 101% of the energy needed to meet the Department’s retail demand under average water conditions. Under firm water conditions, the Department’s owned and contracted resources are sufficient to meet approximately 97.5% of retail sales on an annual basis. Firm water conditions are defined as the lowest water conditions observed for 12 consecutive months during the period 1929 to 2008. The firm period for the Boundary Project and federal dams remarketed by BPA is 1936-1937; the firm period for the Skagit Project is 1943-1944. The Boundary Project and the Skagit Project together include four large hydroelectric facilities and, combined with three small hydroelectric facilities (the Newhalem Creek Hydroelectric Project (the “Newhalem Project”), the Cedar Falls Project, and the South Fork Tolt River Hydroelectric Project (the “South Fork Tolt Project”)), generated approximately 6.0 million megawatt hours (“MWh”) of electrical energy in 2021, which was about 45% of the Department’s total resources. Like most non-federal hydroelectric projects in the U.S., all of the Department’s hydroelectric plants except the Cedar Falls Project are licensed by FERC. See Table 1—Owned and Purchased Power Resources for 2022 and “—Department-Owned Resources—Small Hydro-Cedar Falls Project.” Output from the Department’s hydroelectric plants can vary significantly from year to year due to the variability in water conditions.

The Department and 15 other public and investor-owned utilities in the Pacific Northwest have agreed to coordinate the operation of their power generation systems through the Pacific Northwest Coordination Agreement (the “Coordination Agreement”), in order to maximize the firm capability and reliability of the coordinated system. The Coordination Agreement went into effect in 1965 and terminates in 2024. Though members are considering whether to extend the Coordination Agreement, no decisions have been made and no negotiations are currently underway.

On April 1, 2020, the Department entered the California Independent System Operator’s (“CAISO”) Western Energy Imbalance Market (“EIM”), a real-time wholesale energy trading market that supports integration of renewable resources by enabling participants to buy and sell imbalance energy in response to changes in supply and demand. The Department and the other EIM participants provide load and resource information to CAISO’s EIM platform, which automatically finds lower-priced resources to meet demand while managing congestion on transmission lines to maintain grid reliability. It will then dispatch all resources to serve all load at the lowest price, given the supply resources and available transmission.

Table 1 lists the Department’s owned and purchased power resources as of March 30, 2022, and gives estimates of output under firm and average water conditions based on historical data. Table 2 provides actual output for power resources, including exchanges and market sales and purchases, for the past five years. Table 3 provides actual payments by the Department for purchased resources. The Department does not assign individual capital or debt service allocations to Department-owned resources and, therefore, does not calculate a comprehensive cost of power for each resource. See “—Wholesale Market Sales and Purchases” for a discussion of the 2022 water year and market prices.

**TABLE 1**  
**OWNED AND PURCHASED POWER RESOURCES FOR 2022**  
**(AS OF MARCH 2022)**

	<b>Nameplate Capability (MW)</b>	<b>Energy Available Under Firm Water Conditions (MWh)<sup>(1)</sup></b>	<b>Energy Available Under Average Water Conditions (MWh)<sup>(2)</sup></b>	<b>Year FERC License Expires</b>	<b>Year Contract Expires</b>
<b>Department-Owned Resources</b>					
Boundary Project <sup>(3)</sup>	1,118	2,674,340	3,175,343	2055	N/A
Skagit Project					
Gorge	207	698,909	934,072	2025	N/A
Diablo	180	583,621	804,992	2025	N/A
Ross	450	556,354	760,795	2025	N/A
Small Hydro Projects <sup>(4)</sup>	48	149,962	124,762	Varies	N/A
<b>Department's Share of Purchased Resources</b>					
BPA Block <sup>(5)</sup>		3,774,290	3,774,290	N/A	2028
Priest Rapids	6	16,552	21,570	2052	2052
CBH <sup>(6)</sup>	64	237,755	245,099	2030/2032	2022/2026
High Ross <sup>(7)</sup>	72	310,222	310,272	N/A	2066
Lucky Peak <sup>(8)</sup>	113	N/A	N/A	2030	2038
Small Renewables <sup>(9)</sup>	20	N/A	96,360	N/A	Varies

- (1) Firm water conditions represent the lowest sequence of stream flows experienced in the Pacific Northwest over a historical period of record (1929-2008). The firm energy capability of hydroelectric resources is the amount of electrical energy produced under low water conditions, current operating constraints, generation technology, and availability. Actual water conditions would be expected to be better than firm water conditions about 95% of the time.
- (2) Figures in this column represent the average historical amount of electrical energy that would be produced over all of the water conditions in the period 1929-2008.
- (3) Amounts are net of the 48 megawatts (“MW”) obligated to Public Utility District No. 1 of Pend Oreille County (“Pend Oreille PUD”) under contract between the Department and Pend Oreille PUD. See “—Department-Owned Resources—Boundary Project.”
- (4) Includes the Newhalem Project (FERC license expires in 2027), the Cedar Falls Project (not subject to FERC licensing requirements), and the South Fork Tolt Project (FERC license expires in 2029).
- (5) The Department does not own a fixed percentage of nameplate capacity. See “—Purchased Power Arrangements—Bonneville Power Administration.” Since October 1, 2017, the Department’s long-term contract power purchase from BPA has been only the Block product, which provides a fixed amount of power that varies each month. The purchase is the largest in the winter when the Department’s retail requirements are highest.
- (6) Columbia Basin Hydropower (“CBH”) (formerly Grand Coulee Project Hydroelectric Authority), the Department’s 50% share of installed capacity of five hydroelectric plants, has varying FERC license expiration dates. The plants are part of an irrigation project and do not provide capacity in the Department’s winter peak period. The first contract expires on September 1, 2022, for the Eltopia Branch Canal Project, which accounts for approximately 2% of the Department’s purchase from all five CBH projects.
- (7) The Department’s contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant for each week, which varies between 50 MW and 150 MW depending on water conditions.
- (8) The project is part of an irrigation project and does not provide capacity in the Department’s winter peak period. In 2021, the Department has resold the output and is receiving fixed quantities of power in April, May, June, and August.
- (9) Small renewables include Columbia Ridge Landfill Gas and King County West Point Treatment Plant. See “—Purchased Power Arrangements—Small Renewables.” Average output is based on historic performance under each contract.

Sources: *Seattle City Light Department*

**TABLE 2**  
**HISTORICAL ENERGY RESOURCES**  
(MWh)

	2017	2018	2019	2020	2021
<b>Department-Owned Generation</b>					
Boundary Project	3,825,302	4,008,235	3,307,074	3,576,351	3,211,443
Skagit Hydroelectric Project					
Gorge	998,676	947,000	832,815	958,211	988,738
Diablo	692,828	626,127	610,968	703,719	847,067
Ross	741,493	690,006	524,516	655,524	823,907
Cedar Falls/Newhalem	83,461	89,250	41,376	81,065	83,424
South Fork Tolt	54,803	58,518	29,624	42,306	54,658
Subtotal	6,396,563	6,419,136	5,346,373	6,017,176	6,009,237
<b>Energy Purchases</b>					
Bonneville	5,482,904	4,435,838	4,388,973	4,299,280	4,119,204
Priest Rapids	24,532	25,732	19,866	25,596	23,601
CBH	228,789	241,236	219,094	258,498	265,850
High Ross	313,973	310,700	307,599	309,960	315,101
Lucky Peak	463,403	347,669	364,089	254,619	221,981
Stateline Wind Project <sup>(1)</sup>	330,161	342,873	338,452	380,795	360,191
Columbia Ridge	96,096	102,617	101,615	102,421	92,937
Seasonal and Other Exchange <sup>(2)</sup>	581,909	547,638	503,881	541,909	546,914
Wholesale Market Purchases <sup>(3)</sup>	904,362	1,167,441	1,028,182	633,111	1,281,656
Subtotal	8,426,129	7,521,744	7,271,751	6,806,189	7,227,435
Total Department Resources	14,822,692	13,940,880	12,618,124	12,823,365	13,236,672
<b>Minus Offsetting Energy Sales</b>					
Firm Energy Sales and Marketing Losses <sup>(4)</sup>	328,666	344,435	387,615	505,727	695,102
Seasonal and Other Exchange <sup>(2)</sup>	825,753	593,928	570,672	497,728	469,277
Wholesale Market Sales <sup>(5)</sup>	3,695,173	3,329,288	2,123,263	2,605,592	2,543,488
<b>Total Net Energy Resources</b>	9,973,100	9,673,229	9,536,574	9,214,318	9,528,805

(1) The Department’s power purchase agreement for output from the Stateline Wind Project (“Stateline”) expired on December 31, 2021.

(2) Includes exchange contracts with Grant County Public Utility District (“Grant PUD”), the Lucky Peak Project, Northern California Power Agency (“NCPA”), which expired on April 30, 2018, and Sacramento Municipal Utility District (“SMUD”), which expired on July 31, 2017. See “—Purchased Power Arrangements.”

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

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

(5) Wholesale market sales are highly dependent on regional hydro flows. Regional hydro flows measured at The Dalles Dam on the Columbia River between January and July 2021 were 96% of the average for the overall period 1949 to 2022, and 96% of average in 2016, 131% of average in 2017, 114% of average in 2018, 88% of average in 2019, and 97% of average in 2020.

Source: *Seattle City Light Department, Accounting Division*



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

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
BPA <sup>(1)</sup>	\$ 164,802	\$ 161,382	\$ 159,519	\$ 157,658	\$ 151,190
Priest Rapids	1,913	1,478	1,793	1,179	1,100
CBH	6,830	6,723	6,012	7,882	8,008
High Ross	13,445	13,456	13,467	13,470	13,126
Lucky Peak	9,345	7,818	8,418	6,711	6,618
Stateline Wind Project <sup>(2)</sup>	22,077	23,892	22,658	26,293	25,198
Columbia Ridge - Biogas	6,723	7,554	7,905	7,887	7,237
SMUD - Biomass <sup>(3)</sup>	916	-	-	-	-
Seasonal and Other Exchange <sup>(3)(4)</sup>	6,370	7,753	4,506	9,388	27,518
<b>Total</b>	<b>\$ 232,421</b>	<b>\$ 230,056</b>	<b>\$ 224,278</b>	<b>\$ 230,468</b>	<b>\$ 239,995</b>
Contracted Resources (MWh)	7,521,767	6,354,303	6,243,569	6,173,078	5,945,779
Average Unit Cost (Dollars/MWh) <sup>(5)</sup>	\$ 32.57	\$ 38.28	\$ 39.07	\$ 39.26	\$ 39.36

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

(2) The Department's power purchase agreement for output from Stateline expired on December 31, 2021.

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

(4) Includes exchange contracts with Grant PUD, the Lucky Peak Project, NCPA, which expired on April 30, 2018, and SMUD, which expired on July 31, 2017. The exchange with Grant PUD delivers the output of some of the CBH projects, which is different and separate from the Priest Rapids Project.

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

Source: Seattle City Light Department, Accounting Division

### Department-Owned Resources

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

*Dam Safety.* The Department's Dam Safety Program manages the FERC and State regulatory compliance program for protecting life, health, property, and the environment of the Department's regulated projects by implementing and coordinating FERC's Owners Dam Safety Program, including the physical security program, cyber security program, public safety program, changes to the installed capacities, and development of a web-based asset management and compliance tool. The Chief Dam Safety Engineer/Dam Safety Program Manager responsible for the Owners Dam Safety Program reports to the Assistant General Manager. FERC annually issues a letter, signed by the Chief Dam Safety Engineer, reminding the Department of the Department's obligations and responsibilities as the FERC license holder (the "licensee") for the Department's hydropower facilities. The FERC annual letter informs the Department about changes in the dam safety program and its responsibilities to ensure that the licensed hydroelectric projects are operated and maintained in compliance with FERC Regulations and the terms and conditions of the Department licenses.

The Department operates, manages, and maintain its dams in a safe manner as required by FERC and the Department's Standard Operating Procedure for the Owners Dam Safety Program ("SOP I-604"). As required by FERC, the Department SOP I-604 designates a Chief Dam Safety Engineer to oversee the implementation of the dam safety program as annually reviewed by and signed by Department executive team members and the Chief Dam Safety Engineer.

FERC's overhaul of the Part 12 dam safety regulations through a Notice of Proposed Rulemaking was finalized on December 16, 2021 as Docket No. RM 20-9, Order No. 880. Specifically, the final rule incorporates two tiers of project safety inspections by independent consultants; codifies existing guidance requiring certain licensees to develop

owners' dam safety programs and public safety plans; updates existing regulations related to public safety incident reporting; and makes various minor revisions. The final rule is in effect by April 2022 and adds four new chapters to the FERC Engineering Guidelines for the Evaluation of Hydropower Projects, including Chapter 15—Supporting Technical Information Document, Chapter 16—Part 12D Program, Chapter 17—Potential Failure Modes Analysis, and Chapter 18—Level 2 Risk Analysis.

The final rule's two-tier inspection structure maintains the existing requirement that independent consultant safety inspections be conducted every five years. However, the required scope of these inspections will alternate between a new, more in-depth comprehensive assessment and a periodic inspection. The comprehensive assessment will include an in-depth assessment of every aspect of a project, including a detailed review of the project's design, engineering analyses, and construction history; an evaluation of spillway adequacy; and a risk analysis. A periodic inspection focuses on the performance of the project over the previous five years, and includes a field inspection, a review of project operations, an in-depth review of monitoring data trends and behavior, and an evaluation of whether any potential failure modes are occurring.

The Department regularly inspects all of its projects to ensure safety, and has current Emergency Action Plans, Surveillance and Monitoring Plans, Physical and Cyber Asset Security Plans, ongoing operations and maintenance ("O&M") and CIP projects, Public Safety Plans, and other common requirements, primarily from Title 18, Parts 8 and 12, of the Code of Federal Regulations, for all of its dams. FERC requirements apply at the Boundary, Skagit, South Fork Tolt, and Newhalem Creek Projects. The Department anticipates increases in O&M and CIP work during the 2022-2027 timeframe for project improvements resulting from recent five-year independent consultant inspection reviews and Level 2 risk assessments for the Boundary, Skagit, and South Fork Tolt Projects as informed by recent seismic hazard assessments, focused spillway inspections, detailed gate inspections and analyses, updated Supervisory Control and Data Acquisition systems, and public safety changes. The Department also anticipates further work or license requirements resulting from pending 2022 FERC audits, including risk perspectives for evaluating spillway adequacy to include the potential for mis-operations of, failure to operate, blockage of, and debilitating damage to a spillway, as well as the resulting impacts related to reservoir levels; appurtenant structures (outlet works, power plants); organizational structures; and Owners Dam Safety Program independent external consultant audit.

*The Boundary Project.* The Boundary Project is located on the Pend Oreille River in northeastern Washington near the British Columbia and Idaho borders. The plant was placed in service in 1967 and is a significant contributor to the Department's ability to meet its load requirements. The Boundary Project has a current net nameplate capability of 1,118 MW and expected net power output of 3.4 million MWh under average water conditions. The Department delivers up to 68 MW of energy to Pend Oreille PUD. In September 2016, FERC granted the Department's request to amend the FERC license and revise the annual charges due to recent efficiency upgrades to two of the generating units, resulting in an authorized installed capacity of 992 MW. The Department recently submitted an amendment to the license to revise the June 2019 Spill Prevention Control and Counter Measure Plan to include additional information on spare transformers. The Boundary Project provides between 20% and 30% of the Department's total resource requirements and supplied approximately 24% of the Department's total resources in 2021.

The FERC license for the Boundary Project, which was received in 2013, has a 42-year term and incorporates the terms and conditions of a settlement filed by the Department in 2010 (the "Settlement") among the Department, multiple State and federal agencies, a tribal government, several environmental groups, and Pend Oreille PUD. As part of the Settlement, Pend Oreille PUD surrendered its license for the Sullivan Lake Hydroelectric Project to FERC, and the project has been decommissioned. The 2010 Settlement and 2013 license conditions made no material changes to previous operations at the Boundary Project, and operations remain consistent with ensuring the Department's ability to generate electrical energy from the Boundary Project in a manner that follows the Department's need to provide retail service to customers. Pursuant to the Settlement and FERC license conditions, the Department is undertaking various protection, mitigation, and enhancement measures at the Boundary Project and in Sullivan Creek, the primary tributary to the Boundary Reservoir, to provide substantial natural resource benefits. The levelized cost of these measures over the license term is estimated to be less than \$5/MWh in 2020 dollars; the total estimated cost in 2021 dollars for the remainder of the license period is \$365 million. A portion of the Department's CIP includes environmental and other improvements to the Boundary Project that meet the requirements of the Settlement and FERC license. See "Capital Requirements."

The Settlement extends the Department’s historical commitment to deliver energy to Pend Oreille PUD at the Boundary Project’s production cost through the term of the FERC license. In February 2021, the Department and Pend Oreille PUD agreed to modify the delivery for the period 2021 to 2029, at which time they will revisit the delivery. The Settlement and FERC license terms also preserve the Department’s operational flexibility at the Boundary Project, including the ability to ramp up or down quickly within the hour in immediate response to customer demand and to assist in regional management of variable renewable energy resources.

In September 2020, the City Council approved an agreement between the Department and Pend Oreille County on impact payments related to the Boundary Project for 2020-2029 that total \$29.8 million. The Department paid a total of \$19 million over a ten-year period that began in 2010, to Pend Oreille County and other affected local governments and school districts. Pend Oreille County supported FERC’s issuance of the license consistent with the Settlement.

As authorized in the High Ross Agreement (described below under “—Skagit Project”), British Columbia Hydro (“B.C. Hydro”) increased the reservoir elevation of its Seven Mile Project on the Pend Oreille River in 1988, thereby extending its reservoir across the international border to the tail-race of the Boundary Project. A contract between the City and B.C. Hydro was signed in 1989 to provide energy to the Department in the amount of the encroachment of Seven Mile Reservoir on the Boundary Project concurrent with the High Ross Agreement. In 2021, this encroachment amounted to 0.33% of the Boundary Project’s total electrical energy output.

The Department will conduct the FERC-required five-year dam safety inspections at the Boundary Project and the Potential Failure Modes Analysis and semi-quantitative risk assessment in 2025, after the 2020 five-year inspection was delayed due to impacts of the COVID-19 pandemic, to focus surveillance, monitoring, and prioritized maintenance and/or capital improvements. The dam continues to be safe for operations. The Department will continue to work with FERC and an independent consultant team on future studies and analysis to ensure continued safe operations of the Boundary Project. Daily, weekly, and monthly visual inspections and quarterly manual readings of all instruments are conducted by the Department’s dam safety staff. Annual dam safety inspections are performed by FERC and Department staff. See “Seattle City Light Department—COVID-19 Pandemic.”

The Boundary Project has multiple objectives including power supply, flood control, recreation, fish and wildlife protection, and other uses. The Hungry Horse Project, operated by the Bureau of Reclamation, stores water during the fall and winter for release in the spring and summer, when it is needed for downstream juvenile fish migration in the lower Columbia River. This can reduce generation at the Boundary Project in the fall and winter, when the region experiences its highest sustained energy demand. The water not released in the fall and winter from reservoirs upstream from the Boundary Project on the Pend Oreille River is released in the spring and summer, when it is sometimes spilled because the Boundary Project does not have sufficient hydraulic capacity to use all the available water for generation. This can reduce the Boundary Project’s firm capability under the terms of the Coordination Agreement. Operations at the Albeni Falls Dam, which is managed by the U.S. Army Corps of Engineers (the “Corps”), can ameliorate this loss of winter power due to storage operations at the Hungry Horse Project. Water levels at the Albeni Falls Dam are lowered in the winter each year to provide flood risk management and lower lake levels during the kokanee spawning periods, and for power generation through the winter. See “Environmental Matters—Endangered Species Act” for a discussion of the impact of the Endangered Species Act on the Boundary Project. See “—Purchased Power Arrangements—Columbia River Treaty” for a discussion of potential impacts to Boundary Project operations.

*Skagit Project.* The Gorge, Diablo, and Ross hydroelectric plants, which comprise the Skagit Project, began operation in 1924, 1936, and 1952, respectively. The Skagit Project is located on a 35-mile stretch of the Skagit River above Newhalem, Washington, approximately 120 miles northeast of Seattle. Power is delivered to the Department’s service area via two double-circuit Department-owned 230,000-volt transmission lines. The Ross Plant, located upstream of the other two projects, has a reservoir with usable storage capacity of 1,052,000 acre-feet. Because the Diablo Plant, with usable storage capacity of 50,000 acre-feet, and the Gorge Plant, with usable storage capacity of 6,600 acre-feet, are located downstream from the Ross Dam, their operation is coordinated with water releases from the Ross Reservoir, and the three plants are operated as a single system. The combined nameplate capability of the three plants is 837 MW. Expected power output under average water conditions is 2.5 million MWh. The Skagit Project supplied 20% of the Department’s total resources in 2021.

The three Skagit Project developments are licensed as a unit by FERC under a license that expires in 2025. The Department began the relicensing process in 2017 and filed a Proposed Study Plan with FERC in December 2020. See “Environmental Matters—Endangered Species Act—Department Mitigation Efforts.” As a condition of the current FERC license, the Department has taken and will continue to take various mitigating actions relating to fisheries, wildlife, erosion control, archaeology, historic preservation, recreation, and visual quality resources. Independent safety inspections of the Skagit Project required by the FERC license and initiated in 2016 revealed no significant dam safety issues, and the final report was submitted to FERC in December 2017. Daily, weekly, and monthly visual inspections and quarterly manual readings of all instruments are conducted by the Department’s dam safety staff. Annual dam safety inspections are performed by FERC and Department staff. Department staff completed five-year inspections at the Skagit Project in 2016-2017, with the next five-year inspection, which includes a semi-quantitative risk assessment, already underway and expected to be completed in the latter half of 2022.

Although the original plans for the Skagit Project included raising the height of Ross Dam by 122.5 feet to maximize the hydroelectric potential of the plant, the Canadian province of British Columbia protested on environmental and other grounds. After a protracted period of litigation and negotiation, an agreement (the “High Ross Agreement”) was reached under which British Columbia agreed to provide the Department, for 80 years commencing in 1986, with power equivalent to the planned increase in the output of the Ross Plant in lieu of the Department’s construction of the addition in exchange for payments from the City, as described in the following paragraph. The agreement is subject to review by the parties every ten years. The 1998 review did not result in any changes to the agreement. The 2008 review resulted in no changes, and the parties informally agreed to forego the ten-year reviews in the future. Review of the High Ross Agreement may occur as part of the current FERC relicensing process.

Under the High Ross Agreement, annual payments are due from the Department to British Columbia representing the estimated debt service costs that would have been incurred had the addition to Ross Dam been constructed and financed with bonds. These amounts included a fixed charge of \$21.8 million due annually through 2020. However, since 2000, the Department has deferred \$9.1 million of each \$21.8 million annual payment and in 2021 started amortizing the deferred portion over 15 years. Payment by the Department to British Columbia of equivalent annual maintenance and operation costs and certain other charges began in 1986 and will continue for 80 years. The power delivered from B.C. Hydro under this agreement amounted to 315,101 MWh in 2021. The Department’s contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant, which fluctuates with reservoir levels and the number of units in service, and from April through October in an amount up to 150 MW minus system losses.

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

In addition, over the past year, the Sauk-Suiattle Indian Tribe has initiated a series of three lawsuits challenging the operation of the Skagit Project. See “Legal and Tax Information—Other Litigation—Sauk-Suiattle Litigation.”

#### *Small Hydro.*

**CEDAR FALLS PROJECT.** The Cedar Falls Project, built in 1905, is located on the Cedar River, approximately 30 miles southeast of Seattle. The Cedar Falls Project was constructed before the adoption of the Federal Water Power Act of 1920 and is not subject to licensing by FERC, making it a State-jurisdictional project under the Washington State Department of Ecology (“Ecology”). Cedar Falls Project power is delivered through an interconnection with Puget Sound Energy. The nameplate capability of the plant is 30 MW. Power production in 2021 at the Cedar Falls Project was 83,424 MWh. As a State-jurisdictional project, the Cedar Falls Project is not required to have independent inspections. However, the Department chose to conduct an independent inspection in 2013 and received the final report on the project in 2014. The 2014 report concluded that the project is suitable for continued safe and reliable operation, with some recommendations that the Department is implementing. The most recent periodic inspection by the State was conducted in 2020 and concluded that the project was in good condition and safe for operations. The Department conducted an independent inspection in 2021 in accordance with the Department SOP I-604. See “—Dam Safety.” Daily, weekly, and monthly visual inspections and drain measurements are performed

by the Department and SPU crews. The Cedar River and the South Fork of the Tolt River (discussed below) also contain water facilities that are operated by SPU and comprise a critical part of the City's water supply infrastructure.

**NEWHALEM PROJECT.** The Newhalem Project is located on Newhalem Creek, a tributary of the Skagit River, and was built in 1921 to supply power for the construction of the Skagit Project. The plant was rebuilt and modernized in 1970. It is operated under a FERC license that expires on January 31, 2027. The plant's power is delivered directly to the Gorge Plant station service bus. The nameplate capability of the plant is 2.3 MW. The Newhalem Project stopped generating power in 2015, due in part to certain repairs associated with the Goodell Creek fire (see "Environmental Matters—Wildfire Risk"), and was intermittently generating power from June 2018 until late 2019. The Department has filed for license surrender and is currently waiting for FERC to provide notice and identify next steps in the process. Five-year inspections by FERC are not required of the Newhalem Project, due to its small size and low hazard criticality; nonetheless, FERC inspections are conducted approximately every three to six years. In-house review of the project is performed annually.

**SOUTH FORK TOLT PROJECT.** The South Fork Tolt Project is located approximately 30 miles east of Seattle on the south fork of the Tolt River and was placed in commercial operation in 1995. The South Fork Tolt Project operates under a 40-year FERC license that expires in 2029. The nameplate capability of the installed unit is 16 MW. Power production at the South Fork Tolt Project was 54,658 MWh in 2021. To reduce its cost of power from the South Fork Tolt Project, the Department entered into a Billing Credits Generation Agreement with BPA in 1993, under which BPA makes payments to the Department that have the effect of making the cost of power from the South Fork Tolt Project approximately equal to the cost of equivalent power from BPA. This agreement expires in 2028. Payments to the Department under the agreement commenced in 1996 and amounted to \$3.0 million in 2021. Without this agreement, the cost of power would still be relatively low, as all project debt has been paid off and the only expenses are associated with operations and capital refurbishment.

The FERC-mandated five-year dam safety inspection was completed in 2017 and concluded that the South Fork Tolt Project was in good condition. The next five-year inspection will take place in the latter part of 2022. The 2018 annual inspection of the South Fork Tolt Project included a Special Spillway Inspection as required by FERC due to the 2017 incident at the Oroville Dam in California. The Department reviewed the 2018 inspection results and initiated additional assessments in 2019 and 2020 to make changes to operations, maintenance, or inspections, as appropriate. Daily, weekly, and monthly visual inspections and manual readings of all instruments are conducted by SPU dam safety staff. Annual dam safety inspections are performed by FERC, the Department, and Seattle Public Utilities staff. See "Department-Owned Resources—Dam Safety."

### **Purchased Power Arrangements**

In 2021, the Department purchased approximately 55% of its total resources from other utilities and energy suppliers in the region, including BPA, under long-term purchase contracts. Some of these contracts obligate the Department to pay its share of the costs of the generating facilities providing the power, including debt service on bonds issued to finance construction, whether or not it receives any power. The Department treats payment of such costs as part of its purchased power expense and includes such costs in its operating and maintenance expenses. See "Security for the Bonds—Pledge of Revenue."

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

*Bonneville Power Administration.* BPA markets power from the Federal Columbia River Power System (the “Federal System”), comprised of 31 federal hydroelectric projects, several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest region, and various contractual rights. Currently, for Federal Fiscal Year (“FFY”) 2022 and 2023, under low water conditions, approximately 6,667 average annual megawatts are available annually for sale, at BPA’s cost-based rate to preference customers, including the Department. One average annual megawatt (“aMW”) is the number of megawatt hours of electric energy used, transmitted, or provided over the course of a year and is equal to 8,760 MWh. The federal hydroelectric projects are built and operated by the U.S. Bureau of Reclamation and the Corps, and are located primarily in the Columbia River basin. The Federal System currently produces more than 33% of the electric power consumed in the region. BPA’s transmission system includes more than 15,000 circuit miles of transmission lines and provides about 75% of the high-voltage bulk transmission capacity in the Pacific Northwest. Its service area covers more than 300,000 square miles and has a population of about 12 million.

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

The Department’s Power Sales Agreement with BPA provides for purchases of power by the Department over the 17-year period ending October 1, 2028. BPA and all preference customers, including the Department, are in active discussions about the next power sales contracts. BPA has begun a “Provider of Choice” process. The timeline at present is for BPA to gather customer feedback in 2022, produce an Issue Paper by mid-year 2022, and then develop those issues into products, services, rates, and contract terms, as appropriate. BPA would develop and adopt necessary policies in 2023 and 2024 such that it can offer contracts in 2025.

Power is delivered in two products: a shaped block product (“Block”), which is power provided in pre-determined amounts at pre-determined times, and a slice of the system product (“Slice”), which is a proportionate amount of power if, as, and when generated by the Federal System. Until October 1, 2017, the Department’s Slice and Block deliveries were approximately equal on an annual basis. Effective October 1, 2017, the Department exercised an option under the Power Sales Agreement to switch to 100% Block. The Department’s BPA purchase for 2022 will be for 431 aMW, which will vary from a high of 710 aMW in January 2022 to a low of zero aMW in June 2022.

Under the BPA contract, the amount of power that BPA’s preference customers (including the Department) may purchase under BPA’s cost-based rate (the “Tier 1 Rate”) is limited to an amount equal to the generating output of the current Federal System, with some limited amounts of augmentation. Any incremental purchases by preference customers from BPA above this base amount of power would be purchased at a different rate (the “Tier 2 Rate”), reflecting the incremental cost to BPA of obtaining additional power to meet such incremental load. Each preference customer’s right to purchase power at Tier 1 Rates is based in part on the proportion that its net requirements bore to all preference customers’ net requirements placed on BPA in a defined period prior to FFY 2011. The Department currently purchases all of the power it receives under the BPA contract at the Tier 1 Rate. The Department determined not to purchase additional energy from BPA through the contract period 2025-2028.

*BPA Rates.* BPA is required by federal law to recover all of its costs through the power and transmission rates it charges its customers. As of October 1, 2021, BPA’s average net cost for Tier 1 power will be \$34.93 per MWh, excluding delivery charges and without a financial reserves policy (“FRP”) surcharge. In 2019, BPA finalized a policy setting minimum and maximum financial reserves by business line and agency-wide. The policy includes mechanisms to increase revenue collection if reserves fall below the minimum and to use reserves should they accumulate above the maximum. See “Department Financial Information—Retail Rates—Automatic BPA Rate Pass-Through.”

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

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

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

Under the Net Billing Agreements, the Department is obligated to pay Energy Northwest its share of the total annual costs of the Net Billed Projects, including debt service on approximately \$5.4 billion of bonds outstanding (as of June 30, 2021) on the Net Billed Projects, and accept assignment of the shares of defaulting participants, subject to a cap of 25% of the Department’s share. BPA is obligated to credit the Department the same amount of the Department’s share (plus any assigned shares) under any power sales agreement between BPA and the Department. These obligations exist regardless of the status, operability, or output of the Net Billed Projects. To the extent that BPA cannot credit the Department because the Department’s obligations under a power sales agreement are not sufficient to allow BPA to credit the Department its full share, BPA is obligated, after certain assignment procedures, to pay the uncredited and unassigned amount to the Department, subject to available appropriations.

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

*Columbia River Treaty.* The U.S. and Canada entered into the 1964 Columbia River Treaty (the “Treaty”) to increase reservoir capacity in the Canadian reaches of the Columbia River basin for the purposes of power generation and flood control. Although the Treaty does not expire under its own terms, either the U.S. or Canada may elect to terminate it by providing not less than ten years’ notice. The Treaty impacts stream flow and power generation in the Columbia River and some of its tributaries. The Treaty’s computation of energy benefits that result from the Canadian improvements to upstream storage is of particular interest to utilities because it creates an energy return obligation (the “Canadian Entitlement”) for U.S. operators of Columbia River dams, including BPA. Treaty modernization (described further below) could impact energy received under the Department’s BPA and Priest Rapids Project contracts, as well as stream flows and generation at the Boundary Project. See “—Purchased Power Arrangements—Bonneville Power Administration” and “—Priest Rapids Project” and “—Department-Owned Resources—Boundary Project.”

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

*Priest Rapids Project.* Under two agreements effective through 2052, the Department purchases a portion of the output of the Priest Rapids Project. The Department is currently obligated to purchase 6.14% of the Priest Rapids Project’s output after Grant PUD meets its retail load. As Grant PUD’s retail load increases, less electrical energy is

available for the Department. The Department currently receives about 2 aMW from these contracts. The Department also receives a portion of the revenues from an auction of 30% of the Priest Rapids Project's power, totaling \$2.4 million per year in 2016 and 2017, \$1.5 million in 2018, and \$1.8 million per year in 2019 and 2020. Under the contracts, the Department is responsible for its percentage share of the costs of the Priest Rapids Project, including debt service on bonds issued to finance improvements to the Priest Rapids Project. In 2021, the Department paid \$0.7 million to receive the \$1.2 million in auction revenue.

*Columbia Basin Hydropower (formerly Grand Coulee Project Hydroelectric Authority).* The Department, in conjunction with the City of Tacoma Department of Public Utilities, Light Division ("Tacoma Power"), has power purchase agreements with three Columbia River basin irrigation districts for the acquisition of power from five hydroelectric plants under 40-year contracts expiring between 2022 and 2027. These plants, which utilize water released during the irrigation season, are located along irrigation canals in eastern Washington. The plants generate power only in the summer and thus have no winter peak capability. Plant output and costs are shared equally between the Department and Tacoma Power. In 2021, the Department received 265,850 MWh from the project. The Department and Tacoma Power are in discussions with Columbia Basin Hydropower about whether contract amendments and/or extensions are in all parties' mutual interest.

*High Ross Agreement.* See "—Department-Owned Resources—Skagit Project."

*Lucky Peak.* The Lucky Peak Hydroelectric Power Plant ("Lucky Peak") was developed by three Idaho irrigation districts and one Oregon irrigation district (the "Districts"). Since it began operation in 1988, the Department has purchased all the power generated by Lucky Peak in exchange for payment of costs associated with the plant and royalty payments to the Districts. The Department also signed a transmission services agreement with Idaho Power Company ("Idaho Power") to provide for transmission of power from Lucky Peak to a point of interconnection with the BPA transmission system. The FERC license for Lucky Peak expires in 2030. The plant is located on the Boise River, approximately ten miles southeast of Boise, Idaho, at the Lucky Peak Dam and Reservoir. Power generation was 221,981 MWh in 2021. The nameplate capacity is 113 MW, but the plant operates only during the irrigation season, so it provides no peak capacity during the Department's winter peak period. See "—Seasonal and Other Exchanges."

*Stateline Wind Project.* Pursuant to an agreement effective from 2002 through 2021, the Department purchased wind-generated power and associated renewable energy credits ("RECs") from Stateline in eastern Washington and Oregon. The purchases contributed to the Department's I-937 compliance to date. See "—Washington's Renewable Portfolio Standard (Climate Commitment Act, Initiative 937, and CETA)." The Department received 360,191 MWh of wind-generated power under the Stateline purchase contract in 2021.

The contract ended in 2021, and the Department will no longer purchase power from Stateline. However, the Department agreed to buy RECs from Stateline for the period 2022-2026, which will extend the I-937 compliance component of the project.

#### *Small Renewables.*

**BURLINGTON RENEWABLE BIOMASS (EXPIRED).** The Department previously entered into an agreement with SMUD that expired on July 31, 2017. Under that expired agreement, SMUD purchased the output from the Sierra Pacific Industries Burlington Biomass Facility. The Department provided scheduling and delivery services to SMUD for up to 15 MW of power at the California-Oregon border and received financial compensation for these services. The Department purchased from SMUD all of the renewable energy and environmental attributes associated with the resource output in excess of 15 MW. The arrangement is no longer in effect, and the Department no longer receives renewable energy or environmental attributes from this source.

**COLUMBIA RIDGE LANDFILL GAS.** In 2009, the Department began taking delivery from Columbia Ridge, located in Arlington, Oregon, under a 20-year agreement. The plant, which has a nameplate capacity of 6.4 MW and generates an average of 50,500 MWh per year, burns methane produced by the decomposition of solid waste in the landfill. Waste Management Renewable Energy ("WMRE") is the developer, owner, and operator of the project. The Department has firm transmission for project output to the Department's



retail load. WMRE added approximately 6.0 MW of additional generation in summer 2014, and the Department is buying the output from the expansion under contract. The Department received 92,937 MWh of power under the Columbia Ridge purchase contracts in 2021.

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

*Seasonal and Other Exchanges.* An exchange agreement with NCPA expired on April 30, 2018, and is no longer in effect. Until its termination, the agreement provided for the Department to deliver 60 MW of capacity and 90,580 MWh of power to NCPA in the summer. In return, NCPA delivered 46 MW of capacity and 108,696 MWh of power to the Department in the winter.

Since 2007, the Department has entered into agreements to exchange the entire output of the Lucky Peak project for a fixed amount of firm winter energy. For 2022, the counterparty is Morgan Stanley Capital Group, which will also take on and pay for the associated transmission services from Idaho Power. The Department is considering seasonal exchange of the output in the future.

### **Wholesale Market Sales and Purchases**

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

In 2021, hydro flows were below average on the Pend Oreille River and above average on the Skagit River, where the Department's primary generation hydro facilities are located. The hydro flows at the Boundary Project and Ross Dam were 79% and 129% of the historical average, respectively. The average revenue per MWh realized from surplus sales in 2021 was \$35.32/MWh. Net wholesale revenue in 2021 was \$37.6 million, significantly lower than the budgeted amount of \$60 million. As of April 28, 2022, net wholesale revenue for 2022 is forecast to be \$76.3 million, \$36.3 million above the budgeted amount of \$40.0 million. This variance will be transferred to the RSA. See “Department Financial Information—Management Discussion of Historical Operating Results 2017-2021,” “—Expectations for 2022 Operating Results,” and “—Financial Policies—Rate Stabilization Account.”

Table 4 displays the Department’s purchases and sales of power in the wholesale market over the 2017-2021 period.

**TABLE 4**  
**SUMMARY OF WHOLESALE MARKET SALES AND PURCHASES**

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020<sup>(2)</sup></b>	<b>2021</b>
Cost of Wholesale Purchases (\$000) <sup>(1)</sup>	\$ 19,880	\$ 22,576	\$ 41,839	\$ 15,753	\$ 52,258
Wholesale Market Purchases (MWh in 000s)	904	1,167	1,028	633	1,282
Average Cost (\$/MWh)	\$ 21.99	\$ 19.35	\$ 40.70	\$ 24.89	\$ 40.76
Revenue from Sales (\$000) <sup>(1)</sup>	\$ 70,422	\$ 72,509	\$ 57,307	\$ 63,434	\$ 89,822
Wholesale Market Sales (MWh in 000s)	3,695	3,329	2,123	2,606	2,543
Average Revenue (\$/MWh)	\$ 19.06	\$ 21.78	\$ 26.99	\$ 24.34	\$ 35.32
Net Wholesale Revenue (\$000) <sup>(1)</sup>	\$ 50,542	\$ 49,933	\$ 15,468	\$ 47,681	\$ 37,564
Sales Net of Purchases (MWh in 000s)	2,791	2,162	1,095	1,973	1,261

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

(2) On April 1, 2020, the Department entered the CAISO EIM. Since the EIM is not a traditional bilateral market, MWh volume statistics are currently unavailable and not reported in this table. If the MWh volumes were included, the average cost and average revenue per MWh would be lower than presented.

Source: *Seattle City Light Department, Accounting Division*

### Wholesale Energy Risk Management

The Department sells its surplus power in the wholesale power markets, and the revenue generated is used to offset costs that would otherwise be borne by the Department’s retail ratepayers. The Department’s wholesale energy marketing activities are managed by its Power Management Division, and the Department’s risk management activities are carried out by its Risk Oversight Division. Additionally, the Department’s Risk Oversight Council (“ROC”) serves as the primary body with the authority and responsibility for overseeing and implementing the Department’s Wholesale Energy Risk Management (“WERM”) Policy and leading the Department’s energy risk management efforts. ROC is comprised of four voting and three non-voting members: the Chief Financial Officer (Chair), Director of Risk Oversight (Acting-Chair), Facilities and Oversight Services Officer, and Energy Innovation and Resources Officer. Each has a single vote. The three non-voting members are the Director of Power Management, Manager of Power Marketing, and Risk Oversight Strategic Advisor. ROC meets at least twice per month to review recent events in the wholesale power markets and the Department’s market positions, exposures, WERM Policy compliance, and portfolio-balancing strategies and plans.

Under the WERM Policy, the Department has the authority to enter into agreements to manage various risks associated with power transactions as long as any agreements are not purely speculative and can be tied to managing an underlying power purchase, asset, or price risk. The Department has not entered into any hedging agreements under an International Swaps and Derivatives Master Agreement. However, the Department does enter into certain forward purchase and sale of electricity contracts that meet the Governmental Accounting Standards Board (“GASB”) definition of a “derivative instrument,” and they are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. See Appendix C—2021 Audited Financial Statements of the Department—Note 18.

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

To limit energy risk exposure, the Department is not authorized to buy or sell physical energy and associated products in the wholesale energy market more than 60 months prior to the hour of delivery. For longer-term transactions, City Council approval is required. The Department's principal objective is to ensure that the Department meets retail customer demand in a way that generates additional value from its generation portfolio, with due consideration of risk. Risk tolerance levels are documented in the WERM Procedures document.

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

While the Department's revenue from wholesale energy market sales and reliance on such revenues has been declining, the Department continues to emphasize the management of risks associated with such activities with the same vigor. Policies, procedures, and processes have been established to manage, control, and monitor these risks and ensure proper segregation of duties.

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

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

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

### **Washington's Renewable Portfolio Standard (Climate Commitment Act, Initiative 937, and CETA)**

*Climate Commitment Act.* The Department must comply with the Climate Commitment Act of 2021 ("CCA"), which requires reductions in greenhouse gas emissions from most sectors of the economy, including the electric utility sector, beginning in 2023. Covered entities will receive allowances based on emissions from 2015 to 2019; the first compliance period is 2023 to 2026 and total emissions are about 78% of the baseline period. The Department and all covered entities will receive allowance, but as of May 2022, the amount is unknown. The Department will need allowances when it buys power from polluting sources or when the specific generating source cannot be documented. CCA requires reductions in greenhouse gas emissions to 45% below 1990 levels by 2030 and further reductions after that, to 95% below 1990 levels by 2050.

*I-937.* I-937, also referred to as the Energy Independence Act, was approved by State voters in 2006 and was last amended in 2019 with the passage of the Clean Energy Transformation Act ("CETA"). Under I-937, utilities such as the Department with more than 25,000 retail customers in the State are required to serve certain percentages of retail load with eligible renewable resources and/or purchase equivalent quantities of RECs. This requirement increased over time: 3% of load by January 1, 2012, 9% by January 1, 2016, and 15% by January 1, 2020. I-937 also requires utilities to pursue all available conservation that is cost-effective, reliable, and feasible, and imposes deadlines for meeting conservation targets. The law specifies what types of renewable generation are eligible to meet the renewable

portfolio standard. Existing hydropower is not considered a renewable resource, but incremental hydropower is considered renewable if it is the result of efficiency improvements completed after March 30, 1999, and meets other qualifications. The Department considers I-937 during the preparation of its Integrated Resource Plan (“IRP”), as discussed further below, and the potential for cost-effective, reliable, and feasible conservation measures that could be derived from more efficient energy use by customers and by the Department’s production and distribution facilities.

I-937 allows for alternative compliance options if a utility has no load growth or if the utility reaches a cost cap on spending for eligible resources. For the period in which the Department has no load growth as defined by I-937, it will likely use the no load growth compliance option. The Department has used the no load growth compliance option since 2019 and will continue to do so for 2022.

*Clean Energy Transformation Act.* Enacted in 2019, CETA amends the Energy Independence Act and sets additional milestones for reaching 100% renewable or non-emitting electricity supply by 2045. On February 1, 2022, the City Council adopted Resolution 32040 approving the Department’s clean energy implementation plan setting its own targets for energy efficiency, demand response, and renewable energy. By 2025, utilities must eliminate coal-fired electricity from their supply purchases. By 2030, utilities must supply energy from 100% greenhouse gas-neutral resources, allowing for the use of offsets. The 2030 milestone specifies that at least 80% of retail sales must be met with generation sources that do not emit greenhouse gases and remaining sources of greenhouse gas emissions must be offset with specified project types. By 2045, utilities must supply State customers with electricity that is 100% renewable or non-emitting, with no allowance for offsets. CETA includes provisions to study the effects of these goals on cost and reliability, and provides off-ramps and alternative compliance means at various points. CETA also requires utilities to provide an equitable transition to cleaner energy through consideration of the energy and non-energy impact of resource decisions. The Department is participating in the rulemaking activities relating to CETA implementation by the Washington State Department of Commerce (“Commerce”) and will be evaluating compliance strategies for CETA requirements in the near future. The Department has no coal-fired resources (meeting the 2025 milestone) and is well positioned to meet the 2030 requirements, given its low carbon energy portfolio. Over the next several years, the Department expects to develop strategies to meet the 2045 goal.

## **Conservation**

The Department measures energy conservation results in terms of cost, amount, and duration of savings using regionally and nationally recognized methods. In 2021, the Department achieved 10.4 aMW (91,271 MWh) of energy savings from completed projects, which cost the Department \$27.1 million in incentives and expenditures associated with the delivery of the energy savings. Total savings in place in 2021 amounted to approximately 204.4 aMW (1,791,013 MWh), representing approximately 20% of the Department’s total retail sales in 2021. The Department’s retail load has been declining since 2011, due in part to its robust conservation program. See “Department Financial Information—Management Discussion of Historical Operating Results 2017-2021.”

Under I-937, the Department is required to establish two-year conservation targets. For the 2022-2023 biennium, the I-937 total energy savings target is 18.74 aMW, which the Department is on track to meet.

The Department’s Customer Energy Solutions Division has a long-standing relationship with BPA. Through various contractual agreements over a 30-year period, BPA has provided funding for energy conservation activities, including \$8.7 million for energy conservation activities over FFY 2022 and 2023, which will fund approximately 15% of the Department’s total energy savings delivered during this time period. In addition to the current funding, BPA is providing technical assistance for industrial projects and offering regional conservation programs to the Department.

## **Integrated Resource Plan**

The Department’s IRP evaluates a range of resource portfolios that are designed to meet its future resource needs in compliance with State statutory and regulatory requirements. The IRP is one planning tool used by the Department and is informed by the utility’s Strategic Plan and Conservation Potential Assessment. The full IRP process is completed every four years, with a partial update (known as a Progress Report) halfway through each period every two years to help inform resource decisions resulting from regional growth, technological changes, customer choices, and regulation. A key objective of the IRP is to ensure that long-term customer demand can be met with sufficient

dependable resources under variable hydro and weather conditions. The IRP preferred resource portfolio is selected after being evaluated against four criteria: reliability, cost, environmental impact, and risk.

In 2020, due to the COVID-19 pandemic and CETA rulemaking, the Department requested and received permission from Commerce to complete a 2020 IRP Progress Report instead of the full IRP update that would have been due. The purpose was to update its evaluation framework to better account for CETA and account for still unfolding impacts from the pandemic in the utility's plans and customer outreach. Additionally, climate change, energy efficiency, and clean technology advancements are changing the regional resource mix. The new IRP framework helps the Department stay ahead of these fundamental changes in regional generation. The 2020 Progress Report approved by the City Council on February 22, 2021, affirms the conservation-centered resource strategy to meet I-937 and CETA for up to the next ten years. The Progress Report and framework was followed by the Department's completion of CETA's required 2022-2025 Clean Energy Implementation Plan, a draft of which was submitted to Commerce by December 31, 2021, and adopted by the City Council via resolution on February 3, 2022. The Department is now on track to complete and file the 2022 IRP with Commerce by the draft deadline of September 1, 2022. As described above, the new framework has provided significant advancement in analyses that align the Department's resource strategy with the Department's evolving conservation, demand response, distribution system and transportation, and building electrification plans, with major improvements to the evaluation of climate change and electrification scenarios. The effort also benefited from the use of analysis and data from an Electrification Assessment, performed by the Department in collaboration with the Electric Power Research Institute and published in late 2021.

## **TRANSMISSION AND DISTRIBUTION**

### **Introduction**

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

### **Department-Owned Transmission**

The Department owns and operates 667 miles of transmission facilities. The principal transmission lines are the generation interconnection lines transmitting power from the Skagit Project to the Department's service area. Other important facilities include the tie lines connecting the Boundary, South Fork Tolt, and Cedar Falls Projects with BPA's and Puget Sound Energy's transmission grid and transmission within the Department's service area.

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

### **Transmission Contracts**

*Transmission Arrangements with BPA.* The bulk of the Department's remote generation (the Boundary Project, BPA products, and other long-term contracts) and other market transactions utilize BPA's point-to-point (“PTP”) transmission service agreement. See “Power Resources and Cost of Power—Department-Owned Resources—Boundary Project.” The agreement with BPA provides the Department with 1,962 MW of transmission capacity through 2025. In 2019, BPA changed its tariff implementation practices for PTP, resulting in the Department determining the need to request to add 279 MW of transmission capacity to the 1,962 MW of existing transmission capacity, for a total of 2,241 MW. The Department has the right to extend the current terms, and plans to negotiate a suitable extension prior to 2025. This capacity amount ensures that the Department can deliver the maximum output

of the Boundary Project and the BPA purchase contract to its customers. Effective October 1, 2021, BPA raised its PTP transmission and other associated rates by a cumulative 6.2% for the rate period FFY 2022-2023. The new transmission costs, along with power costs, will be used in the BPA pass-through calculation. See “Power Resources and Cost of Power—Purchased Power Arrangements—Bonneville Power Administration” and “Departmental Financial Information—Retail Rates.”

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

*Other Transmission Contracts.* The Department transmits power under contracts with Idaho Power for the transmission of power from Lucky Peak, with Avista and Grant PUD for transmission of power from Columbia Basin Hydropower, with Puget Sound Energy for transmission of power from the Cedar Falls and South Fork Tolt Projects, and with other utilities.

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

#### **Northern Grid (Formerly Columbia Grid)**

Columbia Grid, formed in 2006 by a group of investor-owned and public utilities, including the Department, and BPA, currently provides inter-utility regional transmission planning services to its members in the Pacific Northwest. Columbia Grid is not a Regional Transmission Organization under FERC policies but provides services on a bilateral, contractual basis. Columbia Grid’s planning role enables the Department to meet federal requirements for regional transmission planning.

As of January 1, 2020, the members of the Columbia Grid, along with several additional public and private electric utilities in the Pacific Northwest, transitioned to a new organization called the Northern Grid, creating a single stakeholder forum for transmission planning in the region. The new organization’s goals include collaborating on transmission-related matters relevant to the Pacific Northwest and Intermountain region and facilitating FERC transmission planning compliance, including economic studies and cost allocation.

#### **Open Access Transmission Services**

The Department is committed to offering comparable open access transmission service upon receiving a valid transmission service request. In 2009, the City Council approved legislation authorizing the Department to implement and administer an open access transmission tariff. The Department began offering open access transmission service effective January 2021 and currently has no open access transmission customers.

#### **Retail Service**

The Department owns, operates, and maintains overhead and underground transmission and distribution facilities within its 131-square-mile service territory. The Looped Radial distribution system consists of 2,331 miles of overhead and underground wiring. The Looped Radial design consists of single feeder providing electrical energy to customers. The Department operates 16 major substations throughout the service area, which supply power to the distribution system’s primary feeders and ultimately to the Department’s retail customers. Customers in the downtown Seattle, University District, and First Hill neighborhoods are served by a more reliable multiple-feeder Network Distribution design system. The Network Distribution system consists of 348 miles of 13 kilovolt (“kV”) and 26 kV underground wiring.

## **Operation and Maintenance**

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

The Department's System Control Center controls hydroelectric power operations and monitors delivery of power to the service area. Staff use a real-time Energy Management System that provides information about loads and resources to the power dispatchers so they can properly balance load and resources and respond to system disturbances.

The Department's Outage Management System is designed to improve operational efficiencies and provide timely information to customers while staff are responding to service interruptions. The Department installed a work and asset management system, the foundational technology for an asset management practice, to assist in work scheduling and asset cost tracking and act as a data repository.

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

*Pole Maintenance.* Since 2009, the Department has inspected approximately 92,000 wood poles in the service area and replaced 12,000 wood poles between 2010 and 2019. In April 2019, an incident occurred involving the simultaneous failure of a section of 26 wood poles during a high wind event. The Department engaged an engineering firm to conduct an independent review of the incident and identify potential causes of the failure. A final report was published in November 2019. Some of the key recommendations included a narrowing of the rating criteria and establishment of a program for the rapid replacement of the aging wood poles in the service area. Subsequently, the Accelerated Pole Replacement Program was launched to help replace 6,000 pole backlogs and continue to identify replacement and rehabilitation candidates through the new test and treatment program.

*Underground Cable Replacement.* The Underground Cable Replacement program is an ongoing system-wide reliability-improvement program. The Cable Replacement program, kicked off in 2013, and has installed nearly 25 miles of new duct systems as a start to the larger program of replacing the approximately 300 miles of the remaining old direct buried cables over the next decade.

## **Federal Regulations**

The Department's Regulatory Affairs Office ("Regulatory Affairs") manages the Department's regulatory programs associated with transmission and wholesale sale of power. Regulatory Affairs ensures compliance, oversees regulatory interactions, and advises on regulatory matters that could affect proposed activities. The Department's largest oversight program concerns bulk power system reliability, with moderate programs for other pertinent regulatory areas. The Director of Regulatory Affairs, who also serves as the Chief Compliance Officer, reports to the Regulation and Market Development Officer and has direct access to the General Manager and Chief Executive Officer. Regulatory Affairs functions independently of the Department's operating divisions.

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

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

Regulatory Affairs conducts Standard Assurance Projects to ensure Department compliance associated with regulatory and operational change. Regulatory Affairs, together with the responsible Department operating divisions, establishes structured and coordinated processes to ensure Department compliance with prior enforcement obligation for new standards infrastructure, systems, or contractual obligations.

The Western Electricity Coordinating Council ("WECC") audits the Department triennially; its last audit occurred in 2020. WECC performed separate audits for Cyber Security/Critical Infrastructure Protection and Operations and Planning ("O&P") standards. WECC identified a Critical Infrastructure Protection standard scope comparable to the Department's past audits; however, the O&P audit scope was reduced (four standards, seven requirements), with an oversight shift to the annual self-certification process. WECC's approach balances emphasis in the cyber security space with WECC confidence in the Department's compliance/reliability performance relative to risk.

WECC examined 13 standards and 29 individual requirements overall, and found non-compliance for three Critical Infrastructure Protection requirements. The Department has completed all mitigation, although WECC has not finalized its adjudication of the enforcement actions.

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

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

## **DEPARTMENT FINANCIAL INFORMATION**

### **Historical Sales**

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

Table 5 shows that the number of residential and non-residential customers has been increasing during the last five years, at an average annual growth rate of 2.5%. Retail energy sales largely varied with weather between 2017 and 2021. A cold 2017 drove retail energy sales up by 2%, significantly warmer than normal weather during parts of 2018 drove sales down by almost 4%, and a combination of warmer than normal weather and lower than expected industrial production from key customers resulted in only a slight increase in 2019. Retail energy sales dropped just over 5% in 2020 due to the COVID-19 pandemic-related public health measures and the related economic recession, and rebounded just over 5% in 2021 as the economy began recovering from the pandemic. Peak energy sales for the period 2017-2021 were 1,896 MW in December 2021 compared to the record peak load of 2,055 MW recorded in December 1990 due to unusually cold weather.



**TABLE 5**  
**RETAIL CUSTOMER ACCOUNTS, ENERGY SALES, AND ENERGY REQUIREMENTS**

	2017	2018	2019	2020	2021
Average Number of Customer Accounts					
Residential	403,888	410,664	419,601	426,359	433,686
Non-Residential	50,608	50,859	50,779	51,219	51,469
Total Customer Accounts	454,497	461,523	470,380	477,578	485,155
Energy Sales (MWh) <sup>(1)</sup>					
Residential	3,132,079	2,992,914	3,091,019	3,192,877	3,320,729
Non-Residential	6,276,580	6,081,148	6,030,940	5,446,010	5,757,653
Total Energy Sales	9,408,659	9,074,062	9,121,959	8,638,887	9,078,382
Peak Demand (MW)	1,870	1,764	1,806	1,757	1,896
Energy Requirements (MWh)					
Total Energy Sales	9,408,659	9,074,062	9,121,959	8,638,887	9,078,382
Energy used in Operation	26,691	25,642	26,962	26,203	26,537
System Losses <sup>(2)</sup>	537,750	573,525	387,653	549,228	423,886
Total Energy Requirements <sup>(3)</sup>	9,973,100	9,673,229	9,536,574	9,214,318	9,528,805

(1) Amounts include an allocation for the net change in unbilled revenues.

(2) Includes transmission and distribution losses.

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

Source: *Seattle City Light Department, Accounting Division*

### Largest Customers

Table 6 provides a list of the Department's ten largest customers in 2021.

**TABLE 6**  
**TOP TEN CUSTOMERS**

<u>Customer</u>	<u>Customer Profile</u>	<u>Annual Dollars Billed</u>	<u>% Total Retail Revenue</u>
Nucor Corporation	Steel Manufacturer	\$ 31,426,022	3.3%
University of Washington	Higher Education	29,379,665	3.0%
Amazon	Technology Company	19,848,361	2.1%
Boeing	Airplane Manufacturer	14,428,033	1.5%
King County	Government	14,211,735	1.5%
Sabey Corporation	Data Center	13,273,022	1.4%
2001 Sixth LLC	Data Center	10,604,329	1.1%
City of Seattle <sup>(1)</sup>	Government	10,081,536	1.0%
US Government	Government	8,195,192	0.8%
Ardagh Glass	Glass Containers Manufacturer	6,813,072	0.7%
		<u>\$ 158,260,967</u>	<u>16.4%</u>

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

Source: *Seattle City Light Department, Finance Division*

## Financial Policies

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

*Rate Stabilization Account.* The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount (due to low water or lower wholesale prices, for example), and deposits are made to the RSA if surplus power sales exceed expectations. The financial policies specify the target size of the RSA between \$100 million and \$125 million and authorize the collection of a temporary automatic surcharge on electric rates in the event the RSA drops to \$75 million or below. Pursuant to City ordinance, the Department is required to take action to bring the RSA balance down to \$110 million if, at any time, the balance exceeds \$125 million. See “—Retail Rates—Rate Changes 2013-2022” and “Security for the Bonds—Rate Stabilization Account.”

The RSA has been in use since January 1, 2011. The RSA balance of \$89.1 million in June 2016 fell below the surcharge trigger of \$90 million, which caused the automatic implementation of a 1.5% surcharge on August 1, 2016. The RSA balance of \$78.5 million in September 2019 fell below the second surcharge trigger of \$80 million, which caused the automatic implementation of an additional 1.5% surcharge on November 1, 2019. Both surcharges were removed March 31, 2021. Legislation directing the transfer of funds into the RSA to prevent an RSA surcharge from triggering was approved in December 2021 through City Council authorization of Ordinance 126502. An RSA surcharge was removed in April 2021, after the RSA reached its target level of \$100 million. However, dry hydro conditions, hot weather, and high wholesale market prices depleted the RSA balance during the third quarter of 2021. With no action, an RSA surcharge would have triggered in the fourth quarter. The Department experienced strong financial performance in 2021 and was able to make a deposit to the RSA and still exceed its target debt service coverage of 1.8x. This legislation also updated the RSA mechanism so that RSA surcharges come on less frequently and change less often. The number of surcharge thresholds was reduced from three to two and lowered to \$75 million and \$50 million, and surcharges will be evaluated twice a year as opposed to quarterly, as shown in Table 7. See “Department Financial Information—Expectations for 2022 Operating Results.”

**TABLE 7  
AUTOMATIC SURCHARGES**

<b>RSA Balance</b>	<b>Action</b>
Less than or equal to \$75 million but greater than \$50 million	Automatic 2.0% surcharge
Less than or equal to \$50 million but greater than \$25 million	Automatic 4.0% surcharge
Less than or equal to \$25 million	City Council must initiate rate review within 30 days and determine actions to replenish RSA to \$100 million within 24 months

The Adopted 2022 Net Wholesale Revenue (“NWR”) RSA planning value included the final step of the transition to less dependence on sales of surplus wholesale power that aligns with lower expected net wholesale volumes and market prices. The Department began implementing this reduction gradually in 2013. The Adopted 2022 NWR RSA planning value is currently \$40 million, the lowest level since the RSA was established. The 2023-2028 Strategic Plan assumes the NWR budget will gradually increase over time to account for possible new resource acquisitions. The proposed NWR budget included in the 2023-2028 Strategic Plan is \$40 million for 2023 and \$45 million for 2024. See “Seattle City Light Department—Strategic Plan.”

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

*Funding of Capital Improvement Program.* The Department’s policy is to fund its Capital Improvement Program (“CIP”) so that on average, over the term of any given six-year CIP, approximately 40% of the expenditures will be funded with cash from operations, including contributions to fund connections or extensions. The percentage of cash from operations available to fund the CIP in a given year varies, depending on the Department’s revenues and expenses. The Department intends to use cash from operations that was previously identified to be used for capital purposes for the retirement of outstanding debt. Cash from operations utilized for this purpose will be included toward meeting the target of 40% of CIP funding from cash from operations. See “Capital Requirements—Financing Plans.”

### **City Investment Pool**

The City’s Finance Department invests the Department’s funds. See “The City of Seattle—Investments” and Appendix C—2021 Audited Financial Statements of the Department—Note 5. The City’s Director of Finance is authorized to make loans to individual funds participating in the City’s common investment portfolio (the “Investment Pool”), including the Light Fund, by carrying such funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by the City Council by ordinance, to the extent such loans can be supported prudently by the Investment Pool and the borrowing fund is reasonably expected to be able to repay the loan. Such loans bear interest at the Investment Pool’s rate of return. Currently there are no Investment Pool loans to the Department. See “The City of Seattle—Investments—Interfund Loans.”

### **Taxation and Intergovernmental Payments**

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

Certain contractual payments are made to Pend Oreille and Whatcom Counties for services rendered by these jurisdictions where the Department has generating facilities. In addition, under the terms of franchise agreements with several suburban cities, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila (the “Franchise Cities”) in amounts ranging from 4% to 6% of the revenue from rates charged to customers residing in those cities. A new franchise agreement with the County for the unincorporated service area is expected to become effective by the end of 2022 and will consist of payments to the County of 8% of retail revenue from respective County customers. The Department also passes through municipal utility taxes of 2% to Lake Forest Park and 6% to Normandy Park. See “—Retail Rates—Rates for Customers Outside the City of Seattle.” The Department incorporates expected payments to the suburban cities into the retail rates that it charges retail customers residing in those cities. See “—Retail Rates.”

### **Retail Rates**

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

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

The current rate-setting objectives recommended by the Review Panel include maintaining transparency so that customers easily understand what services they are paying for, establishing rates sufficient to meet the annual revenue requirement, maintaining cost-based rates that are stable and predictable, encouraging the efficient use of resources needed to provide electrical service, designing rates that reflect the City’s Climate Action Plan with the goal of decarbonization, maintaining affordable rates for all customers including discounted rates for qualified low-income residential customers, and providing for customer choice in rates and billing options to reflect the diversity of customers’ energy needs and interest. The Department has a rate redesign initiative underway with the goal of meeting these objectives and providing customers a variety of pricing programs and pilots that will empower customers to manage how they consume and pay for the energy they need. The Department currently has three active rate pilots: (i) Residential Time-of-Day, (ii) Commercial Charging Time-of-Day, and (iii) Energy Equity, a comprehensive pilot geared towards assisting very low income customers not adequately supported by the current discount program. On March 29, 2021, the City Council approved a 3% base-rate increase coincident with removing the existing 3% RSA surcharge, effective April 1, 2021. These changes results in no net change to customers’ effective 2021 rates. At the same time, the City Council approved a 3.9% increase to base rates effective January 1, 2022.

*Automatic BPA Rate Pass-Through.* The City Council passed an ordinance in 2001 that allows the Department to pass through to its customers the financial impact of any increase or decrease in rates charged by BPA. The Department uses forecast values for future BPA costs when it sets retail rates. When final BPA rates/costs are adopted, any differences in costs will be passed through to the Department’s customers via a per-kWh credit or charge. These rate changes take effect without passage of a new ordinance by the City Council. The ordinance was amended by City Council ordinance in 2013 to clarify that the pass-through applies to both power and transmission rate changes. In 2021, the final record of decision for Fiscal Year 2022–2023 included a 4.2% average decrease in power rates and a 6.1% increase in transmission rates. The Department decreased purchase volume by 10% and increased transmission capacity by 14% effective October 1, 2021, through the next BPA rate period, which will begin October 1, 2023. These changes led to a \$0.0019 per kWh pass-through credit, which represents a 1.8% decrease on average, effective January 1, 2022. See “Power Resources and Cost of Power—Purchased Power Arrangements.”

**TABLE 8**  
**RATE CHANGES, 2014-2022**

<b>Effective Date</b>	<b>Percent Change</b>	<b>Type</b>
January 1, 2014	5.6%	Base Rate Increase
January 1, 2015	4.2%	Base Rate Increase
October 1, 2015	1.0%	BPA Pass-Through
January 1, 2016	4.9%	Base Rate Increase
August 1, 2016 <sup>(1)</sup>	1.5%	RSA Surcharge
January 1, 2017	5.6%	Base Rate Increase
October 1, 2017	-1.6%	BPA Pass-Through
January 1, 2018	5.6%	Base Rate Increase
January 1, 2019	5.8%	Base Rate Increase
November 1, 2019	-1.9%	BPA Pass-Through
November 1, 2019 <sup>(1)</sup>	1.5%	RSA Surcharge Increase
January 1, 2020	5.5%	Base Rate Increase
April 1, 2021 <sup>(2)</sup>	-3.0%	RSA Surcharge Decrease
April 1, 2021 <sup>(3)</sup>	3.0%	Base Rate Increase
January 1, 2022	3.9%	Base Rate Increase
January 1, 2022	-1.8%	BPA Pass-Through

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

(2) The 3% temporary RSA surcharge was removed on April 1, 2021.

(3) Base rates were increased by 3% on April 1, 2021.

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

Fifteen-year franchise agreements are currently in place for four Franchise Cities. Recently renewed agreements expire in 2029 (Shoreline) and 2030 (Lake Forest Park, SeaTac, and Burien). Tukwila's franchise agreement expired in March 2018, and services are continuing under the expired agreement. The Department has two franchise agreements with the County that have expired, but services are continuing to be provided to those unincorporated areas under the expired contracts. The Department has reached agreement on a new franchise agreement with the County that is expected to be in place by end of 2022. See "—Taxation and Intergovernmental Payments." The franchise cities (including unincorporated King County) represent approximately 99% of the Department's retail power sales outside the City but within the service area.

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

The Department's service area also includes portions of the cities of Normandy Park and Renton, which represent less than 1% of sales outside the City's boundaries. The Department passes through utility taxes on behalf of the cities of Lake Forest Park (2%) and Normandy Park (6%).

*Voluntary Green Power Program.* Pursuant to State law, since 2002 the Department has provided customers the option of making voluntary payments to fund new renewable resources. Currently, there is one voluntary green power program for residential and non-residential customers, Green Up, which allows customers to purchase green power at a retail price of \$10 per MWh. Green Up revenues are used to acquire RECs, to administer and market the program, and to invest in new local solar projects with a community benefit. Residential and non-residential customers may participate by purchasing as many blocks of 100 kWh for \$1 as they choose or by matching their billed electricity consumption at the percentage of their choosing. Non-residential customers may also purchase RECs separately from their bill, for example, to earn LEED (Leadership in Energy and Environmental Design) credits, or to purchase green power for events. As of December 31, 2021, 10,064 customers participated in Green Up through payments on their bills. Green Up revenue in 2021 totaled \$875,812. REC purchases on behalf of Green Up customers totaled 87,581 MWh in 2021. Green Up is certified and annually audited by Green-e, a clean energy certification program offered by the non-profit Center for Resource Solutions.

*Rate and Bill Comparisons.* Table 9 shows average rates and bills paid by the various customer classes, and Table 10 compares annual amounts paid by the Department's customers and the customers of neighboring utilities. The Department's rates are competitive within the Puget Sound region and among large cities in the United States, according to a comparison of the largest 25 cities based on the Edison Electric Institute Summer 2020 Typical Bills and Average Rates Report and direct survey.

**TABLE 9**  
**AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS**  
**(AS OF MARCH 14, 2022)**

	Average Revenue in Cents per kWh					Average Monthly Bills (\$)				
	City Standard and Suburban <sup>(2)</sup>	City Network <sup>(1)</sup>	Burien, SeaTac, and Shoreline	Lake Forest Park	Tukwila	City Standard and Suburban <sup>(2)</sup>	City Network <sup>(1)</sup>	Burien, SeaTac, and Shoreline	Lake Forest Park	Tukwila
<b>Residential</b>										
500 kWh per month	12.3	(3)	13.0	13.0	12.9	61	(3)	65	65	64
1,000 kWh per month	12.7		13.5	13.5	13.4	127		135	135	134
2,000 kWh per month	12.9		13.7	13.7	13.7	257		275	275	273
<b>Small General Service</b>										
10,000 kWh per month (40kW)	10.8	(3)	11.3	11.3	11.2	1,075	(3)	1,129	1,129	1,124
<b>Medium General Service</b>										
20,000 kWh per month (60kW)	9.4	12.8	10.2	10.2	10.0	1,880	2,550	2,036	2,036	1,993
200,000 kWh per month (500kW)	9.2	12.3	10.0	10.0	9.8	18,385	24,605	19,910	19,910	19,500
<b>Large General Service</b>										
400,000 kWh per month (1,000kW)	9.1	11.5	9.8	9.8	9.7	36,241	46,145	39,017	39,325	38,624
1,800,000 kWh per month (5,000kW)	9.2	11.8	9.9	10.0	9.8	165,084	212,005	177,737	179,125	175,962
<b>High Demand General Service</b>										
6,000,000 kWh per month (20,000kW)	8.8	(4)	(4)	(4)	9.6	528,776	(4)	(4)	(4)	575,383
18,000,000 kWh per month (60,000kW)	8.8				9.6	1,586,328				1,726,150

- (1) City Network includes Medium and Large General Service customers in downtown Seattle that are served by an underground, interconnected distribution network, which provides a higher level of reliability than typical radial distribution. City Network's higher rates reflect the higher costs of building and maintaining this type of distribution service.
- (2) All jurisdictions outside the City of Seattle, except the cities of Burien, Lake Forest Park, SeaTac, Shoreline, and Tukwila. The exception will include the County when its franchise agreement with the Department is finalized.
- (3) Residential and Small General Service customers receiving City Network service are charged City standard rates.
- (4) All High Demand General Service customers are located in Seattle or Tukwila.

Source: Seattle City Light Department, Finance Division

**TABLE 10**  
**ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES**  
**(AS OF MARCH 14, 2022)**

<u>Monthly Use</u>		<u>Seattle</u>	<u>Puget Sound</u>	<u>Snohomish</u>	<u>Tacoma</u>
<u>kWh</u>	<u>kW</u>	<u>City Light (\$) <sup>(1)</sup></u>	<u>Energy (\$) <sup>(2)</sup></u>	<u>County PUD (\$) <sup>(3)</sup></u>	<u>Power (\$) <sup>(4)</sup></u>
<b>Residential</b>					
100		199	218	205	309
500		737	711	686	702
1,000		1,521	1,428	1,333	1,194
3,000		4,658	4,395	3,921	3,160
<b>Small General Service</b>					
300	1	387	547	520	578
3,000	10	3,870	4,304	3,597	3,203
12,000	40	15,480	16,827	13,855	11,953
<b>Medium General Service</b>					
150,000	500	171,720	208,343	167,908	144,087
200,000	500	220,620	254,495	210,918	174,511
360,000	900	397,116	456,981	378,822	313,341
<b>Large General Service</b>					
300,000	1,000	338,167	415,298	334,779	287,200
1,000,000	5,000	1,207,224	1,609,412	1,239,648	1,127,858
2,500,000	7,500	2,778,059	3,336,476	2,719,143	2,299,784
<b>High Demand General Service</b>					
6,000,000	20,000	6,345,313	8,279,589	6,675,858	5,725,478
18,000,000	60,000	19,035,938	24,835,992	20,025,498	17,174,486
24,000,000	60,000	24,421,251	30,374,305	25,186,638	20,825,390
Last Rate Change		01/01/2022	01/01/2022	01/01/2022	04/01/2021

(1) The Department's rates include municipal taxes.

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

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

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

*Source: Seattle City Light Department, Finance Division*

### **Billing and Collection Processes**

The City's utility billing function is co-managed by both SPU and the Department. SPU provides customer service through the call center and walk-in center. The Department operates and manages the billing system. SPU and the Department bill and reimburse each other for these services. The Department currently bills the majority of its residential customers and some small commercial customers bi-monthly and all other customers monthly. All bills are due within 21 days of receipt.

The Department has established various payment programs for its customers, including a leveled payment program (to allow for monthly payments) and an Automatic Bill Payment program. The majority of the customers on the

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

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

Due to the COVID-19 pandemic, walk-in payment centers and customer service counters are temporarily closed and bills are collected by phone or mail or online. In addition, the Department has modified its current payment plan of paying the balance within 60 days with 50% down payment to 120 days with as low as 0% down payment. These payment plans are eligible for all customers including residential, commercial, and industrial. The maximum amount to be deferred for high-energy users is \$50,000. When the customer receives a billing statement within the deferment payment, the customer may continue to defer that billing statement for up to an additional 120 days, if needed, with 0% down payment.

City Light Credit and Collection teams have been contacting delinquent customers to provide assistance with payment plans and payment arrangements or offering information on the UDP, including external federal agencies for further assistance, *e.g.*, Byrd Barr, Multiservices, LIHEAP.

Customers who have lost significant income may apply to the UDP for a reduction of 60% from billing statement energy consumption charges. Pre-COVID-19, residential customers could apply only if at least 70% of poverty federal guidelines were met. Applicants went through a rigorous process of paper proof documentation, which could take up to two months to be approved. In the COVID-19 era, a paperless system created by an auto-enrollment website is used, in which it asks the question of monthly income without requiring proof. However, customers will be required to provide proof of identification and income six months from applying on the website. If a customer's gross income and the number of dependents meet requirements, then the customer is auto-enrolled in future discounts for two years (three years for seniors). It takes an average of one to two billing statements for the customer to receive a 60% discount energy bill statement credit. Before the discounted benefit expires, the customer will receive an email reminder, or a postcard for those customers who do not have email access, to review the customer's gross income to ensure that the qualifications are met appropriately. The Department also has programs to provide financial assistance to the customer if a past due notice is received and the customer potentially qualifies for the Department's Emergency Low Income Assistance program and/or Project Share. These two programs assist customers with reducing the past due amount in order to catch up, when a payment plan may be set up for short- or long term payments.

As of April 3, 2020, the Department's customers have not been charged a late fee (1% of balance past due). All residential, commercial, and industrial customers are included. On May 25, 2022, the City Council extended the late fee waiver through June 2023.

The total balance of accounts overdue for more than 30 days significantly increased as a result of the COVID-19 pandemic, increasing from \$19.5 million at the end of 2019 (pre-pandemic) to \$38.4 million at the end of 2020 to \$45.1 million at the end of 2021. The balance as of March 31, 2022, was \$48.5 million. As of May 2022, approximately 60,000 commercial and residential customer accounts (12%) are past due by at least 30 days.

As permitted by State law, the Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department. No customer has been disconnected for nonpayment since 2016. The Department was ready to resume disconnects until the COVID-19 pandemic began, but on March 9, 2020, the Mayor issued Executive Order 2020-03, which prohibited disconnects, among other measures. The Executive Order expired on April 15, 2022, and the Department plans to resume its full collections process, including disconnects, in August 2022.

The COVID-19-related measures implemented by the Department and discussed above are expected to lead to higher rates of delinquency in the near term.



The current Customer Care Billing system was implemented in 2016. The system has the capability to perform remote disconnection for customers that possess an Automated Meter Infrastructure. Currently, this option is not being utilized.

### **Historical Operating Results 2017-2021**

Table 11 presents information on operating results for the period 2017-2021, along with revenue available for debt service. Revenue available for debt service is then used in Table 12 to calculate the debt service coverage ratio in each of those years.

Note that historical information may not be indicative of future expectations in light of the COVID-19 pandemic. See “Seattle City Light Department—COVID-19 Pandemic.”

*The financial statements of the Department as of and for the fiscal year ended December 31, 2021, included herein as Appendix C, have been audited by Baker Tilly Virchow Krause, LLP (“Baker Tilly”), independent accountants, as stated in its report appearing herein. The City has not requested that Baker Tilly provide consent for inclusion of its audited financial statements in this Official Statement, and neither the City’s independent auditors nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and they assume no responsibility for, and disclaim any association with, this Official Statement and such information.*

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

	2017	2018	2019	2020	2021
<b>OPERATING REVENUES:</b>					
Retail power revenues	\$ 875,235	\$ 868,611	\$ 938,871	\$ 926,678	\$ 964,254
Short-term wholesale power revenues	60,868	61,025	43,223	51,322	66,284
Other power-related revenues <sup>(1)(2)</sup>	35,791	45,923	52,183	40,790	59,298
Transfers from/(to) Rate Stabilization Account <sup>(3)</sup>	(2,264)	(3,518)	22,771	(22,706)	(2,546)
Other operating revenues	20,080	19,573	22,376	19,682	21,687
<b>Total Operating Revenues</b>	<b>\$ 989,710</b>	<b>\$ 991,614</b>	<b>\$ 1,079,424</b>	<b>\$ 1,015,766</b>	<b>\$ 1,108,977</b>
<b>OPERATING EXPENSES:</b>					
Long-term purchased power—Bonneville and other	\$ 224,857	\$ 217,765	\$ 215,934	\$ 216,635	\$ 207,544
Short-term wholesale power purchases	15,223	18,524	34,292	10,049	38,479
Other power expenses	65,358	70,243	74,369	72,500	95,210
Transmission <sup>(4)</sup>	52,514	54,200	52,450	54,582	55,668
Distribution	60,402	61,927	60,433	56,319	67,971
Customer service	49,390	55,723	33,680	58,606	50,826
Conservation	32,505	32,945	33,377	33,301	28,857
Administrative and general	128,687	96,189	122,853	127,299	97,054
Taxes	94,765	91,766	100,072	101,242	101,478
Depreciation and amortization	128,768	123,956	145,809	149,785	148,590
<b>Total Operating Expenses</b>	<b>\$ 852,469</b>	<b>\$ 823,238</b>	<b>\$ 873,269</b>	<b>\$ 880,318</b>	<b>\$ 891,677</b>
<b>Net Operating Revenue <sup>(5)</sup></b>	<b>\$ 137,241</b>	<b>\$ 168,376</b>	<b>\$ 206,155</b>	<b>\$ 135,448</b>	<b>\$ 217,300</b>
<b>Adjustments to Net Operating Revenue <sup>(6)</sup></b>					
City taxes <sup>(7)</sup>	\$ 54,414	\$ 53,410	\$ 58,431	\$ 57,567	\$ 53,614
Depreciation and amortization	128,768	123,956	145,809	149,785	148,590
Depreciation and amortization included in	32,412	32,996	30,824	32,476	47,079
Pension expense <sup>(9)</sup>	37,055	21,985	33,640	24,655	1,502
Pension contributions <sup>(9)</sup>	(23,714)	(24,657)	(24,825)	(28,746)	(28,872)
Valuation on exchange power, net <sup>(2)</sup>	20	875	0	0	0
BPA Conservation Augmentation/Agreement revenue <sup>(10)</sup>	(1,592)	(1,884)	(2,143)	(2,392)	(2,572)
Investment income <sup>(11)</sup>	7,422	10,946	10,731	10,756	8,703
Non-cash expenses <sup>(12)</sup>	2,362	841	1,005	3,383	4,401
Other <sup>(13)</sup>	2,405	1,564	3,028	3,403	(729)
<b>Total Adjustments</b>	<b>\$ 239,552</b>	<b>\$ 220,032</b>	<b>\$ 256,501</b>	<b>\$ 250,887</b>	<b>\$ 231,716</b>
<b>Net Revenue Available for Debt Service</b>	<b>\$ 376,793</b>	<b>\$ 388,408</b>	<b>\$ 462,656</b>	<b>\$ 386,335</b>	<b>\$ 449,016</b>

**NOTES TO TABLE:**

- (1) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (2) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (3) Transfers from/(to) the RSA in accordance with Ordinance 123260, primarily to address fluctuations in surplus power sales.
- (4) Net of revenue from the short-term sale of excess transmission capacity.
- (5) Operating income per audited financial statements.
- (6) Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for Debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines in this table, and are unaudited.
- (7) City taxes are included as an adjustment to Net Operating Revenue when determining Net Revenue Available for Debt Service because the lien of such taxes on revenue is junior to debt service in accordance with the Bond Ordinance.
- (8) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (9) Pension expense is the amount recorded for compliance with GASB Statement No. 68, implemented in 2015, a non-cash item. Pension contributions are the Department's cash contributions to the Seattle City Employees' Retirement System.
- (10) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (11) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from the City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (12) Effective 2018, includes adjustment for GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in addition to claim expenses and capital project expenditures from prior years that were determined not to be capital expenditures.
- (13) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.

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

*Historical Debt Service Coverage.* The Bond Ordinance does not define a "coverage requirement" beyond what is necessary to pay all Operating and Maintenance Expense, to pay into the Parity Bond Fund the amounts required to be applied to the payment of debt service on the Outstanding Parity Bonds, to pay into the Junior Lien Debt Service Fund the amounts (if any) required to be paid into that fund in respect of outstanding Junior Lien Bonds, and to pay all other indebtedness to which revenues of the Light System have been pledged. See "Security for the Bonds—Rate Covenant" and Appendix A—Summary of Bond Ordinance. The Department's financial policies require the Department to set electric rates designed to achieve a debt service coverage ratio of 1.80x, based on the annual Department budget. The test for the issuance of Future Parity Bonds requires delivery of a Parity Certificate demonstrating coverage of Net Revenue equal to 125% of Maximum Annual Debt Service on all Parity Bonds then outstanding plus the proposed series of Future Parity Bonds, with certain permitted adjustments. See "Security for the Bonds—Future Parity Bonds" and Appendix A—Summary of Bond Ordinance.

Historically, the ordinances authorizing bonds have not provided a definition for the phrases describing operating and maintenance expense as used in those ordinances in the definitions of Net Revenue, the rate covenant, and the Parity Conditions. Nonetheless, the Department has historically calculated the operating expenses for these purposes in accordance with applicable Generally Accepted Accounting Principles ("GAAP"). For purposes of clarification, beginning in 2017 ordinances authorizing the issuance of Parity Bonds, including the Bond Ordinance, have adopted a definition for the term "Operating and Maintenance Expense" that is consistent with its historical practice. See Appendix A—Summary of Bond Ordinance.

The debt service coverage calculations set forth in Table 12 are intended to reflect compliance with the rate covenant and the Future Parity Bond covenant contained in the Bond Ordinance and described under "Security for the Bonds"

and for no other purpose. Such calculations reflect the application of non-recurring or extraordinary accounting transactions permitted under the Bond Ordinance and GAAP.

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

**TABLE 12**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**(\$000)**

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Net Revenue Available for Debt Service	\$ 376,793	\$ 388,408	\$ 462,656	\$ 386,335	\$ 449,016
Debt Service on Parity Bonds <sup>(1)</sup>	\$ 203,264	\$ 212,427	\$ 220,785	\$ 223,000	\$ 216,307
Debt Service Ratios-Times Covered on Parity Bonds <sup>(2)</sup>	1.85	1.83	2.10	1.73	2.08

(1) Net of federal subsidy payments. See “Other Considerations Relative to the City—Federal Policy Risk and Other Federal Funding Considerations.”

(2) Net Revenue Available for Debt Service (see Table 11) divided by Debt Service on Parity Bonds.

Source: *Seattle City Light Department, Accounting Division*

### **Management Discussion of Historical Operating Results 2017-2021**

This section provides a discussion of operating results for the period 2017-2021, based on information in Tables 11 and 12, and an expanded discussion for the period 2020-2021, based on a summary of the Management’s Discussion and Analysis included in Appendix C—2021 Audited Financial Statements of the Department.

*Summary 2017-2021.* Retail revenues increased from \$875.2 million in 2017 to \$964.3 million in 2021, primarily due to the Department’s average system rate increases during this period (see “—Retail Rates”). This increase in retail revenues also reflects the increase in the number of customers, from 454,497 in 2017 to 485,155 in 2021, an increase of 6.75%.

Net wholesale revenue (excluding bookouts) varied during this period, ranging from a high of \$50.5 million in 2017 to a low of \$15.5 million in 2019. This variability is primarily due to fluctuations in hydro volumes, wholesale power market prices, and retail load. The RSA has been in place since January 1, 2011; less-than-budgeted net wholesale revenue in 2019 was offset by greater RSA rate surcharge revenue and resulted in a net cash transfer from operating cash to the RSA. An RSA rate surcharge of 1.5% has been in effect since August 1, 2016, as the RSA balance dropped below \$90.0 million at the end of June 2016. An additional RSA rate surcharge of 1.5% was imposed effective November 1, 2019, because the RSA balance fell below the next trigger level of \$80.0 million at the end of the third quarter. These surcharges were removed on March 31, 2021. The RSA balance was \$99.4 million at the end of 2021. See “—Financial Policies—Rate Stabilization Account.”

Debt service on Parity Bonds increased from \$203.3 million in 2017 to \$216.3 million in 2021. Debt service coverage ranged from a high of 2.10x in 2019 to a low of 1.73x in 2020. See Table 12. The Department’s financial policies require the Department to set electric rates designed to achieve a debt service coverage ratio of 1.80x, based on the annual Department budget. Table 12 shows that, historically, the Department has achieved this level of coverage except in 2020.

Higher nonresidential retail consumption and revenue in 2021 signified economic recovery. Increases in residential consumption and revenue are attributed to increased teleworking, new customer additions, and heating and cooling demand from significantly colder than normal temperatures in February, March, and December 2021 and record high temperatures in late June. The majority of the changes in the Department’s billed retail sales from 2017-2021 is attributed to impacts of weather. On a weather-adjusted basis, retail sales are estimated to be relatively flat, showing

only a small gradual decline over this time period. The number of customers has been growing significantly, but the use per customer has been declining because of efficiencies including LED lighting, appliance standards, and improved building standards. The Department's robust conservation program is also contributing to the declining use per customer. See "Capital Requirements—Conservation." The Department's adopted 2020 retail sales forecast projected a gradual decline of retail sales over the next six years. See "Seattle City Light Department—Strategic Plan."

*Operating Revenues—2021 vs. 2020.* Retail revenues in 2021 were \$964.3 million, which was \$37.6 million or 4.1% higher than in 2020. Higher nonresidential retail consumption and revenue signify economic recovery; however, sales are still below pre-pandemic levels. A higher participation rate in the Utility Discount Program among residential customers resulted in higher rate discounts, partially offsetting revenues from higher consumption. The number of retail customers increased to 485,155 in 2021, a 1.6% increase over 2020.

Net wholesale revenue was \$37.6 million, a decrease of \$10.1 million, or 21.17%, from 2020. Wholesale power sales were \$66.3 million in 2021, an increase of \$15.0 million over 2020, and wholesale power purchases increased by \$28.5 million to \$38.5 million. The considerable decrease in net short wholesale power revenues was in large part due to dry hydro conditions, high market prices, and strong retail demand. Also, gross wholesale power purchases were higher in 2021 compared to 2020, primarily due to drought conditions in the third quarter and higher retail sales in December driven by extremely cold weather.

Other power-related revenues, including valuation of power exchanges, increased by \$18.5 million to \$59.3 million in 2021. Other power-related purchases, including valuation of power exchanges, decreased by \$6.7 million to \$15.2 million in 2020, resulting in net other power-related revenues of \$25.6 million in 2020, a net decrease of \$4.7 million or 15.4% from net other power-related revenues of \$30.3 million in 2019.

Net transfers to the RSA unearned revenue account were \$2.6 million and \$22.7 million for 2021 and 2020, respectively.

Revenues from other sources increased by \$2.0 million, totaling \$21.7 million in 2021.

*Operating Expenses—2021 vs. 2020.* In 2021, long-term purchased power (BPA and other) decreased by \$9.1 million to \$207.5 million. Other power expenses, including generation, power exchanges, and other at \$95.2 million, were \$22.7 million higher because of lower volumes and market prices for exchange contracts and ancillary purchase contracts. Transmission expenses, including wheeling, were \$55.7 million in 2021, an increase of \$1.1 million from 2020. Distribution expenses of \$68.0 million increased by \$11.7 million. This increase is due to pick-up on normal operations as compared to 2020, which was most impacted by COVID-19.

Other operating and maintenance expenses for customer service, conservation, and administrative and general, at \$176.7 million, decreased by \$42.5 million from 2020. Customer service expenses were lower by \$7.8 million, driven primarily by lower bad debt expense for retail sales and lower other customer services expenses, as the effects of the pandemic response lessened. Conservation expense decreased by \$4.5 million, as more support and labor was put towards other customer programs.

Administrative and general, net, of \$97.1 million decreased by \$30.2 million from \$127.3 million in 2020. GASB 68 pension adjustments decreased administrative and general costs by \$23.1 million, offset by medical and other employment cost which increased \$3.4 million. Net allocations out of operations and maintenance expenses were \$4.2 million higher due to increased capital improvement projects and productive labor base charges. Other costs, including labor, related overhead, and other expenses, decreased by \$6.3 million.

Taxes in 2021 were \$101.5 million, an increase of \$0.3 million from 2020. Depreciation and amortization, at \$148.6 million, decreased by \$1.2 million.

*Net Operating Revenue—2021 vs. 2020.* Net operating revenue in 2021 was \$217.3 million, \$81.9 million higher than in 2020. Higher operating revenues, combined with lower operating expenses, particularly administrative and general, led to the increased net operating revenue compared to 2020.

Although not included in Table 11, changes in nonoperating revenues and expenses provide additional information on the financial condition of the Department. Nonoperating revenue decreased by \$22.5 million in 2020, mainly attributable to GASB 31 fair value adjustment and lower interest income.

Nonoperating expense decreased by \$4.8 million, mainly due to lower refunding loss and lower interest expense.

Capital contributions and grants increased by \$11.9 million due to pick-up on normal operations as compared to 2020.

### **Expectations for 2022 Operating Results**

As of May 12, 2022 the Department's projected 2022 debt service coverage ratio is expected to be 2.03x, exceeding the City Council-adopted financial policy target of 1.80x. Net income for 2021 is expected to be \$167 million.

Retail revenue is currently expected to be higher than planned levels given a 2.1% higher outlook of retail sales compared to what was used to set the revenue budget, partially offset by the average 1.8% rate decrease from the 2022 BPA pass-through. See “—Retail Rates—Automatic BPA Rate Pass-Through.” Retail sales have recovered faster from initial 2020 COVID-19 impacts than was originally assumed when the 2022 revenue budget was set. Operating expenses are expected to be approximately at planned levels. Long-term purchased power costs and power marketing costs are expected to come in below planned levels.

Q1 2022 generation was above average at the Department's Skagit generating facilities, but below average at the Department's Boundary generating facility. As of April 29, 2022, runoff flows (April-September) at the Skagit Project are expected to be slightly above average, at 102% of normal; runoff flows at the Boundary Project are expected to be normal, at 100% of the historical average. Net wholesale revenue is expected to be \$76.6 million, \$36.6 million above the budgeted amount of \$40 million. The RSA balance is expected to remain over its \$100 million target level for the remainder of 2022. See “—Financial Policies—Rate Stabilization Account.”

### **Debt Service Requirements**

As of June 17, 2022, the principal amount of Outstanding Parity Bonds (excluding the Bonds and including the Refunded Bonds) totaled \$2,662,485,000. See “Security for the Bonds—Outstanding Parity Bonds.” Principal and interest payments due on the Department's Outstanding Parity Bonds are shown in Table 13. See “Capital Requirements—Financing Plans” for a discussion of the Department's future financing plans.

### **Outstanding Variable Rate Parity Bonds**

As of June 17, 2022, the City has \$190,320,000 in principal amount of variable rate Parity Bonds outstanding, consisting of \$89,770,000 Municipal Light and Power Revenue Bonds, 2018C-1 and 2018C-2 (SIFMA Index), and \$100,620,000 Municipal Light and Power Refunding Revenue Bonds, 2021, Series B (SIFMA Index).

### **Subordinate Obligations**

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

**TABLE 13**  
**DEBT SERVICE REQUIREMENTS**

Year	Outstanding Parity Bonds <sup>(1)</sup>			The Bonds			Total Parity Bonds		
	Principal	Interest <sup>(2)</sup>	Total	Principal	Interest	Total	Principal	Interest <sup>(2)</sup>	Total
2022 <sup>(3)</sup>	\$ 123,290,000	\$ 116,029,267	\$ 239,319,267	\$ -	\$ -	\$ -	\$ 123,290,000	\$ 116,029,267	\$ 239,319,267
2023	109,495,000	109,471,901	218,966,901	18,180,000	12,456,225	30,636,225	127,675,000	121,928,126	249,603,126
2024	112,575,000	104,051,627	216,626,627	18,695,000	11,976,750	30,671,750	131,270,000	116,028,377	247,298,377
2025	101,865,000	98,466,173	200,331,173	19,635,000	11,042,000	30,677,000	121,500,000	109,508,173	231,008,173
2026	115,445,000	93,626,213	209,071,213	10,920,000	10,060,250	20,980,250	126,365,000	103,686,463	230,051,463
2027	94,565,000	88,174,532	182,739,532	12,400,000	9,514,250	21,914,250	106,965,000	97,688,782	204,653,782
2028	98,655,000	83,548,696	182,203,696	7,905,000	8,894,250	16,799,250	106,560,000	92,442,946	199,002,946
2029	93,385,000	79,274,855	172,659,855	8,295,000	8,499,000	16,794,000	101,680,000	87,773,855	189,453,855
2030	79,555,000	75,358,212	154,913,212	3,905,000	8,084,250	11,989,250	83,460,000	83,442,462	166,902,462
2031	82,800,000	71,801,299	154,601,299	4,100,000	7,889,000	11,989,000	86,900,000	79,690,299	166,590,299
2032	86,110,000	68,171,633	154,281,633	4,300,000	7,684,000	11,984,000	90,410,000	75,855,633	166,265,633
2033	89,525,000	64,437,846	153,962,846	4,520,000	7,469,000	11,989,000	94,045,000	71,906,846	165,951,846
2034	91,995,000	60,898,188	152,893,188	4,745,000	7,243,000	11,988,000	96,740,000	68,141,188	164,881,188
2035	104,370,000	56,920,432	161,290,432	4,980,000	7,005,750	11,985,750	109,350,000	63,926,182	173,276,182
2036	113,785,000	52,497,736	166,282,736	5,230,000	6,756,750	11,986,750	119,015,000	59,254,486	178,269,486
2037	104,665,000	47,784,225	152,449,225	5,490,000	6,495,250	11,985,250	110,155,000	54,279,475	164,434,475
2038	101,570,000	43,428,798	144,998,798	5,765,000	6,220,750	11,985,750	107,335,000	49,649,548	156,984,548
2039	112,830,000	39,190,409	152,020,409	6,055,000	5,932,500	11,987,500	118,885,000	45,122,909	164,007,909
2040	117,285,000	34,460,359	151,745,359	6,355,000	5,629,750	11,984,750	123,640,000	40,090,109	163,730,109
2041	107,910,000	29,933,621	137,843,621	6,675,000	5,312,000	11,987,000	114,585,000	35,245,621	149,830,621
2042	95,665,000	25,950,800	121,615,800	7,010,000	4,978,250	11,988,250	102,675,000	30,929,050	133,604,050
2043	99,680,000	22,136,658	121,816,658	7,360,000	4,627,750	11,987,750	107,040,000	26,764,408	133,804,408
2044	83,155,000	18,161,008	101,316,008	7,725,000	4,259,750	11,984,750	90,880,000	22,420,758	113,300,758
2045	77,450,000	14,900,100	92,350,100	8,115,000	3,873,500	11,988,500	85,565,000	18,773,600	104,338,600
2046	64,875,000	12,209,925	77,084,925	8,520,000	3,467,750	11,987,750	73,395,000	15,677,675	89,072,675
2047	54,215,000	5,757,175	59,972,175	8,945,000	3,041,750	11,986,750	63,160,000	8,798,925	71,958,925
2048	41,955,000	3,442,150	45,397,150	9,390,000	2,594,500	11,984,500	51,345,000	6,036,650	57,381,650
2049	28,180,000	1,922,350	30,102,350	9,860,000	2,125,000	11,985,000	38,040,000	4,047,350	42,087,350
2050	15,590,000	993,000	16,583,000	10,355,000	1,632,000	11,987,000	25,945,000	2,625,000	28,570,000
2051	9,235,000	369,400	9,604,400	10,870,000	1,114,250	11,984,250	20,105,000	1,483,650	21,588,650
2052	-	-	-	11,415,000	570,750	11,985,750	11,415,000	570,750	11,985,750
<b>Total</b>	<b>\$ 2,611,675,000</b>	<b>\$ 1,523,368,589</b>	<b>\$ 4,135,043,589</b>	<b>\$ 257,715,000</b>	<b>\$ 186,449,975</b>	<b>\$ 444,164,975</b>	<b>\$ 2,869,390,000</b>	<b>\$ 1,709,818,564</b>	<b>\$ 4,579,208,564</b>

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- (1) Excludes the Refunded Bonds.
- (2) Reflects taxable rates on bonds issued as taxable bonds with a federal subsidy, but does not reflect the interest credit associated with those bonds. For a description of the effect of federal sequestration on these direct-pay tax credit bonds, see “Other Considerations Relative to the City—Federal Policy Risk and Other Federal Funding Considerations.” Includes candidates for potential cash defeasance that the Department is considering for later in 2022. See “Capital Requirements—Financing Plans.” Assumes interest rate of 4.00% on variable rate bonds, per the Department’s financial plan.
- (3) Reflects full year of debt service.

## CAPITAL REQUIREMENTS

The Department owns, maintains, and operates a multi-billion-dollar physical plant that includes power generation hydroelectric plants, transmission lines, distribution system, substations, and other utility assets. The Department's CIP is the vehicle for repairing, upgrading, and expanding this infrastructure. Every year during its annual budget process, the City adopts a six-year CIP, which outlines anticipated investments over that time frame. The Department's CIP is a part of the City's CIP. This section describes the adopted 2022-2027 CIP and other capital requirements that the Department intends to implement over the six-year period. Any amounts listed for specific projects are for expenses expected to occur only during the six-year period and may not represent the total cost of the project.

### Central Utility/General Plant

These expenses are related to general plant and include investments in non-electrical system assets including buildings and facilities, such as the North and South Service Centers, and investments in office-related computer equipment and furniture, centralized billing and customer service systems, information and communications systems, vehicle fleets, and transportation electrification projects. Over the six-year planning period, the largest expenditures are expected for transportation electrification projects (\$46.9 million), replacement of fleet equipment (\$46.5 million), office furniture and equipment (\$23.9 million), and comprehensive substation improvements (\$16.1 million).

### Distribution

Distribution plant includes substations, poles, wires and cables, transformers, manholes, vaults, ducts, and other electrical equipment and infrastructure needed to deliver power from the substation to the customer connection at home or business in both network and non-network areas. Over the six-year planning period, the largest projects are expected to be replacement of overhead (\$254.5 million, of which the Accelerated Pole Replacement Program is \$165.9 million) and underground equipment (\$185.8 million), and overhead and underground service connection work for Medium General Service customers (\$116.3 million), and pole preparation for the attachment of communication infrastructure owned by other entities (\$102.5 million), software replacement strategy to upgrade or replace components of the Enterprise Solution Portfolio (\$70.3 million), and network additions and services—Broad Street Substation (\$63.7 million).

### External Projects

These projects include work related to requests from local jurisdictions such as relocating infrastructure for transportation projects, maintaining and upgrading the streetlight system, and various undergrounding work. Over the six-year planning period, the largest projects are expected to be the relocation of streetlights due to transportation projects (\$37.3 million), and the overhead and underground relocations of electrical lines to accommodate transportation projects (\$37.1 million), ongoing public and private street lighting projects (\$26.4 million), and the LED streetlight conversion program (\$19.4 million).

### Power Supply

Power supply includes generation facilities used to produce electricity. Typical assets are reservoirs, dams, waterways, waterwheels, turbines, generators, and accessory electrical equipment. A large percentage of generation investment is dedicated to core Department functions that maintain or add to generation infrastructure and ensure system reliability and power availability to customers, including the Department's generator and turbine runner rebuild program. Over the six-year planning period, the largest projects are expected to be license mitigation at the Boundary Project (\$114.5 million) and relicensing at the Skagit Project (\$58.9 million), and for minor capital improvement projects at the Skagit facilities (\$34.2 million).

### Transmission

Transmission plant includes poles, towers, and conductors used to carry electricity from generation facilities to substations. Over the six-year planning period, the largest projects are expected to be transmission tower refurbishment (\$25.8 million) and transmission reliability (\$20.0 million), and the transmission Inter-Agency project (\$3.7 million).



## **Conservation**

Conservation programs offer financial incentives (such as rebates, discounts, and loans) to customers who produce energy savings by installing approved energy-saving equipment or weatherization measures or by designing a building to exceed energy code requirements. Program costs include program administration, audits, and inspections, and the costs of designing and installing energy savings measures. The current expenditure level is expected to achieve approximately 51.5 aMW of cumulative annual energy savings (an average of 8.6 aMW annual achievement per year) between 2022 and 2027.

## **High Ross Agreement Payment Amortization**

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

## **Relicensing, Mitigation, and Other Costs**

In addition to including capital expenditures for environmental mitigation in the CIP, the Department capitalizes expenditures for mitigation measures (referred to as other capitalized expenditures) similar to those included in the CIP; however, these expenditures differ in that they are for measures on land or structures belonging to entities other than the Department and involve payments to the owners. Recipients of these payments include a variety of nonprofit organizations and governmental agencies with which the Department has entered into contracts for environmental mitigation pursuant to the terms of relicensing settlement agreements. The Department also defers environmental remediation expenditures, most of which are related to the Duwamish Waterway cleanup activities. See “Environmental Matters—Contaminated Site Liability.” Other deferred costs include City and State taxes on suburban undergrounding to match the timing of the repayment by customers of the Franchise Cities.

## **Adopted CIP and Conservation and Other Capital Requirements**

*The Department does not as a matter of course make public projections as to future sales, earnings, or other results. However, the Department has prepared the prospective financial information set forth in Table 14 to provide readers of this Official Statement information related to projected capital expenditures of the Department. This information was not prepared with a view toward securities disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Department, the information was based on reasonable information available to the Department as of March 7, 2022, reflects the best currently available estimates and judgments as of such date, and presents, to the best of management’s knowledge and belief, the expected course of action and the expected future capital expenditures of the Department. However, this information reflects only the information and assumptions made as of the date it was prepared, is not fact, and should not be relied upon as being necessarily indicative of future results. Potential purchasers of the Bonds and the readers of this Official Statement are cautioned not to place undue reliance on the prospective information.*

**TABLE 14**  
**CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS AND OTHER CAPITAL REQUIREMENTS**  
**(\$million)**

	2022	2023	2024	2025	2026	2027	Total
<b>Uses of Funds</b>							
Central Utility Projects	\$ 47.0	\$ 35.3	\$ 31.8	\$ 26.3	\$ 25.3	\$ 24.9	\$ 190.6
Distribution	180.9	221.6	229.6	239.0	241.9	230.8	1,343.8
External Projects <sup>(1)</sup>	40.5	28.0	20.4	17.5	19.2	20.3	145.9
Power Supply	93.5	80.2	63.5	57.1	51.2	62.4	407.9
Transmission	18.9	12.1	9.2	8.1	8.1	8.1	64.5
Conservation <sup>(2)</sup>	21.4	28.6	28.6	28.9	29.4	29.4	166.4
Other Capital Costs <sup>(3)</sup>	6.6	7.5	8.3	8.6	7.2	11.3	49.5
<b>Total Funds Required/CIP</b>	<b>\$ 408.7</b>	<b>\$ 413.3</b>	<b>\$ 391.4</b>	<b>\$ 385.4</b>	<b>\$ 382.2</b>	<b>\$ 387.2</b>	<b>\$ 2,368.4</b>
<b>Sources of Funds</b>							
Cash from Operating Account <sup>(4)</sup>	\$ 169.0	\$ 128.7	\$ 179.8	\$ 152.6	\$ 145.3	\$ 176.0	\$ 951.4
Cash from Contributions	46.1	41.4	39.7	40.1	41.1	48.2	256.6
Cash from Bond Sale <sup>(5)</sup>	193.6	243.3	171.9	192.8	195.8	163.0	1,160.4
<b>Total Funds Available</b>	<b>\$ 408.7</b>	<b>\$ 413.3</b>	<b>\$ 391.4</b>	<b>\$ 385.4</b>	<b>\$ 382.2</b>	<b>\$ 387.2</b>	<b>\$ 2,368.4</b>

(1) Includes Alaskan Way Viaduct and seawall replacement. See “Other Considerations Relative to the City—Considerations Related to Alaskan Way and Waterfront Seattle Program.”

(2) The City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Programmatic conservation costs are amortized to expense over 20 years. See “Power Resources and Cost of Power—Department-Owned Resources.” Includes relicensing, mitigation, toxic cleanup, and other costs such as City and State taxes on suburban undergrounding. These costs are deferred and amortized to expense over the respective project license period or other relevant period.

(3) Includes environmental mitigation and toxic cleanup costs.

(4) Includes funds that will be utilized for debt retirement.

(5) Net of planned optional debt retirements. Net of expected reserve fund contributions and issuance costs.

Source: Seattle City Light Department, Finance Division

### Financing Plans

Capital requirements of \$2,368.4 million from 2022 through 2027 are expected to be financed through a combination of cash from operations, contributions in aid of construction, capital grants, and the proceeds of the Bonds and Future Parity Bonds. To date, the Department has not received a significant amount of State or federal funding for its capital program, but the Department will continue to pursue such funding opportunities in the future. The Department projects that bond proceeds will fund approximately 55% of the net capital requirements (total funds required less contributions) over the period 2022-2027, with the remaining 45% funded by cash from operations, contributions in aid of construction, and capital grants. This is in compliance with the Department’s policy target to fund approximately 40% of its capital improvements over the term of its six-year CIP using cash from operations. See “Department Financial Information—Financial Policies.” The City intends to use approximately \$29 million<sup>(1)</sup> of operating cash to defease certain outstanding bonds of the Department before the end of 2022. In addition, the City expects to issue additional Parity Bonds in an aggregate principal amount of approximately \$250 million in mid-2023.

(1) Preliminary, subject to change.

## ENVIRONMENTAL MATTERS

### Impact of Environmental Matters

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

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

### Waste Management and Disposal Issues

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

### Contaminated Site Liability

As of December 31, 2021, the Department had recorded environmental liability amounts net of recoveries of \$108.9 million under the GASB reporting requirements. This amount is evaluated semi-annually and is subject to adjustment based on future developments.

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

*Lower Duwamish Waterway.* In 2001, the U.S. Environmental Protection Agency ("EPA") listed the Lower Duwamish Waterway as a Superfund site. A remedial investigation ("RI") and feasibility study ("FS") were completed in 2012 pursuant to an Administrative Settlement Agreement Order on Consent entered into among the City, the County, the Port of Seattle, and The Boeing Company. EPA released its Record of Decision in 2014, estimating the cost of its selected approach to be \$342 million, with a seven-year construction period beginning in 2022. The cost was estimated in 2014 dollars as if the entire seven years of work took place in that year. Given that construction is not scheduled to begin until late 2024 or early 2025, the costs will be greater than the EPA estimate. The initial estimate was recalculated to its 2018 current value using a starting point of the undiscounted estimated cost of \$395.0 million plus an inflation factor of 1.038 annually. The revised estimated total project cost is \$579.5 million, resulting in an increase in estimated environmental liability of \$12.4 million for the Department. Of this total, the Department's share is 31% of one-quarter of the total project cost, or \$44.9 million as of December 31, 2021. The revised estimated liability is calculated in accordance with GAAP. The City is participating in a confidential, voluntary allocation process among parties that may be liable for some of the cleanup costs. That process is expected to finish in 2022. The Department and SPU have been sharing the City's portion of the costs and will do so for the remediation, though the final allocation of those costs between the Department and SPU will be determined as part of the process for allocating all of the costs among the parties. See Appendix C—2021 Audited Financial Statements of the Department—Note 15.

*Harbor Island—East Waterway.* The East Waterway was designated as a Superfund site in 2001 as an operable unit of the overall Harbor Island Superfund Site, which was listed by EPA in 1983. Current potentially responsible parties include the City, the Port of Seattle, the County, and Seattle Iron & Metals Corporation ("SIMC"). Potential Department liability derives from Department transformers sold to SIMC, from which contaminants are thought to have drained into the waterway. A Supplemental Remedial Investigation ("SRI"), with the Port of Seattle taking the

lead, was completed in 2017. EPA approval of the FS was received in 2019. The City has agreed to an interim sharing of on-going costs of the SRI/FS with the Port of Seattle and the County, expected to be approximately \$200,000 in 2022 and \$400,000 in 2023. The Department expects that EPA will publish the proposed plan in 2022. See Appendix C—2021 Audited Financial Statements of the Department—Note 15.

*Georgetown Steam Plant.* The Department signed an order with Ecology to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department’s property known as the Georgetown Steam Plant, and the King County Airport. The draft RI report was submitted to Ecology in June 2016; Ecology has not approved the RI, and the timing for completion of the FS is unknown. The Department completed interim actions at the Georgetown Steam Plant property in 2012. See Appendix C—2021 Audited Financial Statements of the Department—Note 15.

In 2020, the Department, Seattle Parks and Recreation, and the Seattle Department of Transportation teamed up to develop an off-leash pet area and bicycle/pedestrian trail in the Georgetown and South Park communities, specifically on a portion of the North Boeing Field/Georgetown Steam Plant (“GTSP”) Remedial Investigation site that was previously remediated due to the presence of the former GTSP Flume. Investigations are currently in process to characterize and remediate any residual contamination in this area. Remediation and construction activities are anticipated to occur sometime in 2023.

*Skagit Project.* The Department signed an Administrative Settlement Agreement Order on Consent (the “Agreement”) with the National Park Service (“NPS”) to perform removal actions under the Superfund program at three sites located within the North Cascades National Park Complex, Ross Lake National Recreation Area, in Whatcom County. Specifically, under the Agreement, the Department will conduct Non Time-Critical Removal Actions (“NCTRA”) on the Newhalem Penstock Site and the Diablo Dry Dock facility, and a Time-Critical Removal Action at the Ladder Creek Settling Tank. All three sites house facilities that were formerly or are currently operated by the Department, but on NPS land. The removal actions are therefore being performed under the Superfund program with NPS as the lead agency. The Removal Action at the Ladder Creek site is complete except for long-term monitoring of vegetation restoration. The Engineering Evaluation and Cost Analysis portion of the NTCRA work is underway for the Newhalem Penstock and Diablo Dry Dock facility sites. Total expenditures for the three Skagit sites as of April 20, 2022, were approximately \$1,219,000.

### **Endangered Species Act**

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

*Columbia and Snake River Biological Opinions.* The three federal action agencies responsible for operating the Federal System—the Corps, the Bureau of Reclamation, and BPA—have been engaged in ESA Section 7 consultation for many years. As a result of litigation, NOAA Fisheries has been required to develop a series of Biological Opinions that provide the basis for the species recovery plans that NOAA has developed for the Columbia and Snake River fisheries. These recovery plans seek to protect and recover listed species including salmon, steelhead, Bull Trout, and sturgeon by regulating stream flow and other aspects of hydropower operations in the watersheds. The Biological Opinion for the 14 dams in the Federal System has been the subject of ongoing litigation in U.S. District Court (Oregon). Most recently, the U.S. District Court rejected the federal government’s recovery plan for Columbia River salmon and steelhead in an opinion and order filed in 2016. The court remanded the 2014 Biological Opinion completed by NOAA Fisheries, but left it in place so that ongoing recovery actions could continue, while ordering NOAA to complete a new Biological Opinion by the end of 2018. NOAA Fisheries issued a new Biological Opinion in March 2019 that carries forward a number of reasonable and prudent measures from previous biological opinions and a new spill operation agreement that was developed by Washington and Oregon and the Nez Perce Tribe. The court order also required an updated Environmental Impact Statement (“EIS”) for Columbia River Systems Operations (“CRSO”). The Final CRSO EIS was published on July 31, 2020, by the Corps, the Bureau of Reclamation, and BPA, and a new Biological Opinion was produced by NOAA Fisheries following the final determination of the Preferred Alternative. The Department reviewed and commented in consideration of how operations resulting from it may affect the price and supply of power that the Department purchases from BPA and Grant PUD and ESA-listed species recovery, and revisions were noted in the Final CRSO EIS that addressed some of the Department’s concerns,

particularly on the data sources used in the power analysis. See “Power Resources and Costs of Power—Purchased Power Arrangements.”

The Department’s power generation at the Boundary Project is affected by operations at federal dams/storage reservoirs upstream of Boundary Dam. Fish and wildlife protection under the ESA is a factor in the operations of upstream dams. See “Power Resources and Cost of Power—Overview of Resources.” Any new recovery plan or Biological Opinion issued by NOAA can result in changes in flows at federal projects that could have an impact on the Boundary Project. For a discussion of additional environmental issues and the Boundary project, see “Power Resources and Cost of Power—Department-Owned Resources—Boundary Project.”

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

*Skagit, Tolt, and Cedar Rivers ESA-Listed Fish.* ESA fish listings that may affect Department operations in western Washington include Bull Trout, Chinook Salmon, and steelhead. Bull Trout was listed as a threatened species by the USFWS in 1999. The Skagit River populations of Bull Trout are among the healthiest in the U.S. due to excellent habitat, cold water, and abundant food supply. A healthy Bull Trout population is also found in Chester Morse Lake, in the Cedar River in the vicinity of the Cedar Falls Project. Incidental observations of Bull Trout have occurred in the mainstream Tolt River downstream of the South Fork Tolt Project.

The Skagit River downstream of the Skagit Project is listed as Critical Habitat for Bull Trout by the USFWS, as are the major tributaries to the three project reservoirs. The Cedar River and its reservoir are excluded from the Critical Habitat designations for this species because of the adoption of the Cedar River Habitat Conservation Plan. The Tolt River is excluded from the Critical Habitat designation for Bull Trout.

Bull Trout populations in the Skagit Project reservoirs are healthy and robust, and studies continue to improve the Department’s understanding of reservoir population abundance. In contrast, while Bull Trout populations have remained relatively large in the river and its tributaries downstream of the reservoirs, there has been a general decline in spawning ground escapements across all indexed tributaries in the Skagit since a peak in 2014. This trend continued in 2021 and appears to be regional, with similar trends observed in the nearby Stillaguamish and Skykomish systems.

A final recovery plan for Bull Trout was released by the USFWS in 2015. Recent Bull Trout trend data across all core populations are being considered in the ongoing USFWS five-year Status Review of the species initiated in 2020; the Department is actively participating. The USFWS presently considers the lower and upper Skagit River as Bull Trout “strongholds” because of the large and diverse Bull Trout populations present in these core areas. This evaluation is unlikely to change in the upcoming status review, as Skagit populations remain the most robust in the recovery domain, despite the concerning downward trend seen in spawning ground surveys. Climate change, which can greatly affect streamflow intensities, represents a significant threat to the populations throughout the recovery domain, including the Skagit core populations.

Chinook Salmon in Puget Sound were listed as threatened by NOAA Fisheries in 1999, and are present in the Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities. These river reaches were designated as Critical Habitat for Chinook Salmon by NOAA Fisheries.

The Skagit River continues to support the largest population of Chinook Salmon in Puget Sound, averaging about 22% of the total adult escapement of all Chinook spawning in Puget Sound rivers from 1985 to 2017. Chinook Salmon populations increased to 30-year-high levels on the Skagit River from 2004 through 2006, declined below long-term average levels from 2007 through 2011, returned to average levels between 2012 and 2014, and then increased above average levels in 2015 and 2016. Skagit Chinook Salmon populations dropped to average levels in 2017 and below average levels in 2018. Data for 2021 are yet to be released, but a recent internal analysis by the Department’s Skagit biologists indicated that about 43% of all wild Chinook salmon returning to the Puget Sound are spawning in the reach of the Skagit River regulated by the Skagit Project, and these numbers, while exhibiting year-to-year variations, continue to show a slight increasing trend, despite region-wide declines affecting all Puget Sound rivers and beyond—including populations in the lower Skagit River and unregulated tributaries in the Skagit system.

Steelhead were listed as threatened by NOAA Fisheries in 2007. As with Chinook Salmon, Critical Habitat is designated downstream of the Department's dams on the Skagit, Cedar, and Tolt Rivers. A draft recovery plan for Puget Sound steelhead was completed by NOAA Fisheries and released for public review on December 13, 2018. The Department worked directly with NOAA Fisheries and other federal and State agencies and tribal governments on the development of this recovery plan. The final recovery plan for Puget Sound steelhead was published by NOAA Fisheries in December 2019.

Winter steelhead populations use habitats in the Skagit, Cedar, and Tolt Rivers downstream of the Department's hydroelectric facilities. The South Fork Tolt River also has one of the few summer steelhead populations in the Puget Sound region, and summer steelhead are also present in the Skagit River. Steelhead populations declined to 30-year-low levels in most Puget Sound rivers during the early 2000s. The Skagit River continues to support the largest steelhead populations in the Puget Sound region. Steelhead returns to the Skagit River basin declined below long-term average levels from 2006 through 2012, increased above average values from 2013 through 2016, then dropped back down to average values in 2017 and 2018. Data for 2019 are yet to be released.

*Department Mitigation Efforts.* The Department has undertaken a wide range of actions to reduce and mitigate potential adverse impacts of its operations on these listed fish species. On the Cedar River, the Department's activities are covered by a Habitat Conservation Plan that governs operations of the Cedar Falls Project with regard to all listed species and by an incidental take permit. Both the Skagit and South Fork Tolt Projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries, USFWS, the Washington State Department of Fish and Wildlife ("WDFW"), and tribes. These agreements include extensive measures to protect fish, including flow management measures and non-flow measures such as habitat restoration, conservation land acquisition, and research and monitoring. In addition, the Department is continuing an ESA habitat restoration, conservation land acquisition, and research program that supports the recovery of Bull Trout, Chinook Salmon, and steelhead populations in the Skagit and Tolt River watersheds. This program has funded several major habitat restoration projects for the three listed fish species in the Skagit and Tolt River watersheds. The Department has also acquired more than 3,700 acres of high quality habitat for ESA-listed fish species in these watersheds for permanent conservation protection. Monitoring and research studies by the Department are continuing in partnership with WDFW, the National Park Service, USFWS, Skagit River System Co-op, and the Upper Skagit Tribe to determine the population status of and the factors potentially limiting Bull Trout, Chinook Salmon, and steelhead populations downstream of the Skagit Project, and Bull Trout populations in the three Skagit River reservoirs. In addition, monitoring and research studies are continuing in partnership with the Tulip Tribes, WDFW and the U.S. Geological Survey (the "USGS") on the South Fork Tolt River focused on Chinook Salmon and both summer and winter steelhead. These studies continue to be used to develop recovery plans and actions in cooperation with State and federal agencies, tribes, and regional salmon recovery organizations to improve habitat conditions for ESA-listed fish species.

The Skagit Project Biological Opinion for Chinook Salmon and steelhead was completed by NOAA Fisheries in 2012. It included four additional flow protection measures that the Department had already adopted voluntarily. The Skagit Project Biological Opinion for Bull Trout was completed by the USFWS in 2013 and included the same flow protection measures contained in the NOAA Fisheries Biological Opinion, as well as specific habitat conservation measures and population monitoring requirements. Continuing these required conservation measures will have no significant effect on the Department's operations at the Skagit Project. Ongoing relicensing negotiations for the Skagit Project will result in a new Biological Opinion, and effects on future operations cannot be fully predicted at this time.

### **Clean Water Act**

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

The South Fork Tolt Hydroelectric Project received a 401 Water Quality Certification in 1983 in conjunction with the FERC License. The Water Quality Certification was revised in 1993 prior to the construction of the project. The revised certification captured changes to the original project proposal and changes to the State's water quality

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

Ecology adopted a permanent rule change in WAC 173-201A-200(1)(f) allowing certain seasonal adjustments for fish passage for hydroelectric dams for the Snake and Columbia Rivers for:

- (i) a maximum of 125% TDG in the tailraces, calculated as an average of the 12 highest hourly measurements in a calendar day, and
- (ii) a maximum of 126% TDG, calculated as an average of any two consecutive hourly TDG measurements.

The allowable total dissolved gas (“TDG”) criteria inherent to this permanent rule change were part of the Preferred Alternative (“PA”) of the Final CRSO EIS published in July 2020, and are now implemented by the action agencies overseeing the CRSO. The Department submitted public comment letters to Ecology raising concerns about the permanence of the criteria change in the absence of a full review of the data from gas bubble trauma monitoring required under the Flexible Spill Agreement, the progenitor to the CRSO PA. Ecology acknowledged the uncertainty in potential outcomes from the rulemaking but asserted that the lack of a “temporary waiver” tool in the State’s water quality laws prevented it from instituting a “short-term modification” rule to allow for the 125% TDG now allowed. The Department is tracking the monitoring data required under the CRSO to evaluate the potential effects of this rule change on aquatic life. The rule is only applicable to the Columbia and lower Snake River dams whose operations are part of the CRSO EIS; it is not applicable to any of the Department’s operations directly within or outside of the Columbia basin. The impact of the new rule on the Department is expected to be minimal.

On December 31, 2020, EPA approved the Pend Oreille River Temperature Total Maximum Daily Load (“TMDL”) under the CWA. Section 303(d) of the CWA requires states to address waters not meeting water quality criteria. Ecology developed the temperature TMDL to address chronically elevated water temperatures exceeding the river’s water quality criteria (20°C). Ecology began the development of a water quality implementation plan (“WQIP”) in 2021 and is expected to finalize the plan in 2022. The WQIP will identify specific tasks, responsible parties, and timelines for reducing or eliminating pollution sources. The WQIP is expected to match well with the existing Section 401 certification requirements for the Boundary Project with minimal impact to the Department.

Ecology adopted new water quality standards, effective April 22, 2022, after the formal rulemaking process initiated in 2021 was concluded. New standards were adopted for better protecting water quality and physical habitat for incubating eggs and young salmon in rivers and streams. The rule changes set a minimum dissolved oxygen level in the water column where salmon eggs are present to 10.0 mg/L or 90% oxygen saturation (formerly 9.5 mg/L with no saturation index). The new rule specifies that intragravel dissolved oxygen criteria for the aquatic life use categories could be used for compliance purposes *in lieu* of water column measurements alone. When intragravel dissolved oxygen is used for compliance along with water column measurements, the intragravel dissolved oxygen (one-day minimum) concentration must be 8.0 mg/L or greater, and the dissolved oxygen water column (one-day minimum) concentration must be 9.0 mg/L or greater. Narrative criterion to minimize the anthropogenic impacts of fine sediment on the gravels where incubating eggs and young salmon exist in rivers and streams were also adopted. The impact on the proposed rule changes is expected to be minimal for the Department.

In September 2021, EPA issued National Pollutant Discharge Elimination System (“NPDES”) discharge permits for four dams on the Lower Snake River (Ice Harbor Lock and Dam, Lower Monumental Lock and Dam, Little Goose Lock and Dam, and Lower Granite Lock and Dam). In 2021, EPA also proposed draft NPDES discharge permits for four dams on the lower Columbia River (Bonneville Project, the Dalles Lock and Dam, John Day Project, and McNary Lock and Dam).

On December 7, 2021, EPA and the Corps proposed a new rule to revise the definition of “waters of the United States,” after ceasing to enforce a vacated 2020 rule. The agencies propose to codify the pre-2015 definition of “waters of the United States,” updated to reflect consideration of Supreme Court decisions; the agencies stated that they will also

consider changes through a second rulemaking. This familiar approach would support a stable implementation of “waters of the United States” while the agencies continue to consult with states, tribes, local governments, and a broad array of stakeholders in both the current implementation and future regulatory actions.

The impact on the Department of the rule and the revised definition is expected to be minimal.

### **Renewable Energy and Greenhouse Gas Mitigation**

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

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

Federal and State initiatives have been proposed to address global climate change by controlling or monitoring greenhouse gas emissions, encouraging renewable energy development, and implementing other measures. In 2019, the State passed the CETA. The new State statute requires that utilities attain milestones for providing clean energy to their customers. Specifically, no coal by 2025, 80/20 greenhouse gas-neutral goal (*i.e.*, 80% met with renewable or non-emitting resources and 20% met with alternative compliance mechanisms), and 100% renewable or non-emitting resources by 2045. See “Power Resources and Cost of Power—Washington’s Renewable Portfolio Standard (Climate Commitment Act, Initiative 937, and CETA).”

Since 2020, the Department has been required to comply with California’s Cap-and-Trade program. The California Cap-and-Trade program will allow California to meet its outlined greenhouse gas limits by capping and reducing the greenhouse gas emissions associated with the largest emitting sources and industries in California. Certain entities that are covered under this program will be required to provide eligible instruments to cover its compliance obligations.

In 2021, the State passed the CCA. The CCA will allow the State to meet its outlined greenhouse gas limits by establishing a Cap-and-Invest program, which will cap and reduce the greenhouse gas emissions associated with the largest emitting sources and industries in the State. Utilities that are covered under this program will be required to provide eligible instruments to cover its compliance obligations. See “Power Resources and Cost of Power—Washington’s Renewable Portfolio Standard (Climate Commitment Act, Initiative 397, and CETA)—Climate Commitment Act.

### **Climate Change**

The Department continues to research and monitor potential effects of climate change on the Department’s business. In 2016, the Department completed a Climate Change Vulnerability Assessment and Adaptation Plan to identify climate vulnerabilities and potential actions to reduce risks associated with climate change and has since been implementing the plan. Elevating climate equity will be a substantive advancement in the plan update. The Department is currently working on an update to this plan during 2022, and continues to be a member of the U.S. Department of Energy Partnership for Energy Sector Climate Resilience, developing best practices to increase resilience to climate change and extreme weather. The Department also actively participates in the Center for Energy Advancement through Technological Innovation as part of the Climate Change Opportunities, Risk and Adaptation working group evaluating the effects of climate change on hydropower operations and planning within the industry. Following the completion of the Stossel Creek Climate-Adapted Reforestation Project in the Tolt River Watershed during 2020, the Department continues to collaboratively monitor the performance of the plantings. The project seeks to support an enduring forest as climate changes to provide habitat, stabilize soils, and reduce streamflow temperatures for fish.



The Department's energy resource mix is about 86% hydro-based generation. The physical effects of climate change are expected to affect the amount, timing, and availability of water resources for hydroelectric generation in the future. In cooperation with the University of Washington's Civil and Environmental Engineering Department ("UWCEE"), the Department is studying how projected changes in temperature and precipitation will affect rapid snowmelt and mid-winter snowmelt in the Tolt River Watershed, which could affect stream flow and thus future output from the Department's South Fork Tolt Project. Previous collaborations with UWCEE produced future stream flows that are being used in the operations model being developed as part of the Skagit Project relicensing. Another study on future stream flows in the Skagit River Watershed funded by the Department focused on changes in peak flows. This research was completed by Seattle University in 2021 and concluded that peak flows are projected to increase. The results can be used to support relicensing and other long-term planning and designs related to the Skagit Project.

To support long-range planning, climate change scenarios have been added into the resource adequacy analysis conducted for the IRP. Several best available climate change datasets were evaluated and filtered to capture the range of temperature and streamflow variability into the future, which could affect energy demand and supply. These data were used in load forecasting and energy production refill models to understand climate change impacts on winter and summer risks to resource adequacy. Preliminary findings indicate that climate change may increase both the winter and summer needs to varying amounts, depending on the global climate model and greenhouse gas emissions used in the scenario.

In cooperation with the University of Washington's Climate Impacts Group, the Department conducted research in 2021 on future changes in extreme weather using new regional climate modeling that is better able to capture these extreme events. The completed project estimated future changes to 15 metrics of extreme weather of interest to the Department related to wind, temperature, and lightning. The results of the study are presented in a set of fact sheets designed to support climate-resilient planning and decision-making by the Department. The Department is continuing to collaborate with UWCEE on the changes in landslide hazards from climate change at its Skagit facilities that will be useful for relicensing and dam safety. Studies on climate change and operational effects on reservoir and downstream water temperatures at the South Fork Tolt Project are continuing in collaboration with consultants and the USGS. Although the Department expects to be negligibly affected by sea level rise, it coordinates with other City departments to understand potential risks and new information as it is produced. The Department continues to monitor new information on potential climate change effects through its Climate Change Initiative as part of the 2023-2028 Strategic Plan.

See "The City of Seattle—Climate Change" for a discussion of City-wide efforts to address climate change.

### **Wildfire Risk**

Certain areas within the State, particularly central and eastern Washington, routinely experience seasonal wildfires that can threaten remote Department-owned generation and transmission infrastructure. In August 2015, the Goodell Creek wildfire forced the shutdown of major 230 kV transmission lines connected to the Skagit Project and caused the Department to spill water and purchase supplemental power and reserves. The fire nearly reached generation facilities and damaged distribution and communication facilities. FEMA reimbursements of about \$2.3 million offset approximately 75% of the costs of repairs, firefighting, evacuation, and emergency management. The Department also incurred approximately \$1.0 million in costs to purchase supplemental energy to make up for stranded generation and capacity. Prior to and since this wildfire incident, the Department has been integrating best management practices such as removing vegetation around buildings and infrastructure to create defensible space, planting fire-resistant plants, and improving evacuation awareness and procedures in order to reduce wildfire risk in areas within and adjacent to company towns, generation sites, and transmission rights of way. The Department also participates in the Washington State Department of Natural Resources' Utility Wildland Fire Prevention Advisory Committee, established in 2021. Also initiated in 2021, the Department established an internal team led by Risk Oversight to develop a Wildfire Risk Reduction Strategy that is expected to be completed in late summer 2022. These practices are designed to reduce the potential wildfire risk to the Department's remote infrastructure.

## VARIOUS FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

### Certain Considerations Specific to the Electric Utility Industry

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

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

Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities, including the Department, in different ways. The Department is unable to predict what impact such factors will have on its business operations and financial condition. The discussion provided in this section does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

### **Contingent Payment Obligations Unrelated to Debt Obligations**

The City, through the Department, has in the past and may in the future enter into various agreements, such as power purchase agreements or commodity derivative instruments, under which the City may be obligated to make payments or post collateral contingent upon certain future events within or beyond the City's control. These types of arrangements are entered into in the ordinary course of business, independently of any issuance of bonds or other financial obligations payable from the Net Revenue of the Light System, and are not related to any particular debt obligation. Such contingent payment obligations are permitted to be treated as operation and maintenance charges payable from Gross Revenues prior to the payment of principal of and interest on the Parity Bonds. See "Power Resources and Cost of Power—Purchased Power Arrangements" and "—Wholesale Energy Risk Management."

## **THE CITY OF SEATTLE**

The following provides general information about the City.

### **Municipal Government**

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

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, 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 City Budget Office.* The City Budget Office (the “CBO”) is within the executive branch and the Budget Director is appointed by the Mayor. 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.

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). See “—Municipal Budget.” In prior years, the City’s annual budget has been based in part on General Fund revenue forecasts prepared by the CBO; in 2022 much of the forecasting function transitions to the Office of Economic and Revenue Forecasts. See “—The Office of Economic and Revenue Forecasts.” The CBO will continue to be responsible for coordinating with departments to forecast and project all other General Fund revenues, including a variety of excise taxes and public utility taxes, license and service fees, fines, inter- and intra-governmental charges, transfers and shared revenues, grants, interest earnings, and other lesser revenue items.

*The Office of Economic and Revenue Forecasts.* The Forecast Office was created in July 2021, pursuant to Ordinance 126395. The Forecast Office provides an independent source for the economic and revenue forecasts that underlie the City’s annual budget process. The Forecast Office reports to the Economic and Revenue Forecast Council (the “Forecast Council”), which includes equal representation from the Legislative and Executive branches of City government. The following elected and appointed officials (or their designees) comprise the Forecast Council: the Mayor, the Director of Finance, the Council President, and the Chair of the City Council Finance Committee. The Forecast Council selects one member to serve as Chair of the Forecast Council annually.

The Forecast Office is tasked with preparing three revenue forecasts each year, to be delivered in April, August, and November. The forecasts that are developed by the Director of the Forecast Office and approved by the Forecast Council serve as the official City economic and revenue forecasts and as the basis for the estimates of revenues described in State statutes governing budgeting. The Mayor or City Council has the authority to deviate from the official forecasts.

Forecasts informing the City’s annual budget proposals through the 2022 budget were performed by the CBO. Beginning with the April 2022 Revenue and Budget Update and the 2023 budget cycle, the forecasting function is now performed by the Forecast Office, including forecasting the largest and most economically-dependent general government revenue sources, including sales tax, B&O tax, property tax, private utility taxes, and the new Payroll Expense Tax. The CBO will continue to be responsible for coordinating with departments to forecast and project all other General Fund revenues, including a variety of excise taxes and public utility taxes, license and service fees, fines, inter- and intra-governmental charges, transfers and shared revenues, grants, interest earnings, and other lesser revenue items.

In addition, the Forecast Office’s responsibilities are to staff the Forecast Council, develop economic and revenue forecasts, conduct special studies at the request of the Forecast Council, and provide *ad hoc* analytical support on economic and revenue estimation for legislative and executive staff consistent with the work program.

*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). 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 2022 budget was adopted by Ordinance 126490, passed by the City Council on November 22, 2021. The City’s adopted General Fund budget was approximately \$1.607 billion in 2021 and is approximately \$1.585 billion in 2022.

## **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 were significantly reduced from prior expectations. Additionally, the City will continue to realize significant expenses to address response and recovery through 2022. City policy was amended in 2021 to require that the City return to making contributions to satisfy the target balance within a period of five years, or sooner if practically possible after a severe event requiring deep or multi-year spending from the reserve.

In response to the ongoing COVID-19 pandemic, the City withdrew a net \$12.8 million from the EMF in 2020 and an additional net \$18.5 million in 2021. These uses reduced the reserve balance to \$33.7 million at the end of 2021. Improving economic conditions are expected to allow for the replenishment of reserves to begin in 2022.

*Revenue Stabilization Fund.* The City maintains the RSF in the General 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 Seattle Municipal Code ("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 balance in the General Fund, 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.

In response to the ongoing COVID-19 pandemic, the City withdrew a net \$26.0 million from the RSF in 2020 and made an additional net \$25.7 million in 2021. These uses reduced the reserve balance to \$6.0 million at the end of 2021. Improving economic conditions are expected to allow for the replenishment of reserves to begin in 2022.

## **Financial Management**

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

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

*Auditing.* The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the State Constitution and laws of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance and Administrative Services.

The 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 their own or of any other city or town in the State, their 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 by the Washington State Investment Board.

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

*Authorized Investments for Bond Proceeds.* Funds derived from the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe.

*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 above under "Authorized Investments."

State statutes, City ordinances, and Department of Finance and Administrative Services policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies

require periodic reporting on the City’s investment portfolio to the Mayor and the City Council. The City’s investment operations are reviewed by the City Auditor and by the State Auditor.

As of December 31, 2021, the City Treasury’s pooled investment portfolio, which excludes pensions, totaled \$2,821 million market value. The City’s investment portfolio consists solely of City funds. As of December 31, 2021, the annualized earnings yield of the City’s investment portfolio was 1.20% for the month and 1.36% for the year. As of December 31, 2021, the weighted average maturity of the City’s investments was 786 days. Approximately 27%, or \$759 million, was invested in securities with maturities of three months or less.

Investments were allocated as follows, by market value:

U.S. Government Agencies	26%
U.S. Government <sup>(1)</sup>	26%
State Local Government Investment Pool	20%
U.S. Government Agency Mortgage-Backed	13%
Municipal Bonds	7%
Repurchase Agreements	4%
Corporate Bonds	3%
Supranational	1%
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, 2021, the City had outstanding three interfund loans totaling approximately \$199.8 million, in amounts ranging from \$15.7 million to \$160.0 million. In accordance with its plan, the largest of these is in the process of full repayment with only accrued interest still outstanding. As of March 18, 2022, the City had outstanding four interfund loans totaling approximately \$54.7 million, in amounts ranging from \$345,000 to \$24.2 million.

### **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 \$20 million limits above a \$10 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. In 2019, the City began purchasing cyber insurance to cover 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 the 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.* 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, 2020, and DRS’s Annual Comprehensive Financial Report for LEOFF for the fiscal year ended June 30, 2021, were prepared in accordance with GASB 67.

The 2021 Audited Financial Statements of the Department, attached as Appendix C, have been prepared in accordance with GASB 68. The Seattle City Light Fund reported a liability of \$199.5 million and \$265.2 million, representing its proportionate share of Net Pension Liability (“NPL”) for SCERS as of December 31, 2021, and December 31, 2020, respectively. The effect of this recognition is reflected in its Balance Sheets and its Statement of Revenues, Expenses and Changes in Net Position in the Department’s 2021 Audited Financial Statements. The NPL was measured as of December 31, 2020, and December 31, 2019, and the Total Pension Liability (“TPL”) used to calculate the NPL was based on the actuarial valuations as of January 1, 2020, and January 1, 2019. The Seattle City Light Fund’s proportion of the NPL was based on contributions to SCERS during the fiscal years ended December 31, 2020, and December 31, 2019. The Seattle City Light Fund’s proportionate share was 20.38% and 21.10% for the years ended December 31, 2021, and December 31, 2020, respectively. Schedules of the Seattle City Light Fund’s proportionate share of NPL and contributions are provided as required supplementary information to the Department’s 2021 Audited Financial Statements.

*Seattle City Employees’ Retirement System.* SCERS is a cost-sharing multiple-employer defined benefit public employee retirement plan, administered in accordance with SMC 4.36, 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, 2022), which was approved by the Board on June 9, 2022 (the “2021 Actuarial Valuation”), there were 7,317 retirees and beneficiaries receiving benefits, and 9,045 active members of SCERS. There are an additional 1,556 terminated employees in SCERS who are vested and entitled to future benefits and another 1,701 who are not vested and not entitled to benefits beyond contributions and accumulated interest. From January 1, 2021, to January 1, 2022, the net number of active members in SCERS decreased by 2.6%, the net number of retirees receiving benefits increased by 2.7%, and the net number of vested terminated members increased by 8.20%.

Certain demographic data from the 2021 Actuarial Valuation are shown below:

**TABLE 15  
PLAN MEMBER DEMOGRAPHIC INFORMATION, SCERS**

<u>Age Range</u>	<u>Retirees and Beneficiaries Receiving Benefits</u>		<u>Active Employees</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<25	-		75	0.8%
25-39	-		2,369	26.2%
40-49	8 <sup>(1)</sup>	0.1% <sup>(1)</sup>	2,343	25.9%
50-59	239	3.3%	2,614	28.9%
60-69	2,405	33.3%	1,493	16.5%
70+	4,573	63.3%	151	1.7%

(1) Includes everyone under the age of 50.

*Source: 2021 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 4.36.505E 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, 2020, and December 31, 2019, was transmitted on June 28, 2021, by CliftonLarsonAllen LLP.

Milliman Inc., as consulting actuary, has evaluated the funding status of SCERS annually since 2010. The most recent actuarial report, the 2021 Actuarial Valuation (with a valuation date as of January 1, 2022), is available on the City’s website at:

*<http://www.seattle.gov/retirement/about-us/board-of-administration#actuarialreports>*

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 2021 Actuarial Valuation and compares those to the assumptions used in the last three actuarial valuations. In March 2022, the Board reduced the 30-year investment expectation to 6.75% following recommendations in the 2022 Experience Study. This change was incorporated into the 2021 Actuarial Valuation (with a valuation date as of January 1, 2022). Employer contribution rates are projected to remain about the same over the next several years due to deferred recognition of higher than expected investment returns offset by the impact of lower return expectations for the future. The average employee contribution rate is expected to continue to decline due to the growing proportion of SCERS 2 members.

**TABLE 16**  
**ACTUARIAL ASSUMPTIONS**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Investment return	6.75%	7.25%	7.25%	7.25%	7.50%
Price inflation	2.60%	2.75%	2.75%	2.75%	3.25%
Wage growth (price inflation plus wage inflation)	3.35%	3.50%	3.50%	3.50%	4.00%
Expected annual average membership growth	0.25%	0.50%	0.50%	0.50%	0.50%
Interest on member contributions made on or after January 1, 2012 <sup>(1)</sup>	3.85%	4.00%	4.00%	4.00%	4.75%

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

*Source: 2021, 2020, 2019, 2018, and 2017 Actuarial Valuations*

As of January 1, 2022 (as set forth in the 2021 Actuarial Valuation), the actuarial value of net assets available for benefits was \$3,717.2 million and the actuarial accrued liability was \$4,959.0 million. An Unfunded Actuarial Accrued Liability (“UAAL”) exists to the extent that actuarial accrued liability exceeds plan assets. Per the 2021 Actuarial Valuation, the UAAL decreased from \$1,327.3 million as of January 1, 2021, to \$1,241.8 million as of January 1, 2022. The funding ratio increased from 71.6% as of January 1, 2021, to 75.0% as of January 1, 2022, which increase was primarily due to realizing a greater than assumed investment return but partially offset by a decrease in the assumed investment rate in the future. For the year ended December 31, 2021, SCERS assets experienced an investment gain of about 16.8% on a market basis (net of investment expenses), a rate of return greater than the assumed rate of 7.25% for 2021. The result is an actuarial gain on assets for 2020, but only one-fifth of this gain was recognized in the current year actuarial value of assets (“AVA”). To improve its ability to manage short-term market volatility, the City has adopted a five-year asset smoothing methodology 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 2021 return was a positive 12.0% on an actuarial value basis.

The following table provides historical plan funding information for SCERS:

**TABLE 17**  
**HISTORICAL SCERS SCHEDULE OF FUNDING PROGRESS <sup>(1)</sup>**  
**(\$000,000)**

<b>Actuarial Valuation Date (January 1)</b>	<b>Actuarial Value of Assets (AVA)<sup>(2)</sup></b>	<b>Actuarial Accrued Liability (AAL)<sup>(3)</sup></b>	<b>Unfunded AAL (UAAL)</b>	<b>Funding Ratio</b>	<b>Covered Payroll<sup>(4)</sup></b>	<b>UAAL as % of Covered Payroll</b>
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	188.2%
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%
2021	3,345.8	4,673.1	(1,327.3)	71.6%	878.2	151.1%
2022	3,717.2	4,959.0	(1,241.8)	75.0%	876.4	141.7%

(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 2020 SCERS audited financial statements included a calculation of TPL and NPL based on the actuarial valuation dated as of January 1, 2020, rolled forward using generally accepted actuarial procedures (assuming a 7.25% investment rate of return and 3.50% salary increases) to December 31, 2020, as follows: TPL was calculated to be \$4,620.5 million, plan fiduciary net position (“Plan Net Position”) was calculated to be \$3,641.5 million, and NPL was calculated to be \$979.0 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 78.8%. A Schedule of the City Light Fund’s Proportionate Share of the Net Pension Liability and Schedule of the City Light Fund’s Contributions are set forth in the required supplementary information in Appendix C—2021 Audited Financial Statements of the Department.

**SCERS CONTRIBUTION RATES.** Member and employer contribution rates for SCERS 1 and SCERS 2 are established separately by SMC 4.36. 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, no less than 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 2021 Actuarial Valuation calculation, a 21-year amortization period was used. This policy

may be revised by the City Council in future years. The 2021 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 18  
EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES**

Calendar Years (beginning Jan. 1)	Employer Rate	Employee Rate	Total Contribution Rate	Total ARC <sup>(1)</sup>	% of Total ARC Contributed	Total ARC per GASB 27 <sup>(2)</sup>	% of Total ARC Contributed per GASB 27
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% <sup>(3)</sup>	10.03%	25.26%	25.00%	101% <sup>(3)</sup>	N/A	N/A
2019	15.26% <sup>(3)</sup>	9.85% <sup>(4)</sup>	25.11%	24.40% <sup>(5)</sup>	103% <sup>(3)</sup>	N/A	N/A
2020	16.14%	9.65% <sup>(4)</sup>	25.79%	25.79% <sup>(5)</sup>	100%	N/A	N/A
2021	16.10%	9.46% <sup>(4)</sup>	25.56%	25.56% <sup>(5)</sup>	100%	N/A	N/A
2022	16.10% <sup>(3)</sup>	9.35% <sup>(4)</sup>	25.45%	24.68% <sup>(5)</sup>	103% <sup>(3)</sup>	N/A	N/A
2023	15.82%	9.24% <sup>(4)</sup>	25.06%	25.06% <sup>(5)</sup>	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 a projected increase in future contribution rates.
- (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; Annual 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 18—Employer and Employee SCERS Contribution Rates and Table 19—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 18, the Total ARC is increasing to 25.06% as a percent of payroll beginning in January 1, 2023. This compares to the 24.68% Total ARC in the current year. The employees’ share will average 9.24% between SCERS 1 and SCERS 2. The employer’s share needed to meet the Total ARC is increasing from 15.33% to 15.82%. However, as indicated in Table 18, in anticipation of an increase to the employer’s cost in 2023, the City maintained an employer rate of 16.10% in 2022 that was above what was necessary to meet the Total ARC. As a result, the City expects to reduce its employer contribution rate for 2023 to 15.82% in order to meet the projected Total ARC in 2023.

Projected total actuarially required contribution rates for SCERS reported in the 2021 Actuarial Valuation are shown in the table below:

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

<b>Contribution Year<sup>(1)</sup></b>	<b>Assuming 6.75% Returns</b>	<b>Confidence Range<sup>(2)</sup></b>
2023	15.82%	15.82-15.82
2024	14.99%	13.57-16.33
2025	13.43%	9.59-17.06
2026	12.42%	9.24-18.83
2027	11.94%	9.24-21.53
2028	11.93%	9.24-25.04

(1) Contribution year lags valuation year by one. For example, contribution year 2023 is based on the 2021 Actuarial Valuation (as of January 1, 2022) results, amortized over 21 years beginning in 2022 if the contribution rate change takes place in 2023.

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

*Source: 2021 Actuarial Valuation*

Employer contributions were \$141.0 million in 2020 and \$139.5 million in 2021, of which approximately \$28.7 million and \$28.9 million, respectively, were from the City Light Fund. The employer share for employees of each of the utility funds is allocated to and paid out of the funds of each respective utility.

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

The market value of SCERS' net assets increased by \$493.3 million (13.5%) during 2021, including member and employer contributions of \$221.3 million and net gain from investment activity totaling \$522.8 million. Deductions increased by \$14.4 million in 2021, primarily attributed to a \$8.9 million increase in retiree benefit payments and a \$5.9 million increase in the amount of contributions refunded, offset by reductions in the amount of contributions refunded and administrative expenses.

Table 20 shows the historical market value of SCERS' assets (as of each December 31). Table 21 shows the historical investment returns on SCERS for the last ten years.

**TABLE 20**  
**SCERS MARKET VALUE OF ASSETS**

<b>Year</b> <b>(As of December 31)</b>	<b>Market Value of</b> <b>Assets (MVA)<sup>(1)</sup></b>
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
2020	3,641.5
2021	4,134.8

(1) In millions.

Source: SCERS Actuarial Valuations

**TABLE 21**  
**SCERS INVESTMENT RETURNS**

<b>Year</b> <b>(As of December 31)</b>	<b>One-Year</b> <b>Annualized Return<sup>(1)</sup></b>
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%
2021	16.8%

(1) Calculated net of fees.

Source: SCERS

Table 22 below shows the historical distribution of SCERS investments for the years 2018-2022.

**TABLE 22**  
**HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS**

<b>Investment Categories (January 1)</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Diversifying Strategies	0.0%	0.0%	0.0%	2.0%	1.9%
Fixed Income	23.8%	22.7%	26.7%	28.9%	24.6%
Infrastructure	1.9%	1.5%	1.2%	0.9%	0.4%
Private Equity	13.5%	13.2%	8.6%	8.1%	5.2%
Public Equity	50.1%	53.0%	53.1%	48.8%	57.1%
Real Estate	10.6%	9.7%	10.5%	11.3%	10.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*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, 2022, membership in these plans consisted of 536 fire employees and survivors and 607 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, 2022, 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), 2.50%; investment rate of return, 5.00%; and projected salary increases, 3.25%. The actuarial valuation for the Police Relief and Pension Fund uses the following long-term actuarial assumptions: inflation rate (CPI), 2.50%; investment rate of return, 2.00%; and projected salary increases, 3.25%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the 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 \$118.3 million as of December 31, 2021, an increase of \$3.7 million from the TPL of \$114.6 million as of December 31, 2020. As of the January 1, 2022, valuation, the actuarial value of net assets available for benefits in the Firefighters’ Pension Fund was \$34.1 million, and the AAL was \$86.7 million. As a result, the UAAL was \$52.6 million and the funded ratio was 39.3%. In the January 1, 2021, actuarial valuation, the UAAL was \$66.0 million and the funded ratio was 30.9%. The City’s employer contribution to the fund in 2021 was \$8.5 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 \$101.3 million as of December 31, 2021, an increase of \$0.8 million from the TPL of \$100.5 million as of December 31, 2020. As of the January 1, 2022, valuation, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was \$21.1 million, and the actuarial value of future benefits was \$95.1 million. As a result, the unfunded actuarial liability was \$74.0 million and the funded ratio was 22.2%. In the January 1, 2021, actuarial valuation, the unfunded actuarial liability was \$93.0 million and the funded ratio was 13.3%. The City’s employer contribution to the fund in 2021 was \$14.2 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 \$17.7 million in 2020 and \$17.1 million in 2019. The following table outlines the contribution rates of employees and employers under LEOFF.



**TABLE 23**  
**LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL**  
**(AS OF JULY 1, 2021)**

	<b>Plan 1</b>	<b>Plan 2</b>
Employer	0.18% <sup>(1)</sup>	5.30% <sup>(1)</sup>
Employee	0.00	8.53%
State	N/A	3.41%

(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, 2020, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 148% and LEOFF Plan 2 had a funded ratio of 113%. 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, 3.70% general salary increases, 2.75% consumer price index increase, and annual growth in membership of 1.46%. 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, 2020, the City reported an asset of \$276.1 million for its proportionate share of the net pension asset as follows: \$67.2 million for LEOFF Plan 1 and \$208.9 million for LEOFF Plan 2.

For additional information, including the Department’s proportionate share of the NPL and historical pension contributions, see Note 11 to and the supplementary information in the City’s 2021 Annual Comprehensive 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 ended 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, 2021, and was prepared in accordance with GASB 75. It showed the total OPEB liability for the implicit rate subsidy increased to \$70.3 million from \$63.6 million in the prior valuation. The City’s GASB 75 annual expense in 2021 was calculated at \$4.8 million, which compares to \$4.5 million in 2020. 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, 2021, the total OPEB liability in the City’s Firefighters’ Pension Fund decreased to \$290.6 million from \$300.9 million. The annual OPEB expense for 2021 was \$2.1 million and the estimated benefit payments were \$12.4 million. As of December 31, 2021, the total OPEB liability in the Police Relief and Pension Fund decreased to

\$293.7 million from \$308.6 million. The annual OPEB expense for 2021 was \$1.1 million and the estimated benefit payments were \$16.0 million.

For additional information regarding the City’s OPEB liability, see Note 11 to the City’s 2021 Annual Comprehensive Financial Report. For additional information regarding the City Light Fund’s OPEB liability, see Appendix C—2021 Audited Financial Statements of the Department—Note 14.

### **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 workers all workers in the State, including State and local government employees. The Paid Family and Medical Leave program is a State-wide insurance program administered by the State Employment Security Department. It ensures paid leave for workers in the State when they need time off to give or receive care and for pre- and post-deployment time. 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 up to \$1,327 per week in 2022, depending on their income. The family leave benefit is funded solely by employee premiums while the medical leave benefit is funded by a mix of employer and employee premiums. Assessments for premiums began on January 1, 2019, and benefits became available to be taken starting January 1, 2020.

The City began paying assessments for premiums based on a percentage of wages on January 1, 2019. The initial rate of this assessment was 0.4% of wages that are subject to the federal social security tax. This rate increased to 0.6% on January 1, 2022, in accordance with a formula prescribed in State law, and was largely due to high utilization of the employee-funded family leave benefit. As a result, the employer share of the assessment only increased from 0.147% of Social Security wages to 0.161%. The City will continue to pay only the employer share of the 2022 assessment for most employees, estimated to be \$2.7 million, approximately half of which will be paid from the General Subfund and the remainder will be paid by other funds.

### **State Long-Term Care Services and Supports Benefit Program**

In 2019, State legislation created the Long-Term Services and Supports (“LTSS”) Trust Program (the “WA Cares Program”) to provide certain long-term care benefits to eligible beneficiaries. Benefits will be paid directly to LTSS providers on behalf of eligible beneficiaries. Administration of the WA Cares Program is divided among the State’s Employment Security Department, Department of Social and Health Services, Health Care Authority, Office of the State Actuary, and Pension Funding Council, as well as two new bodies: the LTSS Trust Council and the LTSS Trust Commission.

As originally enacted, the WA Cares Program legislation imposed premiums on participating employees in the State, collected by employers through employee payroll deductions and remitted to the State; there is no employer contribution required under State law. Collection of premiums was scheduled to begin as of January 1, 2022, and benefits were to become available beginning January 1, 2025. On January 27, 2022, Substitute House Bill 1732 (“SHB 1732”) was signed into law, delaying implementation of the WA Cares Program by 18 months. Under SHB 1732, collection of premiums is delayed until July 1, 2023, and benefits are to become available beginning July 1, 2026. The delay is intended to provide opportunity for further review and amendment of the law prior to implementation, if necessary.

Premiums are assessed at a rate of 0.58% of each employee’s wages within the State, and subject to adjustment every two years by the PFC based on actuarial studies and valuations to be performed by OSA to maintain financial solvency of the LTSS Trust, but not to exceed 0.58%. Employers are 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. Employees can request to exempt themselves from program participation. As of December 31, 2021, 467,919 exemption requests had been submitted.

Under the originally enacted legislation, all individuals employed in the State 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. SHB 1732 also provided for partial benefits for certain individuals over age 54. Program participants eligible to receive benefits must have been assessed by DSHS

as 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 Consumer Price Index.

Collective bargaining agreements in effect prior to October 2017 are not required to be reopened or to apply the WA Cares Program requirements until the existing agreement is reopened, renegotiated, or expires.

## **Labor Relations**

This information reflects 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. Other agreements with unions have been reached since that date. Labor Relations have continued to work closely with all of the labor representatives to address the continuing impacts of the pandemic, along with other social and environmental crises that have affected the City and surrounding communities as well as the City’s employees. Negotiating additional agreements related to the impacts of the pandemic and addressing the Mayor’s vaccination mandate and other ongoing and evolving impacts of the pandemic are topics of regular weekly meetings between Labor Relations staff and all of the bargaining representatives.

In 2021, the new Protec17 bargaining unit, representing 14 Strategic Advisors in the Legislative Department, completed negotiations with the City for its initial collective bargaining agreement, which was subsequently adopted by the City Council and Mayor. Another new bargaining unit completed the certification process, also represented by Protec17, including about 31 Strategic Advisors in three small departments. It also completed negotiations with the City for its initial collective bargaining agreement, which was subsequently adopted by the City Council and Mayor.

As of January 2022, the City had 38 separate departments and offices with approximately 15,178 employees (including 11,287 regular and 3,891 temporary employees). Twenty-five different unions and 56 bargaining units represent the approximately 77% of regular City employees whose employment is governed by 34 different collective bargaining agreements (contracts).

In 2022, the City continues to be in active finalized negotiations with the Seattle Police Management Association (“SPMA”) for a new agreement to replace the contract that expired December 31, 2019. They reached a tentative agreement in early 2022 that, if ratified, will become effective by the end of the second quarter of 2022. In March 2020, both SPMA and Fire Chiefs Local 2898 negotiations were put on hiatus for a number of months due to the pandemic. Agreements on vaccine mandate impacts were reached with all unions except the Seattle Police Officers Guild (“SPOG”) in September 2021. Several unions have filed unfair labor practices arising out of the vaccine mandate. Those administrative matters are pending before the State’s Public Employment Relations Commission and the City is engaging in mediation with the unions on them

Labor Relations is preparing to open negotiations with SPOG for a new contract to replace the contract that expired on December 31, 2020. Continuing negotiations with IBEW Local 77 on two separate contracts, Power Marketers (expired December 31, 2020) and Seattle Department of Transportation (expired January 22, 2021), have resulted in tentative agreements for both bargaining units and are also pending legislation. These unions will continue to operate under their expired contracts until negotiations have been completed and the agreements have been formally approved and signed. One new bargaining unit has completed the certification process, represented by WSCCCE Local 21, for Strategic Advisors and Managers at Seattle Public Utilities and is in negotiations.

Looking ahead, 28 labor agreements that are either part of the Coalition of City Unions or “Coalition-like” unions have contracts expiring on December 31, 2022. 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 response and resources during emergencies and disasters through close coordination with City departments and partner agencies. 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 COVID-19 Pandemic."

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, assessed, and planned for 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 severe weather (*e.g.*, floods, snow, water shortages, and windstorms). However, the City cannot anticipate all potential hazards and their effects, including any potential impact on the economy of the City or the region.

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 and reaccredited in 2022.

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.

## **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.

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 has also developed more specific plans addressing utility operations (including drainage, water supply, solid waste, and the electric system) and community preparedness. The City is monitoring and will be documenting climate impacts and likely climate risks as they arise and has not quantified potential impacts 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's Office of Sustainability and Environment ("OSE") coordinates implementation of the Seattle Green New Deal, the Seattle Climate Action Plan, and the Equity and Environment Initiative and plans and implements policies that transition buildings to 100% clean energy and advance zero carbon transportation.

The Green New Deal and climate-related investments in the Duwamish Valley represent climate-focused uses of the Payroll Expense Tax revenues available for 2022. In July 2021, the City Council adopted Ordinance 126393, which established a separate fund to receive Payroll Expense Tax revenues and set out a specific annual spending plan for these revenues for 2022 and beyond. This included formulas that would allocate the revenues between support of the overall General Operating Fund and investments in four priority policy areas: affordable housing; economic recovery and assistance to small businesses, the Green New Deal, and the Equitable Development Initiative. The City's 2022 Adopted Budget includes \$14.3 million supporting the Green New Deal. This includes \$1.7 million to support conversions from oil-based home heating systems to electric heat pumps and \$4 million in energy-efficient capital improvements in the Georgetown and South Park neighborhoods. This funding also supports workforce development for clean energy jobs, vehicle electrification for industrial enterprises, and a reserve for climate actions that will be guided by recommendations from the Green New Deal Oversight Board. Other investments by the City to address climate change are ongoing.

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 April 2018, the Mayor's Office 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 2018 Climate 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. This 2018 Climate Action Plan remains in place as of the date of this Official Statement.

In addition, City investments in capital projects continue to be guided by a set of key policies reflecting the City's values and priorities including for sustainable building. In February 2000, the City Council adopted a Sustainable Building Policy for the City (Resolution 30121) which articulated the City's commitment to environmental, economic, and social stewardship and set the expectation that new municipal facilities meet established green building standards. Specifically, it called for all new construction and major remodel projects over 5,000 square feet to achieve a LEED Silver rating. When adopted, this policy was the first of its kind in the nation and represented a groundbreaking approach to demonstrating City leadership and transforming the marketplace.

Since 2000, the green building community has experienced exceptional growth in expertise and capacity. Recognizing this change, the City passed an updated Sustainable Buildings and Sites Policy (Resolution 31326) in 2011. The update represents a comprehensive approach that reflects advances in the green building industry, aligns the policy with the City's attention to climate change, addresses a greater range of project types, and ensures that the City continues to provide leadership that advances sustainable development in both the public and private sectors. The City's Sustainable Building policies include a number of requirements. These requirements include: for new construction, additions, and major renovation projects of 5,000 square feet or greater, the minimum required green building rating is LEED Gold; minimum requirements are established for energy and water efficiency, construction waste reductions, and bicycle amenities; and for tenant improvement projects of 5,000 square feet or greater, where the scope includes mechanical, electrical, and plumbing, the minimum required green building rating is LEED Gold. In addition to the above, City departments are encouraged to test new approaches and standards, such as the Living Building Challenge and the Sustainable SITES Initiative.

### **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 Information Technology ("Seattle IT"), a City department, 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. It has had cyber security liability insurance coverage since October 2019. See "—Risk Management."

## **OTHER CONSIDERATIONS RELATIVE TO THE CITY**

The section below provides a discussion of other considerations relative to the City. See also “Various Factors Affecting the Electric Utility Industry” for considerations relative to City Light.

### **Global Health Emergency Risk and COVID-19 Pandemic**

Beginning in early 2020, the spread of COVID-19, the illness caused by the SARS-CoV-2 coronavirus and its variants has impacted economic conditions worldwide and has influenced the local economy as well as the revenues, expenditures, and general financial condition of the City.

The COVID-19 pandemic is ongoing, and the duration and severity of the each outbreak and economic and other actions that may be taken by governmental authorities to contain or treat its impact remain uncertain. Reopening efforts implemented at any time may be reversed whenever conditions warrant. Notwithstanding the foregoing, the COVID-19 pandemic has not affected the City’s ability to pay debt service on its outstanding obligations, and the City does not currently believe that the pandemic will affect its ability to pay future debt service on its outstanding obligations, including the Bonds, going forward.

*Public Health Responses.* Beginning in March 2020, social distancing, stay-at-home, masking, and vaccination requirements were implemented at various times within the City. These requirements have been adjusted repeatedly throughout the pandemic. Following the recent decline of COVID-19 cases, several public health orders and directives have been rolled back or ended, although businesses and organizations may choose to implement their own policies. Currently, vaccination verification requirements have ended and masking requirements are limited to health and long-term care settings, transportation conveyances and hubs, and correctional facilities. Home test kits are increasingly available and may be requested monthly from the Washington State Department of Health. The City government resumed reopening plans in mid-March 2022.

*City Response and Federal Funding Assistance.* The City initially experienced an increase in public health emergency response and other costs associated with mitigating the impacts of the COVID-19 pandemic and providing testing and vaccination sites. The City continues to address a number of social issues exacerbated by the pandemic, including homelessness, housing insecurity, and financial hardships for nonprofits and small businesses. Certain costs incurred to implement these and other measures have been offset in part by the federal and State funds awarded to the City in 2020 and 2021. The City received \$131 million through the Coronavirus Relief Fund through the Coronavirus Aid, Relief, and Economic Stabilization Act (the “CARES Act”) to help navigate the impact of the COVID-19 outbreak, all of which was spent prior to December 31, 2021, as required by the U.S. Department of the Treasury.

The City was also awarded \$232 million of Coronavirus State and Local Fiscal Recovery Funds (“CLFR”) through the American Rescue Plan Act (“ARPA”) of 2021 to help the City recover from the COVID-19 pandemic. In addition to CLFR funding, the City also received other federal grants intended to aid vulnerable populations particularly impacted by the pandemic.

### **Public Safety Funding Considerations and Protests**

The City experienced a high level of protest activity in 2020 following the death of George Floyd in Minneapolis. Peaceful demonstrations in Seattle were marred by incidents of looting, vandalism, arson, property damage, and injuries. The City continues to engage in litigation related to the 2020 demonstrations as of the date of this Official Statement. These demonstrations had the effect of placing renewed emphasis on calls to reform the City’s approach to public safety. The Seattle Police Department (“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 U.S. Department of Justice (“DOJ”) in 2011 outlining a “pattern or practice” of unconstitutional use of force within SPD. As a result of the public concerns over SPD’s response to the demonstrations, the City announced in 2020 that it would withdraw a petition filed in 2020 to terminate that plan, and instead continues to operate under the 2012 Consent Decree.

The SPD budget was the focus of ongoing discussion and deliberation by the Executive and the City Council in 2020. The SPD 2022 Adopted Budget reflects a 2.1% reduction to SPD’s budget as compared to the 2021 Adopted Budget, and an 11.6% reduction in the size of the sworn officer positions, from 1,357 in 2021 to 1,200 in the 2022 Adopted

Budget. The 2022 Adopted Budget also builds upon recent efforts to expand the City’s approach to ensuring community safety through programs and approaches that expand beyond a traditional, uniformed police response.

### **Infrastructure and Capital Projects**

*West Seattle Bridge.* The West Seattle High-Rise Bridge (the “Bridge”), which was completed in 1984, connects the West Seattle neighborhood to Interstate 5 and provides the most direct and most heavily traveled access from West Seattle to the downtown core of the City. It is typically the busiest City-owned roadway, carrying an average of 100,000 vehicles and 25,000 public transit riders per day.

During a 2013 routine inspection of the Bridge, City inspectors discovered four sets of cracks in the Bridge support structure. As a result, the City increased its monitoring protocols for the Bridge. Between 2013 and late 2019, the City regularly monitored the cracks, performed ongoing maintenance, and began analyzing mitigation options, none of which would have disrupted normal use of the Bridge. On March 19, 2020, the City’s structural engineering consultant notified the City that it had completed a new analysis of previously collected data raising larger concerns and a recommendation that closure of the Bridge may be necessary at some point. After confirmation of a sudden change in the crack growth rate, the City made the decision to close the Bridge on March 23, 2020.

Since the closure of the Bridge, the City has worked to stabilize the Bridge, mitigate traffic impacts, and evaluate a variety of options for repairing or replacing the Bridge. In November 2020, the Mayor made the decision to repair the Bridge and continue to plan for a future replacement. Early repairs to stabilize the bridge were completed in December 2020. In May 2021, a contractor was selected to conduct repairs, which are currently underway, and the Bridge is anticipated to reopen in mid-2022. This estimated schedule may be subject to delays due to materials and supplies issues, inflation, or other factors beyond the City’s control. When complete, the estimated service life of the repaired Bridge will extend well beyond the life of the Bonds.

*Waterfront Seattle Program.* The Waterfront Seattle Program is a multi-year effort to plan, design, and ultimately build a new central waterfront for the City, and includes or will include various City capital improvements that span the City’s central waterfront area from Pioneer Square to Belltown. The Waterfront Seattle Program has a total budget of approximately \$756 million in the 2022 Adopted Budget. The City’s funding plan for this amount includes the State’s share of funding totaling \$216 million and a mix of funding sources from various City revenues (*e.g.*, commercial parking tax, real estate excise tax), grant funding, approximately \$110 million in private philanthropy (currently being raised by the nonprofit Friends of the Waterfront), and approximately \$160 million in local improvement district assessments from the Waterfront Local Improvement District, described below. The remaining program costs (including expected costs and any unexpected cost overruns) could require the City to issue additional limited tax general obligation bonds or use other available City funds. The various projects (other than the seawall replacement) will be phased, with many elements nearing completion by the end of 2024.

In 2019, the City formed the Waterfront LID to finance a portion of the improvements included in the Waterfront Seattle Program. Special assessments for the Waterfront LID were imposed in July 2021 sufficient to pay or reimburse the City for up to \$160 million of the costs of these improvements, plus the costs of issuing the Waterfront LID Bonds and making a Guaranty Fund deposit, for a total of approximately \$174 million. Some LID Assessments were prepaid, with those paying in full during the initial 30-day payment period receiving a discount on their assessment, for a total collection and discounted amount of approximately \$77 million. The remaining portion is provided from proceeds of the Bonds. The special assessments are not a general obligation of the City, and are secured by the City’s Guaranty Fund. The City issued approximately \$97 million in Waterfront LID Bonds in 2021 that are secured by the Guaranty Fund.

### **Federal Policy Risk and Other Federal Funding Considerations**

*Federal 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 FFY 2030. The only direct impact of sequestration on the Department for FFY 2021 is expected to be a reduction of 5.7% in the amount the Department originally expected to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds; 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and

Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department received approximately \$371,000 less in interest subsidies than originally anticipated for 2020, and expects a similar impact in 2021. The Department has sufficient revenues to pay the interest without these subsidies. Sequestration was originally in effect through FFY 2021 and has subsequently been extended through FFY 2029.

*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.

## **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.

Additional tax and fee initiative measures continue to be filed on a regular basis, 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 or collect Gross Revenues. There is no litigation pending or threatened which would materially affect the City’s ability to meet debt service requirements on the Bonds.



## **Other Litigation**

Because of the nature of its activities, the Department is subject to legal actions that arise in the ordinary course of business of running a municipal electric power utility, including various lawsuits and claims involving claims for money damages. (See Appendix C—2021 Audited Financial Statements of the Department—Notes 10, 11, 15, and 20.) Based on its past experience and the information currently known, the Department has concluded that its ability to pay principal of and interest on the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the Department and the timing of any anticipated payments of judgments that might result from suits and claims.

*Sauk-Suiattle Litigation.* Over the past year, the Sauk-Suiattle Indian Tribe (the “Tribe”) has initiated a series of three lawsuits challenging the operation of the Skagit Project. The first lawsuit was filed in Skagit County Superior Court in July 2021 alleging State and federal constitutional violations and nuisance because the Skagit Project operated without specific fish passage. The Department immediately removed this case to federal court, and the federal court dismissed the action on December 2, 2021. It is currently on appeal in the 9th Circuit.

In September 2021, the Tribe filed suit in King County Superior Court alleging the Department engaged in violations of the Washington Consumer Protection Act and nuisance associated with its marketing materials. This case was dismissed on January 14, 2022, and is currently on appeal in Division 1 of the Washington Court of Appeals.

In January 2022, the Tribe filed its third lawsuit; this time in Sauk-Suiattle tribal court alleging similar claims of harm associated with the Department’s operation of the Skagit Project in accordance with its FERC license but without any mechanism for fish passage on the river. The Department has moved to dismiss these claims in the tribal court. In tandem, the Department has also sought relief from the federal district court asking the court to enjoin the tribal court from exercising jurisdiction over the Department for various reasons, including the fact that none of the Department’s actions have occurred on tribal lands.

The Department does not currently expect that an adverse final ruling in any of the above-described matters would have a material adverse effect on the Department’s ability to generate sufficient Net Revenues to pay the principal of and interest on the Bonds.

## **Approval of Counsel**

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

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

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

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

A municipality such as the City must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the “Bankruptcy Code”). Washington State law permits any “taxing district” (defined to include cities) to voluntarily petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntary

bankruptcy proceeding under the Bankruptcy Code against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

While an involuntary bankruptcy petition cannot be filed against the City, the City is authorized to file for bankruptcy under certain circumstances. Should the City file for bankruptcy, there could be adverse effects on the holders of the Bonds.

The Bonds are payable from and secured by a pledge of Gross Revenues as described in the Bond Ordinance. Under Chapter 9, creditors secured by a pledge of “special revenues” are granted certain protections in cases brought by municipalities. The definition of “special revenues” includes “receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems.” Under Chapter 9, the pledge of Gross Revenues is enforceable if a bankruptcy court determines that Gross Revenues is considered “special revenues” under Chapter 9 and that the pledge (in the form of a lien and charge) of Gross Revenues pursuant to the Bond Ordinance is valid and binding under Chapter 9.

Chapter 9 further provides that special revenues acquired by a debtor after the commencement of the bankruptcy case remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case, and that any such lien on special revenues (other than municipal betterment assessments) derived from a project or system is subject to the necessary operating expenses of such project or system.

Unless a debtor under Chapter 9 consents or the plan approved by the bankruptcy court so provides, the court may not interfere with (i) any of the political or governmental powers of the debtor, (ii) any of the property or revenues of the debtor, or (iii) the debtor’s use or enjoyment of any income-producing property.

Although State statute provides for a lien and charge against Gross Revenues to secure payment of the Bonds, no provision of State law provides for perfection of the lien under the Uniform Commercial Code of the State. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and reductions in payments could result.

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 SEC Rule 15c2-12(b)(5) (“Rule 15c2-12”), as applicable to a participating underwriter for the Bonds, the City will execute a Continuing Disclosure Agreement (the “CDA”) for the benefit of holders of the Bonds, summarized as follows.

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

- (i) annual financial information and operating data of the type included in this Official Statement as generally described below (“annual financial information”). The timely filing of unaudited financial statements will satisfy the requirements and filing deadlines described below under “Type of Annual Financial Information Undertaken to be Provided,” so long as audited financial statements are filed if and when they are otherwise prepared and available to the City; and
- (ii) timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds:
  - (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;
  - (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 security holders, if material; and
  - (16) default, event of acceleration, termination event, modification of terms, or other similar events 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” means a (i) 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.

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

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

- (i) annual financial statements of the Light System prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law;
- (ii) a statement of Outstanding Parity Bonds, Junior Lien Bonds (if any), and any other bonded indebtedness secured by Net Revenue of the Light System;
- (iii) debt service coverage ratios for the then-Outstanding Parity Bonds, Junior Lien Bonds (if any), and any other bonded indebtedness secured by Net Revenue of the Light System;
- (iv) sources of Light System power and the MWh produced by those sources; and
- (v) the average number of customers, revenues, and energy sales by customer class.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing in 2023 with the City’s fiscal year ended December 31, 2022. The annual financial information may be provided in a single document or in multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

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

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

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

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

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

*Compliance with Continuing Disclosure Undertakings of the City.* The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City subject to Rule 15c2-12. The City's review of its compliance during the past five years did not reveal any failure to comply, in a material respect, with any undertakings in effect during this time. 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 "Aa2" and "AA" by Moody's Investors Service, Inc. and S&P Global Ratings, respectively. In general, rating agencies base their ratings on rating materials furnished to them (which may include information provided by the City that is not included in this Official Statement) and on the rating agency's own investigations, studies and assumptions. The ratings will reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from the respective rating agencies. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

### **Municipal Advisor**

The City has retained Piper 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 \$284,680,695.31 and will be reoffered at a price of \$285,441,802.70. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

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

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**APPENDIX A**  
**SUMMARY OF BOND ORDINANCE**

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**SUMMARY OF  
SELECTED DEFINITIONS AND PARITY BOND PROVISIONS  
IN THE BOND ORDINANCE**

*This Appendix contains a summary of certain definitions and other provisions of Ordinances 126481 and 125460, as amended by Ordinance 125987 (as amended, the “Refunding Bond Ordinance” and, together with Ordinance 126481, the “Bond Ordinance”). This summary reflects certain amendments to the Refunding Bond Ordinance that took effect as of the first “Parity Covenant Date” (as defined in the Refunding Bond Ordinance), which has occurred.<sup>1</sup> The summary below indicates certain additional future amendments that are to take effect upon a subsequent “Second Parity Covenant Date” (as defined below) which has not yet occurred. Those future amendments, to which purchasers of the Bonds are deemed to have consented, are set forth in bold, italicized text below.*

*Generally, provisions relating to Junior Lien Bonds have been omitted, as there are none outstanding and the City has no current plans to issue Junior Lien Bonds. Those provisions generally are described under “SECURITY FOR THE BONDS—Subordinate Lien Obligations” in the Official Statement. Other information and defined terms have been omitted for purposes of this summary, and the reader is directed to the Bond Ordinance to review the complete text and full definitions of any capitalized terms that are not defined below. A complete copy of the Bond Ordinance is available from the City Clerk or on the City’s website.*

**DEFINITIONS**

Section 1 of the Bond Ordinance defines certain capitalized terms. Below are definitions of certain terms used in this Appendix and elsewhere in the Official Statement.

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

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

**“Annual Debt Service”** means, with respect to either Parity Bonds (or a series of Parity Bonds) (**“Annual Parity Bond Debt Service”**) the sum of the amounts required in a calendar year to pay the interest due in such calendar year (excluding interest to be paid from the proceeds of the sale of bonds), the principal of Serial

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<sup>1</sup> Under the ordinances authorizing the Outstanding Parity Bonds, the Parity Covenant Date has occurred as of (a) the date on which the City has obtained consents of Registered Owners of 60% of the Parity Bonds then outstanding, in accordance with the provisions of the applicable Outstanding Parity Bond Documents; or (b) the date on which all of the Parity Bonds issued in 2015 or earlier are no longer Outstanding. As of the date of this Official Statement, the conditions under (a) of the definition have occurred and the Parity Covenant Date is deemed to have occurred.

Bonds maturing in such calendar year, and the Sinking Fund Requirements for any Term Bonds due in such calendar year. Additionally, for purposes of this definition:

- (a) *Calculation of Interest Due – Generally.* Except as otherwise provided below, interest shall be calculated based on the actual amount of accrued, accreted, or otherwise accumulated interest that is payable in respect of the relevant series of Parity Bonds, taken as a whole, at the rate or rates set forth in the applicable Bond Documents.
- (b) *Capital Appreciation Bonds.* 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 Bond Documents applicable to such Capital Appreciation Bonds.
- (c) *Variable Interest Rate Bonds.*
  - (i) *Assumed Interest on Variable Interest Rate Parity Bonds.* The amount of interest deemed to be payable on any series of Parity Bonds that are Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds is equal to the highest 12-month rolling average of the SIFMA Municipal Swap Index over the preceding ten years. ***Upon the Second Parity Covenant Date, a five-year look-back period shall be substituted for the ten-year period referenced in the immediately preceding sentence.***
- (d) *Interest on Bonds with Respect to Which a Payment Agreement is in Force.* In general, debt service on any 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 applicable Bond Documents and the terms of the Payment Agreement. For example, if the net effect of the Payment Agreement on a series of bonds otherwise bearing interest at a variable interest rate is to produce an obligation bearing interest at a fixed rate, the relevant series of bonds shall be treated as fixed rate bonds. And if the net effect of the Payment Agreement on a series of bonds otherwise bearing interest at a fixed interest 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 series of 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 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 series of bonds to which the Payment Agreement is related, it shall be assumed that: (i) the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by the Payment Agreement, and (ii) the pricing mechanism or index specified by the Payment Agreement is the same as the pricing mechanism or index specified by the applicable 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 under a Parity Payment Agreement are taken into account in determining Annual Debt Service on the related Parity Bonds under subsection (d), no additional debt service shall be taken into account with respect to that Parity Payment Agreement. However, for any period during which Payment Agreement Payments are not taken into account under subsection (d) because the Parity Payment Agreement is not then related to any outstanding Parity Bonds, payments on that 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 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 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 Payment Agreement.
- (f) *Balloon Bonds.* In calculating Annual Debt Service for any series of Parity Bonds, the City may in its discretion treat the debt service requirements with respect to Parity Bonds that are Balloon Bonds (including principal of and interest on such bonds at the applicable rate or rates) as being amortized in approximately equal annual installments over a period equal to the longer of 30 years or the remaining term of such series of Parity Bonds.
- (g) *Adjustments for Defeased Bonds.* For purposes of determining compliance with the rate covenant, calculating the Reserve Fund Requirement, and making coverage ratio calculations in connection with the delivery of a Parity Certificate, Annual Debt Service shall be adjusted as set forth in Section 20(d) of the Bond Ordinance, which provides that if the refunding or defeasance plan provides (i) that the Defeased Bonds (or the refunding 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 bonds, the payment of which is not so secured by the refunding plan) shall be included in the calculation of Annual Debt Service.
- (h) *Reimbursement Obligations.* If any payment under a Parity Reimbursement Obligation is then due and payable, or is then reasonably expected to become due and payable, the reasonably estimated amount and timing of such payment, calculated in accordance with applicable generally accepted accounting principles and as reflected in the annual financial statements of the Light System, shall be included in calculating Annual Debt Service for purposes of delivering a Parity Certificate.

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

**“Balloon Bonds”** with respect to the 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.

**“Bond Documents”** means (a) the Bond Ordinances; (b) the authenticated bond form; (c) Bond Purchase Contract; and (d) the Paying Agent Agreement.

**“Bond Owners’ Trustee”** means a bank or trust company organized under the laws of the State, or a national banking association, appointed in accordance with Section 24(e) of the Bond Ordinance to act as trustee on behalf of the owners, from time to time, of the outstanding Parity Bonds.

**“Bond Sale Terms”** with respect to the Bonds means the terms and conditions for the sale of the Bonds approved by the Director of Finance consistent with the parameters set forth in Section 5 of the Bond Ordinance, as set forth in the Bond Purchase Contract and Paying Agent Agreement.

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

**“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 designated as Parity Bonds, any revenue obligations of the Light System issued or entered into after the Issue Date of such Series, the payment of which constitutes a charge and lien upon 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 Fund and the Reserve Fund to pay and secure payment of the Parity Bonds (including Parity Payment Agreements), in accordance with Section 14 of the Bond Ordinance. 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 hereafter be amended.

**“Gross Revenues”** means (a) all income, revenues, receipts and profits derived by the City through the ownership and operation of the Light 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 Light 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 Light System. Gross Revenues do not include: (i) insurance proceeds compensating the City for the loss of a capital asset; (ii) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenues; (iii) investment income earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code; (iv) any gifts, grants, donations or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenues hereunder; (v) the proceeds of any borrowing for capital improvements (or the refinancing thereof); and (vi) the proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues).

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

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

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

**“Maximum Annual Debt Service”** means, with respect to Parity Bonds 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 those Parity Bonds that are outstanding as of the calculation date.

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

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

**“Parity Bond”** means, generally, any bond or obligation secured by a lien and charge on Net Revenue that is prior and superior to any other liens or charges whatsoever, in accordance with the priority of payment set forth in Section 14 of the Bond Ordinance. The term Parity Bond may refer to: (a) the Outstanding Parity Bonds identified in Exhibit A; (b) each Series of the Bonds designated by the Director of Finance as a Series of Parity Bonds upon satisfaction of the Parity Conditions; (c) any Future Parity Bonds; and (d) any Parity Payment Agreement entered into upon satisfaction of the Parity Conditions.

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

**“Parity Bond Fund”** means the special fund of the City known as the Seattle Municipal Light Revenue Parity Bond Fund established within the Light Fund pursuant to Ordinance 92938 for the purpose of paying and securing the payment of principal of and interest on Parity Bonds (including Parity Payment Agreement Payments) and payments under Parity Reimbursement Obligations.

**“Parity Certificate”** means a certificate delivered pursuant to Section 18(a)(ii) of the Bond Ordinance 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 18(a) of the Bond Ordinance.

**“Parity Payment Agreement”** means a Payment Agreement that is entered into in compliance with the Parity Conditions and under which the City’s payment obligations are expressly stated to constitute a lien and charge on Net Revenue equal in rank with the lien and charge upon such Net Revenue required to be paid into the Parity Bond Fund and the Reserve Fund to pay and secure the payment of principal of and interest on Parity Bonds in accordance with Section 14 of the Bond Ordinance. For purposes of determining percentages of ownership of Parity Bonds under the Bond Ordinance or under any Bond Documents, Parity Payment Agreements shall be deemed to have no principal amount, and any consent or similar rights (if any) shall be determined only as set forth in the applicable Parity Payment Agreement.

**“Parity Reimbursement Obligation”** means any payment or reimbursement obligation incurred under a written agreement entered into in connection with a series of Parity Bonds or to obtain Qualified Insurance or a Qualified Letter of Credit (other than Qualified Insurance or a Qualified Letter of Credit obtained to satisfy all or part of the Reserve Fund Requirement), under which the City’s payment obligations are expressly stated to constitute a lien and charge on Net Revenue equal in rank to the lien and charge upon such Net Revenue required to be paid into the Parity Bond Fund to pay and secure the payment of the principal of and interest on the Parity Bonds. Parity Reimbursement Obligations accruing as a result of a mandatory tender for purchase of Parity Bonds shall be excluded from the calculation of Annual Debt Service for all purposes. For purposes of determining percentages of ownership of Parity Bonds, Parity Reimbursement Obligations shall be deemed to have no principal amount, and any consent or similar rights (if any) shall be determined only as set forth in the applicable Parity Reimbursement Obligations.

**“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, or 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.

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

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

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

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

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



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

**“SIFMA Municipal Swap Index”** means the Securities Industry and Financial Markets Association (“SIFMA”) Municipal Swap Index, calculated and published by Bloomberg and overseen by SIFMA’s Municipal Swap Index Committee, or a substantially similar recognized market successor index representing a seven-day market index comprised of certain high-grade tax-exempt variable rate demand obligations.

**“Second Parity Covenant Date”** means the earlier of (a) the date on which the City has obtained consents of Registered Owners of 60% of the Parity Bonds then outstanding, in accordance with the provisions of the applicable Outstanding Parity Bond Documents; or (b) the date on which the Outstanding Parity Bonds issued in 2017 or earlier have been redeemed or defeased.

**“Valuation Date”** means, with respect to any Capital Appreciation Bond, the date or dates, determined as set forth in the applicable Bond Documents, 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 bond (or during a stated period during which the 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 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, in either case, is to produce obligations that bear interest at a fixed interest rate. Any 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.

## **DELEGATION AND BOND SALE TERMS**

Sections 2 and 3 of the Bond Ordinance concern certain findings with respect to carrying out a plan of refunding and authorization of the issuance of Bonds.

Section 4 of the Bond Ordinance concerns the manner of sale of the Bonds.

Section 5 of the Bond Ordinance provides:

- (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 the Bond 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 confirming the Bond Sale Terms and such related agreements as may be necessary or desirable, consistent with parameters set forth in the Bond Ordinance concerning the maximum principal amount, issue date, denominations, interest rates, payment dates, final maturity, redemption prior to maturity, price and certain other terms and conditions.

Sections 6 through 12 of the Bond Ordinance provide for matters relating to registration and transfer; payment and appointment of the paying agent; redemption and purchase; notice of redemption; failure to pay; form and execution of the Bonds; and provisions regarding the deposit and use of bond proceeds, which provisions are described in the Official Statement.

### **SECURITY FOR THE BONDS; FLOW OF FUNDS**

Section 13 of the Bond Ordinance sets forth the pledge and security for the Bonds, as described under “SECURITY FOR THE BONDS” in the Official Statement.

Section 14 of the Bond Ordinance sets forth the flow of funds and priority for expenditure of Gross Revenues deposited in the Light Fund. It provides that Gross Revenues shall be deposited as received in the Light Fund and used for the following purposes only, in the following order of priority:

- (a) To pay the Operating and Maintenance Expense of the Light System;
- (b) To make, when due, all payments into the Parity Bond Fund required to be made in order to pay the interest on and principal of all Parity Bonds, including all Parity Bond Sinking Fund Requirements, all net payments under Parity Payment Agreements, and to make all payments required to be made (if any) in respect of Parity Reimbursement Obligations;
- (c) To make all payments required to be made (if any) into the Reserve Fund necessary to satisfy the Reserve Fund Requirement, to make all payments (if any) required to be made under Section 15(c)(i)(B) of the Bond Ordinance into a special account within the Light Fund for the replacement of an Alternate Reserve Security as to which the City has received a notice of cancellation, and to pay any reimbursement obligations under any Alternate Reserve Security;
- (d) To make all payments required to be made (if any) in respect of Intermediate Lien Reimbursement Obligations;
- (e) To make all payments into the Junior Lien Debt Service Fund required to be made in order to pay the interest on and principal of all Junior Lien Bonds, including all net payments under Junior Lien Payment Agreements and all Junior Lien Reimbursement Obligations, when due;
- (f) To make all required payments into any revenue bond redemption fund 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 the Junior Lien Bonds; and
- (g) Without priority, for any of the following purposes: to retire by redemption or purchase any outstanding revenue bonds or revenue obligations of the Light System; to make necessary additions, betterments, repairs, extensions, and replacements of the Light System; to pay City taxes or other payments in lieu of taxes payable from Gross Revenues; to make deposits to the Rate Stabilization Account; or for any other lawful Light System purpose.

Section 15 of the Bond Ordinance concerns the Parity Bond Fund and Reserve Fund and is described in the Official Statement under “SECURITY FOR THE BONDS—Reserve Fund and Reserve Fund Requirement.”

Section 16 of the Bond Ordinance concerns the Junior Lien Debt Service Fund and accounts that may be created therein.

## BOND COVENANTS

Section 17 of the Bond Ordinance provides:

- (a) **Parity Bond Covenants.** The City covenants with the Owner of each Bond that is designated as a Parity Bond, for so long as such Bond remains outstanding, as follows:
- (i) *Sale or Disposition of the Light System.*
    - (A) The City may dispose of all or substantially all of the Light System only if the City simultaneously causes all of the Parity Bonds to be, or be deemed to be, no longer outstanding.
    - (B) Except as provided below, the City will not dispose of any part of the Light System in excess of 5% of the value of the net utility plant of the Light System in service unless prior to such disposition: (1) there has been filed with the Director of Finance a certificate of a Professional Utility Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenant set forth in Section 17(a)(ii) of the Bond Ordinance, in which the Professional Utility Consultant may make those assumptions permitted in delivering a Parity Certificate under Section 18(a) of the Bond Ordinance; or (2) provision is made for the payment, redemption or other retirement of a principal amount of Parity Bonds equal to the greater of the following amounts: (I) an amount which will be in the same proportion to the net principal amount of Parity Bonds then outstanding (defined as the total principal amount of Parity Bonds then outstanding less the amount of cash and investments in the Parity Bond Fund) that Gross Revenues for the twelve preceding months attributable to the part of the Light System being sold or disposed of bears to the total Gross Revenues for such period; or (II) an amount which will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the book value of the part of the Light System being sold or disposed of bears to the book value of the entire Light System immediately prior to such sale or disposition.
    - (C) Notwithstanding the foregoing, the City may dispose of any portion of the Light System that has become unserviceable, inadequate, obsolete, worn out or unfit to be used, or no longer necessary for, material to, or useful in the operation of the Light System.
    - (D) If the ownership of all or part of the Light System is transferred from the City through the operation of law, the City shall reconstruct or replace the transferred portion using any proceeds of the transfer unless the City Council determines that such reconstruction or replacement is not in the best interests of the City and the Owners of the Parity Bonds, in which case any proceeds shall be used to purchase, defease, or redeem Parity Bonds prior to maturity.
  - (ii) *Rates and Charges.* The City will establish from time to time and maintain such rates for electric energy as will maintain the Light System in sound financial condition and provide sufficient revenues to pay all Operating and Maintenance Expense, to pay into the Parity Bond Fund the amounts that are required by the Bond Ordinance to be applied to the payment of the principal of and interest on the Parity Bonds until the Parity Bonds shall have been paid in full, and to pay all bonds, warrants, and indebtedness for which any revenues of the Light System shall have been pledged.
  - (iii) *Operation and Maintenance of the Light System.* The City will operate the properties of the Light System in an efficient manner and at a reasonable cost; will maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light System and every part and parcel thereof in good repair, working order and condition; and from time to time will make or cause to be made all necessary and proper repairs, renewals and replacements thereto so that at all times the business carried on in connection therewith will be properly and advantageously conducted.

- (iv) *Books and Financial Statements.* The City will keep and maintain proper books of account for the Light System in accordance with generally accepted accounting principles applicable to governmental utilities; will generally adhere to the uniform system of accounts prescribed by the State Auditor’s Office and the Federal Energy Regulatory Commission (if any); and will prepare, on or before 120 days after the end of each calendar year, ***and, upon the Second Parity Covenant Date, this requirement shall be changed to on or before 180 days after the end of each calendar year,*** annual financial statements showing reasonable detail, including a balance sheet, an income statement, and a statement of cash flows or other such statement. Copies of such financial statements shall be placed on file in the office of the Director of Finance and shall be open to inspection at any reasonable time by any owner of any Parity Bonds. A copy of such financial statements shall be sent to any owner of Parity Bonds upon request in writing setting forth the name and address to which such financial statements may be sent.

### **ADDITIONAL BONDS**

Section 18 of the Bond Ordinance provides the Parity Conditions, including the test for issuing Future Parity Bonds, which is described under “SECURITY FOR THE BONDS—Future Parity Bonds” in the Official Statement. It also provides a test for the issuance of Additional Junior Lien Bonds.

### **RATE STABILIZATION ACCOUNT**

Section 19 of the Bond Ordinance provides that the City may at any time deposit in the Rate Stabilization Account Net Revenue and any other money received by the Light System and available to be used therefor. Thereafter, the City may withdraw any or all of the money from the Rate Stabilization Account for inclusion in Adjusted Net Revenue for any applicable year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year for which the deposit or withdrawal will be included as Adjusted Net Revenue.

### **REFUNDING OR DEFEASANCE OF THE BONDS**

In Section 20 of the Bond Ordinance, the Bonds are designated as “Refundable Bonds” eligible to be refunded under the Omnibus Refunding Ordinance in the future. The provisions regarding refunding and defeasance of the Bonds are described in the Official Statement under “DESCRIPTION OF THE BONDS—Refunding or Defeasance of Bonds.”

### **FEDERAL TAX AND SECURITIES LAW MATTERS**

Section 21 of the Bond Ordinance covers Federal Tax Matters, which are described in the Official Statement under “LEGAL AND TAX INFORMATION—Tax Matters.”

Section 22 of the Bond Ordinance covers preparation of a Preliminary Official Statement, a Final Official Statement and Continuing Disclosure matters. The Continuing Disclosure Agreement is described in the Official Statement under “CONTINUING DISCLOSURE AGREEMENT.”

### **SUPPLEMENTAL OR AMENDATORY BOND DOCUMENTS**

Section 23 of the Bond Ordinance provides that the Bond Ordinance and other Bond Documents may not be supplemented or amended in any respect subsequent to the Issue Date of the Bonds except in accordance with this section:

- (a) **Amendments Without Bond Owners’ Consent.** From time to time and at any time, without the consent of or notice to the owners of any 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 in writing 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 to the effect that such

supplement or amendment is permitted by the terms of the Bond Ordinance. The City shall deliver a copy of any such supplement or amendment to each Rating Agency prior to its passage, adoption, or approval (as applicable) by the City. The types of supplements and amendments permitted under this subsection (a) are as follows:

- (i) To add to any Parity Bond Documents additional covenants and agreements that do not adversely affect the interests of the owners of any Parity Bonds then outstanding, or to surrender any right or power reserved to or conferred upon the City in any Bond Documents.
- (ii) To cure any ambiguities or to cure, correct, or supplement any defective provision in any Bond Documents, in regard to matters or questions arising under such Bond Documents, as the City may deem necessary or desirable and not inconsistent with the Bond Ordinance, and which do not materially adversely affect the interests of the owners of any Parity Bonds then outstanding.
- (iii) To make such changes as may be necessary to permit the Bonds to be held in registered certificate form or in Book-Entry Form, as the case may be, and to make similar amendments or modifications of a technical nature.

**(b) Amendments Permitted Upon Bond Owners' Consent.**

- (i) *Parity Bond Documents.* With the consent of the registered owners representing not less than 60% in aggregate principal amount of the Parity Bonds then outstanding, the City may pass, adopt, or otherwise provide its written approval of any supplement or amendment to add to, change, or eliminate any provision of the Bond Documents applicable to a Series of the Bonds designated as Parity Bonds in any manner other than a supplement or amendment effecting a change described in subsection (c)(i) below.

**(c) Amendments Prohibited Except Upon Unanimous Consent.**

- (i) *Amendments to Parity Bond Documents.* Nothing contained in this section shall permit or be construed as permitting an amendment or supplement that would:
  - (A) Except upon consent from the registered owners of or on behalf of all Parity Bonds so affected, extend the fixed maturity of any Parity Bond, reduce the rate of interest on any Parity Bond (other than a change in interest rate permitted under the applicable Parity Bond Documents then in effect), extend the times of payment of interest from their respective due dates, reduce the principal amount of any Parity Bond, or reduce any redemption premium; or
  - (B) Except upon consent from the registered owners of or on behalf of all of the Parity Bonds then outstanding, reduce the percentage of ownership required under subsection (b)(i), above, to approve any supplement or amendment.

- (d) **Notice and Consents.** If at any time the City passes, adopts, or otherwise approves in writing a supplement or amendment for any of the purposes requiring consent under subsection (b) or (c) of this section, it shall provide a notice to each registered owner and to each Rating Agency briefly summarizing the nature of the proposed supplement or amendment and stating that a copy of such supplement or amendment is on file at the office of the City Clerk. It shall not be necessary to obtain consent to or approval of the particular form of any proposed supplement or amendment, but it shall be sufficient if the consent shall approve the substance 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.

- (e) **Effect of Amendment or Supplement.** Upon the effective date of any amendment or supplement to any Bond Documents, such Bond Documents shall be deemed to be amended and modified in accordance with such amendment or supplement. Thereafter, the respective rights, duties, and obligations of the City under the applicable Bond Documents shall be determined, exercised, and enforced subject in all respects to such supplement or amendments, and all the terms and conditions of

any such supplement or amendment shall be deemed to be a part of the terms and conditions of those Bond Documents for any and all purposes. The effective dates of such amendments and supplements shall be as follows:

- (i) An amendment and supplement permitted under subsection (a) shall become effective immediately upon (A) the passage, adoption, or other approval of such amendment or supplement (or upon the effective date of such document as stated therein, if any), and (B) the delivery of the required opinion of Bond Counsel stating that such amendment or supplement is permitted under the Bond Ordinance.
- (ii) A supplement or amendment permitted under subsection (b) or (c) shall become effective on the date on which the City has received the written consents of the requisite percentage of registered owners. If the requisite percentage of registered owners of Parity Bonds, as applicable, have given their consent to any such amendment or supplement, no owner of any 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, or any authorized official thereof, 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.
- (f) **Notation on Bonds.** Any Bonds executed and delivered after the effective date of any amendment or supplement that is passed, adopted, or otherwise approved in writing pursuant to this section may include a notation as to any matter provided for in such amendment or supplement. The City may, in its discretion, prepare and deliver replacement bonds, modified to reflect any such amendment or supplement, to the registered owner(s) thereof upon surrender of the original bonds for cancellation.

## DEFAULTS AND REMEDIES

Section 24 of the Bond Ordinance provides the following Events of Default with respect to Parity Bonds:

- (a) **Parity Bond Events of Default.** Each of the following shall constitute an Event of Default with respect to the Bonds designated as Parity Bonds, except as set forth in subsection (c) of this section:
  - (i) If a default is made in the payment of the principal (including Sinking Fund Requirements and any redemption premium thereon, if any) of or interest on any Parity Bond when the same shall become due and payable; or
  - (ii) If the City defaults in the observance and performance of any other of the Parity Bond covenants, conditions, or agreements on the part of the City set forth in the Bond Ordinance or the applicable Parity Bond Documents (except as otherwise provided herein or in such Parity Bond Documents) and such default or defaults shall have continued for a period of six months (the “cure period”) after the City shall have received from the registered owners of not less than 25% in principal amount of the Parity Bonds then outstanding (or from a Bond Owners’ Trustee duly appointed as set forth in subsection (e), below) a written notice specifying and demanding the cure of such default. However, if such default is one that cannot be completely remedied within the cure period, it shall not be an Event of Default with respect to the Parity Bonds, so long as the City has taken active steps within the cure period to remedy the default and is diligently pursuing such remedy.
- (b) **Junior Lien Bond Events of Default.** Section 24(b) of the Bond Ordinance addresses Events of Default with respect to Junior Lien Bonds.
- (c) **Exceptions.** Notwithstanding anything in this section to the contrary, the failure of the City or any obligated person to comply with a Continuing Disclosure Agreement shall not constitute an Event of Default, and the sole remedy of any holder of any Parity Bond or Junior Lien Bond, as applicable, shall be to seek an order of specific performance from an appropriate court to compel the City to

comply with the Continuing Disclosure Agreement. For purposes of determining whether an Event of Default has occurred and is continuing with respect to the rate covenant set forth in Section 17 of the Bond Ordinance, if such covenant is met for any fiscal year, it shall be deemed to have been met for all prior fiscal years.

- (d) **Remedies; No Acceleration.** In the case of a Parity Bond Event of Default, an owner of a Parity Bond shall have the remedies set forth in Section 10 of the Bond Ordinance and in the applicable Parity Bond Documents. *Upon the Second Parity Covenant Date, the rights and remedies of the owners from time to time of Parity Bonds shall be limited by subsection (e), below.*
- (e) **Bond Owners' Trustee.** *The provisions of this subsection shall become effective with respect to Parity Bonds only upon the Second Parity Covenant Date.* A Bond Owners' Trustee appointed in the manner provided in this section, and each successor thereto, is declared to be a trustee for all of the owners of the Parity Bonds in the case of a Parity Bond Event of Default and is empowered to exercise all the rights and powers herein conferred on the Bond Owners' Trustee.
- (i) *Appointment of Bond Owners' Trustee; Removal.* Upon the occurrence and continuance of an Event of Default described in subsection (a) of this section, the registered owners of 25% in principal amount of the then outstanding Parity Bonds may appoint a Bond Owners' Trustee by an instrument or concurrent instruments in writing signed by such registered owners (or by their duly authorized attorneys-in-fact) and delivered to such Bond Owners' Trustee, with notification of such appointment given to the City. That appointment shall become effective immediately upon acceptance thereof by the Bond Owners' Trustee. The entity 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 more than 50% in principal amount of the Parity Bonds in the case of a Parity Bond Event of Default, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners or by their duly authorized attorneys-in-fact.
- (ii) *Cure of Event of Default.* If the Bond Owners' Trustee furnishes to the City a certificate stating that, in its sole judgment, an Event of Default that has occurred has been cured, such 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.
- (iii) *Suits at Law or in Equity.* Upon the occurrence of an Event of Default and during the continuance thereof, the Bond Owners' Trustee in its discretion may (and, upon the written request of the registered owners of not less than 25% in principal amount of the Parity Bonds then 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 the Bond Ordinance or set forth in any of the applicable Bond Documents.
- 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 the Bond 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.
- (iv) *Effect of Appointment of Bond Owners' Trustee.* Any suit, action, or proceeding instituted by the Bond Owners' Trustee shall be brought for the ratable benefit of all of the owners of the Parity Bonds, subject to the provisions of the Bond Ordinance. The respective owners, 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 owners, 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 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.

- (v) *Bond Owners' Direction of Proceedings.* By an instrument or concurrent instruments in writing executed and delivered to the Bond Owners' Trustee, the owners of more than 50% in aggregate principal amount of the Parity Bonds then outstanding shall be entitled to control and direct the enforcement of all rights and remedies granted to the owners (or the Bond Owners' Trustee for the benefit of the owners) under the applicable Parity Bond Documents. Notwithstanding the foregoing, the Bond Owners' Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Owners' Trustee, in reasonable reliance on advice of counsel, would be unjustly prejudicial to owners not parties to such direction.
- (vi) *Limitation on Remedies; Limitations on Individual Actions.* It is understood and intended that no owner of a Parity Bond, in the case of a Parity Bond Event of Default, shall have any right in any manner whatever by its action to affect, disturb, or prejudice the security pledged in the Bond Ordinance or the rights of any other owners, or to enforce any right under the applicable Bond Documents or applicable law except in the manner provided in this section, and that all proceedings at law or in equity to enforce any such right shall be instituted, had, and maintained in the manner herein provided and for the equal and ratable benefit and protection of all owners of the Parity Bonds, subject to the provisions of the Bond Ordinance.
- (vii) *Limitations on Individual Actions.* No owner of a Parity Bond shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of same unless (A) such owner previously shall have given to the Bond Owners' Trustee written notice of the occurrence of an Event of Default; (B) the owners of more than 50% in aggregate principal amount of the then outstanding Parity Bonds (in the case of a Parity Bond Event of Default) shall have made a written request to the Bond Owners' Trustee to exercise the powers granted above or to institute such suit, action, or proceeding in its own name; (C) such owners shall have tendered to the Bond Owners' Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (D) the Bond Owners' Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Owners' Trustee. The conditions set forth in (A) through (D) in the preceding sentence are hereby declared to be conditions precedent to the exercise by any owner of a Parity Bond (in the case of a Parity Bond Event of Default) of any remedy under the applicable Bond Documents or under applicable law.
- (viii) *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 any period in which an Event of Default has occurred and is continuing as to the Parity Bonds 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 the Bond Ordinance, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into the Bond 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



fees and expenses of the Bond Owners' Trustee shall be borne by the owners of the Parity Bonds and not by the City. A 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. 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.

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

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Stradling Yocca Carlson & Rauth  
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  
\$257,715,000 Municipal Light and Power  
Improvement and Refunding Revenue Bonds, 2022

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

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 126481 (the “New Money Ordinance”), and Ordinance 125460, as amended by Ordinance 125987 (as amended, the “Refunding Ordinance, and together with the New Money Ordinance, the “Bond Ordinances”) to provide the funds (i) to finance certain capital improvements to and conservation programs for the Light System; (ii) to provide for the Reserve Fund Requirement, (iii) to refund, on a current basis, a portion of the City’s outstanding municipal light and power improvement and refunding revenue bonds, and (iv) to pay the costs of issuing the Bonds and administering the Refunding Plan, all as set forth in the Bond Ordinances.

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

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Light System, by money in the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”) and by the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The Net Revenue has been pledged to make the required payments into the Parity Bond Fund and the Reserve Fund, which pledge constitutes a charge on the Net Revenue prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System, and except that the Bonds shall have a lien and charge upon such Net Revenue on a parity with the lien and charge of the Outstanding Parity Bonds and any Future Parity Bonds.

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

3. The Bonds constitute valid and binding obligations of the City payable solely out of the Gross Revenues of the Light System (after reasonable charges for maintenance and operation) and money in the Parity Bond Fund and the Reserve Fund, enforceable in accordance with their terms, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and principles of equity if equitable remedies are sought;

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

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, under existing statutes, regulations, rulings and judicial decisions, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

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

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

Respectfully submitted,

**APPENDIX C**  
**2021 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT**

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***The City of Seattle—  
City Light Department***

*Enterprise Fund of The City of Seattle*

*Financial Statements as of and for the  
Years Ended December 31, 2021 and 2020,  
Required Supplementary Information,  
Other Information, and  
Independent Auditors' Report*

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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## **Independent Auditors' Report**

To the Economic Development, Technology, and City Light Committee of  
City of Seattle, City Light Department

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of the City of Seattle, City Light Department (the Department), an enterprise fund of the City of Seattle, Washington, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position for the Department as of December 31, 2021, and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Department enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Seattle, Washington, as of December 31, 2021, and 2020, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

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

## Other Information

Management is responsible for the other information as identified in the table of contents. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Department'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 Department's internal control over financial reporting and compliance.

*Baker Tilly US, LLP*

Madison, Wisconsin  
April 29, 2022

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

---

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2021 and 2020. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

### ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates generating, transmission and distribution facilities and delivers electricity to approximately 485,200 customers in Seattle and certain surrounding communities, and other City agencies.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Department's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Department's accounting records also follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

This discussion and analysis serve as an introduction to the Department's financial statements, which are composed of the financial statements and the notes to the financial statements and include the following:

***Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows***—The financial statements provide an indication of the Department's financial health. The balance sheets include all the Department's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position using the accrual basis of accounting, and indicate which assets may be utilized for general purposes and which are restricted due to bond covenants and other commitments. The statements of revenues, expenses, and changes in net position report all the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and cash payments for bond principal and capital additions and betterments.

***Notes to the Financial Statements***—The notes to the financial statements provide additional information needed for a full understanding of the data provided in the financial statements.

### COVID-19

COVID-19 had a significant effect on the Department's operations, operating results, and financial statements. Additional details are noted within the specific areas impacted in the following discussion.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

### CONDENSED BALANCE SHEETS

(\$ in millions)	December 31		
	2021	2020	2019
<b>Assets:</b>			
Utility plant—net	\$ 4,372.7	\$ 4,207.1	\$ 4,041.5
Restricted assets	280.9	324.8	276.5
Current assets	510.7	373.1	449.9
Other assets	<u>428.4</u>	<u>427.1</u>	<u>432.0</u>
Total assets	<u>5,592.7</u>	<u>5,332.1</u>	<u>5,199.9</u>
Total deferred outflows of resources	<u>58.2</u>	<u>65.0</u>	<u>102.7</u>
Total assets and deferred outflows of resources	<u>\$ 5,650.9</u>	<u>\$ 5,397.1</u>	<u>\$ 5,302.6</u>
<b>Liabilities:</b>			
Long-term debt	\$ 2,747.1	\$ 2,694.8	\$ 2,682.5
Noncurrent liabilities	341.6	407.9	459.8
Current liabilities	295.4	271.1	306.8
Other liabilities	<u>34.7</u>	<u>38.0</u>	<u>35.2</u>
Total liabilities	<u>3,418.8</u>	<u>3,411.8</u>	<u>3,484.3</u>
Total deferred inflows of resources	<u>209.3</u>	<u>160.9</u>	<u>116.1</u>
<b>Net position:</b>			
Net investment in capital assets	1,886.0	1,822.8	1,653.7
Restricted:			
Rate stabilization account	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Total restricted	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>111.8</u>	<u>(23.4)</u>	<u>23.5</u>
Total net position	<u>2,022.8</u>	<u>1,824.4</u>	<u>1,702.2</u>
Total liabilities, deferred inflows, and net position	<u>\$ 5,650.9</u>	<u>\$ 5,397.1</u>	<u>\$ 5,302.6</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

#### ASSETS

##### *Utility Plant—Net*

**2021 Compared to 2020** Utility plant assets net of accumulated depreciation and amortization increased \$165.6 million to \$4,372.7 million in 2021. The following table sets forth the increases in utility plant (before depreciation and amortization) year over year:

Utility Plant Assets:	2021	increase	2020	increase	2019
Hydroelectric Production Plant	\$ 992.3	\$ 38.1	\$ 954.2	\$ 15.0	\$ 939.2
Transmission Plant	\$ 328.1	\$ 11.5	\$ 316.6	\$ 14.3	\$ 302.3
Distribution Plant	\$3,227.6	\$ 126.0	\$3,101.6	\$ 89.7	\$3,011.9
General Plant	\$ 423.6	\$ 8.9	\$ 414.7	\$ 9.7	\$ 405.0
Intangible Assets	\$ 780.5	\$ 45.5	\$ 735.0	\$ 39.3	\$ 695.7
	<b>\$5,752.1</b>	<b>\$ 230.0</b>	<b>\$5,522.1</b>	<b>\$ 168.0</b>	<b>\$5,354.1</b>

The \$230.0 million increase in utility plant assets to \$5,752.1 million was partially offset by a \$92.6 million increase in accumulated depreciation and amortization to \$2,195.6 million. The components of the increase in utility plant assets include the following:

- The \$38.1 million increase in Hydro Assets is primarily due to a \$32.1 million increase for Ancillary Electric Equipment, \$4.3 million increase for Hydro Structures and \$1.7 million increase for Miscellaneous Hydro Equipment.
- The \$11.5 million increase in Transmission is primarily due to a \$10.6 million increase for Transmission Station Equipment and \$0.9 million increase for Transmission Overhead and Underground Lines.
- The \$126.0 million increase in distribution plant is due to \$43.4 million increase for Network, \$31.4 million net increase for Underground, \$22.3 million increase for Overhead, \$28.1 million increase for Poles, \$10.7 million increase for Street Lights, \$1.5 million increase for Services offset by \$11.4 million decrease for Station Equipment.
- The \$8.9 million increase in General plant is primarily due to: \$7.2 million increase for General Structure improvements and \$1.7 million increase for Equipment and Tools.
- The \$45.5 million increase in Intangible assets is primarily due to an \$18.9 million increase for net Software and \$26.6 million increase for High Ross and Relicensing at Boundary and Skagit.

Other components of utility plant include:

- Construction work-in-progress (CWIP) of \$639.8 million, an increase of \$27.2 million over the prior year, driven by an addition of \$339.8 million offset by capitalization of \$312.6 million.  
The \$639.8 million of CWIP is for ongoing construction in the following areas:
  - o \$80.3 million for Substations and structures,
  - o \$372.1 million for improvements to Distribution System
  - o \$54.4 million for Hydro
  - o \$24.2 million for Tools and Equipment
  - o \$23.0 million for Software
  - o \$53.5 million for Transmission
  - o \$32.3 million for miscellaneous capital
- Nonoperating property has a balance of \$17.8 million which increased \$0.3 million



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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- Assets held for future use \$4.0 million unchanged
- Land and land rights \$154.6 million, which increased \$0.7 million

See Note 3 Utility Plant of the accompanying financial statements.

**2020 Compared to 2019** Utility plant assets net of accumulated depreciation and amortization increased \$165.6 million to \$4,207.1 million in 2020. Utility plant assets are composed of hydroelectric production plant, \$954.2 million, which increased \$15.0 million, transmission plant, \$316.6 million, which increased \$14.3 million, distribution plant, \$3,101.6 million, which increased \$89.7 million, general plant, \$414.7 million, which increased \$9.7 million, and intangible assets, \$735.0 million, which increased \$39.3 million. The net increase in utility plant assets was partially offset by a \$123.6 million net increase in accumulated depreciation and amortization to \$2,103.0 million.

The \$89.7 million increase in distribution plant is primarily due to overhead and underground systems, \$48.9 million, network systems, \$23.5 million, poles, streetlights, and meters, \$17.3 million. An increase of \$39.3 million in intangibles is primarily due to licensing costs. An increase of \$15.0 million in hydro assets is primarily due to Ross water pipe replacement, \$5.6 million and Diablo units 31 and 32 rebuild, \$3.1 million.

Other components of utility plant include construction work-in-progress, \$612.6 million, which increased \$119.2 million, land and land rights, \$153.9 million, which increased \$1.3 million. The increase in construction work-in-progress is primarily due to \$321.8 million in additions, partially offset by capitalization of \$202.7 million. The additions in construction work-in-progress consist mainly of \$110.7 million in underground and overhead systems, primarily due to Denny network, \$52.4 million in billable service connections, \$44.2 million in generation projects primarily due to Boundary units 51, 52 and 54 rebuild, \$29.8 million in intangibles, \$25.8 million in general plant, \$18.1 million in data processing systems, \$13.8 million in transmission, and \$13.7 million in street lighting.

#### ***Restricted Assets***

**2021 Compared to 2020** Restricted assets consisting of restricted cash decreased by \$43.9 million to \$280.9 million.

Construction funds increased by \$17.9 million to \$56.2 million. The ending balance reflects unspent proceeds from the 2021A bonds that will continue to be used in 2022 to fund a portion of the ongoing capital improvement program.

The Rate Stabilization Account (RSA) increased by a net \$2.6 million to \$99.4 million. Details are below:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
<b>Rate Stabilization Account</b>		
Beginning balance	\$ 96.8	\$ 74.1
Council authorized transfer to RSA	15.0	-
Surcharge revenue	6.6	23.5
RSA interest income	1.4	1.5
Operating revenue	<u>(20.4)</u>	<u>(2.3)</u>
Ending balance	<u>\$ 99.4</u>	<u>\$ 96.8</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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A 3.0% surcharge on electric rates ended March 2021. Low net wholesale revenue due to strong retail demand coupled with dry hydro conditions and high market prices significantly reduced the RSA balance in Q3 2021. In response, the City Council authorized a \$15.0 million transfer into the RSA from operating funds to prevent an RSA surcharge from triggering. Additions to the RSA came from rate surcharge revenues of \$6.6 million plus interest earnings of \$1.4 million. These additions were partially offset by transfers of funds to operating cash of \$20.4 million due to the difference between actual and budgeted net wholesale revenues. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets decreased by \$64.4 million to \$125.3 million. The bond reserve account decreased by \$57.9 million primarily due to a \$60.0 million transfer of surplus funds from the bond reserve to operating cash, offset by \$2.1 million of interest income for the Department's share of City pooled cash investments attributed to remaining bond proceeds. The debt service account increased by \$4.9 million mainly due to 2021A bond debt service interest payment. Special deposits and other restricted assets decreased by \$11.4 million due to decrease in customer prepayments and special deposits.

**2020 Compared to 2019** Restricted assets consisting of restricted cash increased by \$48.3 million to \$324.8 million.

Construction funds increased by \$16.1 million to \$38.3 million. The ending balance was for unspent proceeds from the 2020A bonds that will continue to be used in 2021 to fund a portion of the ongoing capital improvement program. Also, within the ending balance was a positive fair value adjustment for the Department's share of City pooled cash investments attributed to remaining bond proceeds.

The Rate Stabilization Account (RSA) increased by a net \$22.7 million to \$96.8 million. A surcharge on electric rates of 3.0% in 2020 reflects the original 1.5% surcharge in effect since August 2016 plus an additional 1.5% surcharge imposed in November 2019. Additions to the RSA came from rate surcharge revenues of \$23.5 million plus interest earnings of \$1.5 million. These were offset by transfers of funds to operating cash of \$2.3 million due to the difference between actual and budgeted net wholesale revenues. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets increased by \$9.5 million to \$189.7 million. The Bond reserve account increased by \$7.3 million primarily from the additional deposit of the 2020A bonds. The debt service account increased by \$2.2 million.

#### ***Current Assets***

**2021 Compared to 2020** Current assets increased by \$137.6 million to \$510.7 million at the end of 2021.

Operating cash increased by \$90.7 million to \$193.1 million. Increased inflows to cash were from increased retail revenue, a \$60.0 million transfer from the bond reserve, increased transfers from the RSA, lower debt service and bond defeasance. These were offset by lower net wholesale revenues, a Council-authorized \$15.0 million transfer to the RSA, and higher ongoing operating expense.

Accounts receivable, net, increased by \$31.0 million to \$175.8 million. Retail electric receivables increased by \$14.6 million, offset by a \$5.7 million increase in allowance mainly due to the impact of collections forbearance.

Sundry receivables increased by a net \$11.1 million consisting mainly of \$13.2 million in large project service connections offset by an increase in the allowance by \$2.1 million. Pandemic response measures contributed to the higher allowance as collection efforts were suspended for sundry billings.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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The remaining increase in accounts receivable included an increase of \$1.5 million in short-term wholesale energy and transmission primarily attributable to higher electric market prices influenced by higher natural gas prices and a \$9.5 million increase in accounts receivable from other governments, mostly related to FERC Land Use fee refund from 1996 - 2019 per court order. The FERC refund will be applied as credits against future FERC fee invoices.

Unbilled revenues increased by \$11.6 million due to higher load resulting from freezing temperatures and snow during the last week of December 2021.

Materials and supplies increased by \$4.3 million for projects in progress.

**2020 Compared to 2019** Current assets decreased by \$76.8 million to \$373.1 million at the end of 2020.

Operating cash decreased by \$87.8 million to \$102.4 million. Increased inflows to cash were from the 5.5% system average rate increase effective January 1, 2020, RSA surcharges, net wholesale revenues, capital contributions, interest earnings, and reimbursement from the Construction account for capital expenditures. Substantial capital expenditure reimbursements were made from the Construction account during the 4<sup>th</sup> quarter from the 2020A bonds. These were offset by payments for higher debt service including advance repayments of \$88.6 million of certain prior lien bonds, as well as transfers to RSA, capital construction projects, purchased power contracts, and ongoing operations.

Accounts receivable, net, increased by \$12.3 million to \$144.8 million. The highest increase in the amount of \$6.4 million, net, was for retail electric accounts, which were greatly impacted by pandemic response efforts. Retail electric receivables increased by \$21.4 million, offset by an increase in the allowance of \$12.8 million and decrease of \$2.3 million from increased customer participation in the Utility Discount Program and deferred payment plans. The rate increase in 2020 and the impact of collections forbearance also contributed to the net increase in retail electric accounts.

Sundry receivables increased a net \$1.6 million consisting mainly of higher large project service connections of \$6.9 million offset by an increase in the allowance of \$1.5 million, and payment of \$3.8 million in Sound Transit electrical work, some of which pertained to prior years. COVID-19 also affected the higher allowance as collection efforts were suspended for sundry billings.

The remaining increase in accounts receivable of \$4.4 million is for power related receivables for short-term wholesale energy. This increase is attributable to higher power market prices, \$2.0 million, wind generation stored power, \$1.4 million, and receivable from the Federal Energy Regulatory Commission related to current year land use fees, \$1.0 million.

Unbilled revenues decreased by \$5.1 million due to lower consumption by commercial and industrial customers, responding to pandemic stay at home orders. Materials and supplies increased by \$3.8 million for projects in progress.

#### ***Other Assets***

**2021 Compared to 2020** Total Other assets of \$428.4 million increased by \$1.3 million from 2020.

The regulatory asset for environmental cleanup and environmental recovery increased by \$1.6 million and \$2.2 million respectively, due to the estimated costs to remediate several Superfund sites along the Duwamish River for which the Department has been designated a responsible party. Environmental cleanup costs are being recovered through rates over a 25-year period. See Note 15 Environmental Liabilities of the accompanying financial statements.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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An offsetting decrease of \$1.8 million was primarily for ongoing payment from local jurisdictions for underground infrastructure improvements loans. Conservation costs, net, decreased by \$0.7 million. See Note 7 Other Assets of the accompanying financial statements.

**2020 Compared to 2019** Total Other assets of \$427.1 million decreased by \$4.9 million from 2019. Conservation costs decreased by \$2.9 million for amortization and by \$1.8 million for ongoing payment of loans from local jurisdictions for underground infrastructure improvements. This decrease was partially offset by an increase of \$1.6 million for environmental cleanup costs estimated for several Duwamish River Superfund sites for which the Department has been named a responsible party. Environmental cleanup costs are recovered through rates over a 25-year period.

#### *Deferred Outflows of Resources*

**2021 Compared to 2020** Deferred outflows of resources decreased by \$6.8 million to \$58.2 million.

In 2021, pension related deferred outflows decreased net \$3.2 million mainly due to a \$4.1 million decrease in actuarial assumptions partially offset by an increase of \$0.8 million in the difference between projected and actual investment earnings. The most recent actuarial experience study was used to update assumptions, including for salary increase, mortality, and retirement rates. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Deferred outflow of resources pertaining to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (OPEB) increased by \$0.2 million.

Charges on advance refunding decreased a net \$3.8 million to \$16.3 million. Activity for 2021 consisted of amortization and adjustments for advanced refunding of certain bonds.

**2020 Compared to 2019** Deferred outflows of resources decreased by \$37.7 million to \$65.0 million.

Pension related deferred outflows decreased net \$33.8 million primarily because of a year over year decrease in the actuarially determined net difference between projected and actual investment earnings of \$33.9 million. This results from strong equity market performance in 2019, the year used as the measurement for actuarial expectations. The most recent actuarial experience study was used to update assumptions including for salary increase, mortality, and retirement rates.

Deferred outflow of resources pertaining to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (OPEB) increased by \$0.6 million from 2019 for actuarial differences between expected and actual experience, based on the most recent actuarial experience study.

Charges on advance refunding decreased a net \$4.5 million to \$20.1 million. Activity for 2020 consisted of amortization and adjustment for advanced refunding of certain bonds.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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#### LIABILITIES

##### *Long-Term Debt*

**2021 Compared to 2020** Long-term debt increased a net \$52.3 million to \$2,747.1 million during 2021.

The Department issued new debt in the amount of \$360.4 million including \$259.8 of fixed rate bonds (2021A Bonds) and \$100.6 million of variable rate bonds (2021B Bonds). A portion of the 2021A Bonds were used to fund the ongoing capital improvement program and to refund the 2011A Bonds, and the 2021B Bonds were used to refund the 2018B B1 & B2 Bonds, both on a current refunding basis. Also, during 2021, \$26.9 million of the 2012A and \$48.3 million of 2013 Bonds were defeased.

Debt to capitalization ratio was 56.1% at the end of 2021, a decrease from the 58.3% ratio of 2020.

Net revenues available to pay debt service were equal to 2.08 times principal and interest on all bonds for 2021. Although COVID-19 and associated pandemic response efforts continued to affect financial results during 2021, as noted in results of operations, the coverage ratio increased for 2021. See Note 9 Long-Term Debt of the accompanying financial statements.

**2020 Compared to 2019** Long-term debt increased a net \$12.3 million to \$2,694.8 million during 2020.

The Department issued new debt in the amount of \$198.3 million revenue bonds to fund a portion of the ongoing capital improvement program. The 2020 bond issue was fixed rate in nature. \$39.4 million of the 2012A revenue bonds and \$49.9 million of the 2013 revenue bonds were defeased.

Debt to capitalization ratio was 58.3% at the end of 2020, a decrease from the 60.1% ratio of 2019.

Net revenues available to pay debt service were equal to 1.73 times principal and interest on all bonds for 2020. COVID-19 and associated pandemic response efforts had a significant effect on financial results, as noted in results of operations, and therefore, the lower coverage ratio for 2020.

##### *Noncurrent Liabilities*

**2021 Compared to 2020** Total non-current liabilities decreased by \$66.3 million to \$341.6 million at the end of 2021.

Net Pension Liability decreased by \$65.7 million based on the most recent actuarial report. This decrease was driven primarily by strong investment performance in 2020. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental Liability decreased by a net \$1.8 million to \$102.5 million. Environmental liabilities are principally attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is a responsible party for contamination in the Duwamish River due to land ownership and use of property located along the river. See Note 15 Environmental Liabilities of the accompanying financial statements.

The remaining net increase of \$1.2 million is the result of an increase in OPEB liability per the most recent actuarial report.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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**2020 Compared to 2019** Total non-current liabilities decreased by \$51.9 million to \$407.9 million at the end of 2020.

Net Pension Liability decreased by a net \$56.4 million based on the most recent actuarial report, this decrease was due largely to strong investment returns from the preceding year.

Environmental Liability decreased by a net \$0.8 million to \$104.3 million. Environmental liabilities are principally attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a responsible party for contamination in the Duwamish River due to land ownership and use of property located along the river. See Note 15 Environmental Liabilities of the accompanying financial statements.

Liabilities for damage claims/lawsuits and worker's compensation increased by \$1.6 million based on most recent estimates.

The remaining net increase of \$3.7 million was primarily for an increase in the estimate for compensated absences which reflected staff reducing their vacation use during the pandemic.

#### ***Current Liabilities***

**2021 Compared to 2020** Current liabilities increased by a net of \$24.3 million for a total of \$295.4 million at the end of 2021.

The increase includes \$5.6 million for higher debt due within one year, \$4.6 million for higher taxes payable due to higher retail revenues and lower state renewable energy tax credit, \$3.5 million for short-term wholesale power payable due to higher market prices influenced by higher natural gas prices, \$4.1 million for claims payable of environmental remediation liability, \$3.7 million for judgment and claims due to updated actuarial report, \$2.2 million for higher interest payable as a result of greater bonds outstanding at the end of the year, and \$1.0 million for higher payroll accrual offset by a decrease of \$0.4 million net other.

**2020 Compared to 2019** Current liabilities decreased by a net of \$35.7 million for a total of \$271.1 million at the end of 2020.

Current liability increases totaled \$12.9 million. The increase includes \$9.5 million for pole attachment projects in progress with telecommunication companies, \$1.2 million for retail electric customer prepayments, and \$2.2 million for higher interest payable as a result of greater bonds outstanding at the end of the year.

Current liability decreases totaled \$48.6 million. \$15.4 million was for lower vouchers payable as invoices were processed timelier than the prior year, \$13.1 million for lower payroll accrual, a large portion of which was due to the absence of a COLA accrual for 2020, \$6.7 million for payment of call center services payable to Seattle Public Utilities, \$4.8 million for lower debt due within one year, \$3.2 million for lower retainage payable, \$2.5 million for lower state taxes payable, and \$2.9 million for other payables.

#### ***Other Liabilities***

**2021 Compared to 2020** Other liabilities decreased by net \$3.3 million to \$34.7 million, primarily attributed to a \$5.3 million decrease in customer prepayments partially offset by a \$2.0 million increase in deferred revenue for contributions in aid of construction.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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**2020 Compared to 2019** Other liabilities increased by \$2.8 million to \$38.0 million, which reflects a net increase in capital contributions for projects in progress. Increases of \$2.9 million for higher unearned capital contributions for large service connections and \$1.3 million primarily for smaller service connections were partially offset by \$1.4 million in higher actual billings issued against prepayments received for estimated larger service connections.

#### *Deferred Inflows of Resources*

**2021 Compared to 2020** Deferred inflows of resources increased by \$48.4 million for a total of \$209.3 million at the end of 2021.

Deferred inflows related to pension liability increased by \$35.1 million to \$79.8 million. The increase is primarily due to the difference between projected and actual investment earnings of \$37.2 million and \$0.8 million related to increased changes between employer contributions and proportionate share of contributions. These increases were partially offset by a \$2.9 million decrease in deferred inflows related to differences between expected and actual experience.

Deferred inflows of resources pertaining to OPEB decreased by \$0.5 million from 2020 to \$3.0 million for actuarial changes of assumptions, based on the most recent actuarial experience study.

The rate stabilization unearned revenue account increased a net \$2.6 million from 2020. The 3.0% surcharge which ended in March 2021 contributed \$6.6 million to the RSA, with an offset of \$20.4 million transferred to operating revenues for actual net wholesale revenues which were less than budget. To prevent a surcharge from triggering due to a lower than expected RSA balance, City Council authorized a \$15.0 million transfer into the RSA from operating funds in late 2021. \$1.4 million in interest income was transferred to the unearned revenue account, resulting in an ending balance of \$74.4 million. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other deferred inflows of resources increased by \$11.2 million to \$52.1 million due to \$11.2 million FERC Land Use fee refund from 1996 - 2019 per court order, increase in gain on refunding and other of \$1.6 million offset by \$1.6 million decrease related to the Department's Energy Conservation Agreement with Bonneville.

**2020 Compared to 2019** Deferred inflows of resources increased by \$44.8 million for a total of \$160.9 million at the end of 2020.

Deferred inflows related primarily to pension liability increased by \$18.5 million to \$44.7 million. \$23.0 million was due to higher actuarially determined net difference between projected and actual investment earnings and \$1.8 million related to differences between expected and actual experience. These were offset by \$6.3 million for lower changes between employer contributions and proportionate share of contributions.

Deferred inflows of resources pertaining to OPEB increased by \$0.3 million from 2019 for actuarial changes of assumptions, based on the most recent actuarial experience study.

The rate stabilization unearned revenue account increased a net \$22.7 million from 2019. The 1.5% surcharge on electric rates in effect since August 2016 and the additional 1.5% surcharge in effect since November 2019 contributed \$23.5 million, with an offset of \$2.3 million transferred to operating revenues for actual net wholesale revenues being less than budget. \$1.5 million in interest income was transferred to the unearned revenue account resulting in an ending balance of \$71.8 million.

Other deferred inflows of resources increased by \$3.3 million to \$40.9 million mostly due to net payments received from Bonneville in accordance with the Department's Energy Conservation Agreement.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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### RESULTS OF OPERATIONS

#### *Condensed Statements of Revenues, Expenses, and Changes in Net Position*

(\$ in millions)	Year Ended December 31		
	2021	2020	2019
Operating revenues	\$1,109.0	\$1,015.7	\$1,079.5
Nonoperating revenues	<u>4.3</u>	<u>26.7</u>	<u>25.8</u>
Total revenues	<u>1,113.3</u>	<u>1,042.4</u>	<u>1,105.3</u>
Operating expenses	891.7	880.3	873.3
Nonoperating expenses	<u>88.9</u>	<u>93.7</u>	<u>93.0</u>
Total expenses	<u>980.6</u>	<u>974.0</u>	<u>966.3</u>
Income before capital contributions and grants	<u>132.7</u>	<u>68.4</u>	<u>139.0</u>
Capital contributions	65.3	53.3	63.4
Capital grants	<u>0.4</u>	<u>0.5</u>	<u>0.4</u>
Total capital contributions and grants	<u>65.7</u>	<u>53.8</u>	<u>63.8</u>
Change in net position	<u>\$ 198.4</u>	<u>\$ 122.2</u>	<u>\$ 202.8</u>



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

### SUMMARY

**2021 Compared to 2020** Change in net position for 2021 was \$198.4 million, an increase of \$76.2 million or 62% from 2020 change in net position of \$122.2 million. The major reasons for the higher net position are higher retail electric sales due to increased consumption, transfers from the RSA, Capital contributions combined with lower Administrative and general, Bad debt, Conservation and Amortization expenses. Offsetting the higher revenues were lower net short-term wholesale power revenues, higher other power expenses, transmission and distribution, and lower investment income.

**2020 Compared to 2019** Change in net position for 2020 was \$122.2 million, a significant decrease of \$80.6 million or 39.7% from 2019 Change in net position of \$202.8 million. The COVID-19 pandemic had a substantial negative effect on the Department's operations. Operating revenues were considerably lower due largely to a significant reduction in non-residential retail sales. RSA transfers were also lower in 2020 primarily from significantly higher net wholesale revenues. Lower operating revenues were further exacerbated by higher expenses for bad debt, as the pandemic caused many customers to fall behind on their bills and City Light reduced its collection operations in response. Administrative and general, net was higher in large part due to COVID-19 administrative response expenses, including a shift away from CIP-related work. As mentioned above, net wholesale revenues were up compared to 2019, primarily on account of strong hydro conditions leading to lower short-term power purchases. Capital contributions were also lower and along with higher generation, depreciation, taxes, interest expense, and other expenses were contributors to the lower Change in net position.

### REVENUES

**2021 Compared to 2020** Total operating revenues were \$1,109.0 million, an increase of \$93.3 million or 9.2% from 2020. Retail power revenues at \$964.3 million increased \$37.6 million, Short-term wholesale power revenues at \$66.3 million increased \$15.0 million, Other power-related revenues at \$59.3 million increased \$18.5 million, Transfers from/(to) RSA at (\$2.6) million increased by \$20.1 million, and Other operating revenues at \$21.7 million increased by \$2.1 million.

Higher Retail power revenues of \$37.6 million were the net result of higher billed residential revenues of \$6.7 million and nonresidential revenues of \$14.2 million, and higher unbilled revenue of \$16.7 million. Higher nonresidential retail consumption and revenue signify economic recovery; however, sales are still below pre-pandemic levels. Increases in residential consumption and revenue can be attributed to (1) increased teleworking, (2) new customer additions, and (3) heating and cooling demand from significantly colder than normal temperatures in February, March and December and record high temperatures in late June. A higher participation in the Utility Discount Program among residential customers resulted in higher rate discounts, partially offsetting revenues from higher consumption.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

Transfers from/(to) the RSA are determined by the departure of actual net wholesale power revenues from budget. In 2021, \$2.6 million was transferred from the RSA to operating cash. Actual net wholesale power revenues for 2021 were less than budget compared to 2020 by \$18.1 million and RSA surcharge revenues were \$16.9 million lower in 2021 than 2020. Interest earned on the RSA was \$0.1 million lower in 2021 than 2020. City Council authorized a \$15.0 million transfer into the RSA from operating funds. In 2020, \$22.7 million was transferred from the RSA to operating cash, reflecting lower wholesale power revenues compared to budget along with the effect of surcharge revenues and interest earnings. The net effect between years was an increase of \$20.1 million to revenues.

	2021	2020
Beginning balance	\$ 96.8	\$ 74.1
Council authorized transfer to RSA	15.0	-
Surcharge revenue	6.6	23.5
RSA interest income	1.4	1.5
Operating revenue	<u>(20.4)</u>	<u>(2.3)</u>
Ending balance	<u>\$ 99.4</u>	<u>\$ 96.8</u>

Short-term wholesale power revenues represent revenue received from the sale of power generated in excess of retail sales and other obligations and were \$66.3 million, an increase of \$15.0 million compared to the \$51.3 million recorded in 2020. Short-term wholesale power revenues fluctuate with changes in water conditions, retail sales, and commodity prices.

City Light is active in the wholesale power market both buying and selling energy. For a more comprehensive overview of wholesale energy transactions City Light management often reviews net wholesale revenue, where wholesale purchases are deducted from wholesale sales and adjusted for book-outs. Net wholesale revenues were \$37.6 million in 2021, \$10.1 million lower than the \$47.7 million recorded in 2020. The considerable decrease in net short wholesale power revenues was in large part due to dry hydro conditions, high market prices and strong retail demand. Also, gross wholesale power purchases were higher in 2021 compared to 2020 primarily from drought conditions in the third quarter and higher retail sales in December driven by extremely cold weather.

	Net Wholesale Revenue, \$ Million		
	2021	2020	2019
Wholesale Power Revenue	\$ 66.3	\$ 51.3	\$ 43.2
Wholesale Power Purchases	(38.5)	(10.0)	(34.3)
Booked out Long-Term Sales	9.8	6.4	6.5
<b>Net Wholesale Revenue</b>	<b>\$ 37.6</b>	<b>\$ 47.7</b>	<b>\$ 15.4</b>

**2020 Compared to 2019** Total operating revenues were \$1,015.7 million, a decrease of \$63.8 million or 5.9% from 2019. Retail power revenues at \$926.7 million decreased \$12.2 million, Short-term wholesale power revenues at \$51.3 million increased \$8.1 million, Other power-related revenues at \$40.8 million decreased \$11.4 million, Transfers from/(to) RSA at (\$22.7) million were reduced by \$45.5 million, and Other operating revenues at \$19.6 million decreased \$2.8 million.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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Lower Retail power revenues of \$12.2 million were the net result of higher billed residential revenues of \$30.3 million, offset by lower nonresidential revenues of \$19.5 million, and lower unbilled revenue of \$23.0 million. The effect of the COVID-19 pandemic, specifically remote work and schooling, caused residential customers to spend more time in their homes, increasing delivered consumption by 3.3% compared to 2019. Conversely, many nonresidential customers reduced normal operations in response to public health measures, resulting in 9.7% lower delivered consumption. In total retail delivered consumption decreased by 5.3%. The BPA rate pass-through negative adjustment of 1.9% effective November 2019 also contributed to lower retail revenue. Partially offsetting the lower retail consumption was the 5.5% average rate increase in January 2020 and an additional 1.5% RSA surcharge which was effective November 2019. The pandemic also contributed to increased Utility Discount Program participation resulting in higher rate discounts, partially offsetting the higher residential consumption. Lower unbilled revenue followed the same general trend as billed revenue at the end of the year.

Transfers from/(to) rate stabilization account are affected by actual net wholesale power revenues compared to budget. In 2020, \$22.7 million was transferred from operating cash to the RSA. Actual net wholesale power revenues for 2020 were closer to budget than 2019 by \$36.7 million and RSA surcharge revenues were \$9.3 million higher in 2020 than 2019. Interest earned on the RSA was \$0.5 million lower in 2020 than 2019. In 2019, \$22.8 million was transferred from the RSA to operating cash largely as a result of wholesale power revenues being lower than budget along with the effect of surcharge revenues and interest earnings. The net effect between years was a reduction of \$45.5 million to revenues.

Short-term wholesale power revenues represent revenue received from the sale of power generated in excess of system sales and other obligations and were \$51.3 million, an increase of \$8.1 million than the \$43.2 million recorded in 2019. Short-term wholesale power revenues fluctuate with changes in water conditions, retail sales and economic factors such as the price of natural gas. The considerable increase in short-term wholesale power revenues was in large part due to lower retail electricity demand due to COVID-19, more favorable hydro conditions, and the Department's entrance in the western Energy Imbalance Market (EIM) with California System Operator (CAISO) in April.

City Light is active in the wholesale power market both buying and selling energy. For a more comprehensive overview of wholesale transactions City Light management often reviews net wholesale revenue, where wholesale purchases are deducted from wholesale sales and adjusted for book-outs. Net wholesale revenues were \$47.7 million in 2020, \$32.3 million higher than the \$15.4 million recorded in 2019.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

### EXPENSES

**2021 Compared to 2020** Operating expenses totaled \$891.7 million, an increase of \$11.4 million or 1.3% from \$880.3 million in 2020.

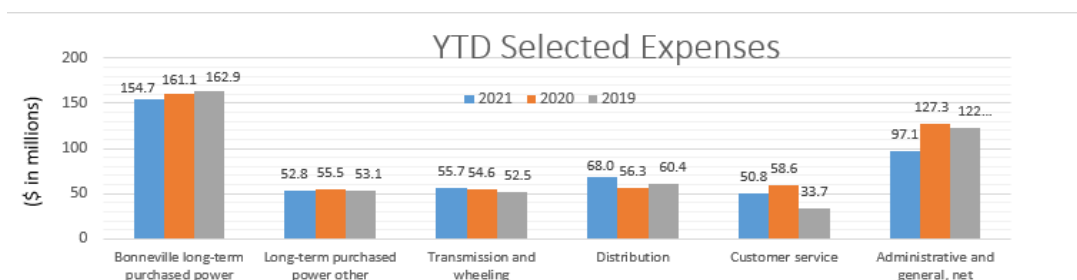
2021 Power-related operating expenses at \$396.9 million were higher by \$43.1 million or 12.2% than \$353.8 million in 2020. These expenses were comprised of Long-term purchased power of \$207.5 million, which decreased \$9.1 million, Short-term wholesale power purchases of \$38.5 million, which increased \$28.5 million, Other power expenses of \$95.2 million, which increased \$22.6 million, and Transmission of \$55.7 million, which increased \$1.1 million.

Short-term wholesale power purchases were higher by \$28.5 million predominantly because of dry hydro conditions. Q3 drought conditions required purchasing wholesale energy at extremely high prices. Other power expenses increased for Generation by \$4.2 million due to higher amortization of Skagit relicensing costs and FERC fee. Also, the other power related expenses increased by \$18.9 million primarily because of an increase of \$18.1 million in Grant County and Lucky Peak Exchange fair value, due to unusually high prices resulting from recent June and July record setting temperatures. The remaining balance net decrease of \$0.5 million was for normal operations.

Non-power operating expenses decreased significantly by \$30.8 million to \$244.7 million or 11.2% from \$275.5 million in 2020. These expenses included the following:

- Distribution expenses of \$68.0 million, which increased by \$11.7 million. This increase is due to pick up on normal operations as compared to 2020 which was most impacted by COVID-19.
- Customer service of \$50.8 million, which decreased by \$7.8 million. Lower bad debt expense decreased customer service expenses by \$5.3 million for retail electric sales and increased expenses by \$0.5 million for sundry accounts receivable. Since March 2020, collection efforts have been suspended for most accounts in arrears to assist customers confronting COVID-related financial hardships. Other customer services expenses decreased by \$3.0 million as the effects of the pandemic response lessened.
- Conservation of \$28.8 million, which decreased by \$4.5 million, as more support and labor was put towards other customer programs
- Administrative and general (A&G), net, of \$97.1 million, decreased by \$30.2 million, from \$127.3 million in 2020. GASB 68 pension adjustment decreased A&G costs by \$23.1 million, offset by medical and other employment cost which increased \$3.4 million. Allocation out was overall \$4.2 million higher due to increased capital improvement projects and productive labor base charges. Other costs including labor, related overhead, and other expenses decreased by \$6.3.

Depreciation and amortization at \$148.6 million decreased by \$1.2 million as a result of \$3.5 million recent additions to distribution offset by \$4.7 million decrease in software, Work Authorization Management System, Emergency Management System and other software assets became fully depreciated in 2020 and 2021, reducing Intangible depreciation.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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*2020 Compared to 2019* Operating expenses totaled \$880.3 million, an increase of \$7.0 million or 0.8% from \$873.3 million in 2019.

Power-related operating expenses at \$353.8 million were lower by \$23.2 million or 6.2%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$216.6 million, which increased \$0.7 million, Short-term wholesale power purchases of \$10.0 million, which decreased \$24.3 million, Other power expenses of \$72.6 million, which decreased \$1.8 million, and Transmission of \$54.6 million, which increased \$2.2 million.

Short-term wholesale power purchases were lower by \$24.3 million predominantly because of lower commercial and industrial retail demand combined with lower wholesale power prices during 2020. Other power expenses increased for Generation by \$3.1 million due to higher administration expenses in the areas of safety, asset management support, reporting, and other. These were offset by lower other power related expenses of \$6.7 million because of lower volumes and market prices for exchange contracts and ancillary purchase contracts. Index prices during 1<sup>st</sup> quarter 2019 was unusually high causing a \$10.0 million increase in power expenses that did not recur in 2020. Remaining balance net increase of \$4.7 million was for normal operations and including for BPA, other long-term purchased power, and Transmission.

Non-power operating expenses increased significantly by \$25.1 million to \$275.5 million or 10.0% from \$250.4 million in 2019. These expenses included Distribution expenses of \$56.3 million, which decreased \$4.1 million, Customer service of \$58.6 million, which increased \$24.9 million, Conservation of \$33.3 million, which decreased \$0.1 million, and Administrative and general (A&G), net, of \$127.3 million which increased \$4.4 million.

Higher bad debt expense increased customer service expenses by \$19.0 million and \$1.7 million for retail electric sales and sundry accounts receivable, respectively. Since March 2020, collection efforts have been suspended for most accounts in arrears to assist customers confronting COVID-related financial hardships. Other customer services expenses increased \$4.2 million mostly as a result of pandemic response.

Net changes for Distribution and Conservation expenses were relatively minimal as part of normal operations. Administrative and general Expenses (A&G) costs, offset by general overhead allocation, increased a net \$4.4 million. Labor, related overhead, and other expenses increased by \$8.4 million for emergency management and administrative-related work as a result of adherence to necessary COVID-19 adjustments to operations. Higher expenses of \$3.4 million were incurred for estimated injury claims and damages based on most recent studies. Employment benefits expenses decreased by \$11.0 million, due to lower pension expenses based on the most recent actuarial study, and the allocation of employment benefits from A&G increased by \$10.1 million. Other costs for normal operations increased \$1.1 million. The pandemic interrupted work on capital projects, and the general overhead allocation from A&G was \$12.6 million lower. Taxes of \$101.2 million increased by \$1.1 million.

Depreciation and amortization at \$149.8 million increased by \$4.0 million as a result of recent additions to plant in service for distribution, generation, and general plant.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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#### NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

*2021 Compared to 2020* Nonoperating revenue decreased by \$22.4 million in 2021. This decrease is mainly attributable to GASB 31 fair value adjustment and lower interest income.

Nonoperating expense decreased by \$4.8 million mainly due to lower refunding loss and lower interest expense.

Capital contributions and grants increased by \$11.9 million due to pick up on normal operations as compared to 2020.

*2020 Compared to 2019* Nonoperating revenues increased by \$0.9 million to \$26.7 million in 2020. The largest increase of \$0.8 million was attributable to release of easements to the city of Bellevue in connection with the construction of the regional light rail system in progress. Remaining net balance increase was for normal operations and including investment income.

Nonoperating expenses at \$93.7 million were higher by \$0.7 million. Net interest expense for bonds was higher by \$3.4 million on account of additional bonds outstanding in 2020. This was offset by \$2.7 million of net amortization of bond costs mostly for bond premium amortization.

Capital contributions and grants decreased by \$10.0 million to \$53.8 million primarily due to pandemic response causing an interruption in service connection projects.

#### RISK MANAGEMENT

The Department evaluates and monitors all strategic risks at the enterprise level, including emergency response, cybersecurity, physical plant security and seismic risks.

The Department's Risk Oversight Council ("ROC") is a cross functional executive committee that has the authority and responsibility for overseeing and implementing the Department's risk management efforts. ROC meets at least twice per month to review recent events in the wholesale power markets and the Department's market positions, exposures, policy compliance, and wholesale trading strategies and plans.

Wholesale energy marketing activities are managed by the Power Management Division. The Risk Oversight Division manages the market and credit risk related to all wholesale marketing activities and carries out the middle office functions of the Department. This includes risk control, deal review & valuations, independent reporting of market positions and portfolio performance, counterparty credit risk, risk modeling, model validations, settlements, and ensuring adherence to wholesale trading policy and procedures. These divisions report to separate officers to ensure checks and balances.

#### Hydro Risk

Due to the Department's reliance on hydroelectric generation, weather can significantly affect its operations. Hydroelectric generation depends on the amount of snowpack in the mountains upstream of the Department's hydroelectric facilities, springtime snowmelt timing, run-off, and rainfall. Hydroelectric operations are also influenced by flood control and environmental considerations including protection of fish. In low water years when generation is reduced, the Department will utilize purchased power to meet retail demand. Normally, the Department's retail demand peaks in winter; however, extreme weather conditions affecting either heating or cooling needs could increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and costs.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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#### Energy Market Risk

For the Department, energy market risk is the risk of adverse fluctuations in the price of wholesale electricity, which is compounded by volumetric changes affecting the availability of, or demand for, electricity. Factors that contribute to energy market risk include regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department's exposure to hydro volumetric and energy market risk is managed by the ROC and approved hedging strategies are executed by the Power Management Division. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources.

With a portion of the Department's revenue expectations associated with wholesale energy market transactions, emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back-office structure is in place to ensure proper segregation of duties.

The Department measures the risk in its energy portfolio using a model that utilizes historical simulation methodology and incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Scenario analysis is used for stress testing.

#### Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance by a counterparty of their contractual obligations. If a counterparty failed to perform on its contractual obligation to deliver electricity, then the Department may find it necessary to procure electricity at current market prices, which may be higher than the contract price. If a counterparty failed to pay its obligation in a timely manner, this would have an impact on the Department's revenue and cash flow. As with market risk, the Department has policies governing the management of credit risk.

Wholesale counterparties are assigned credit limits based on publicly available and proprietary financial information. Along with ratings provided by national ratings agencies, an internal credit scoring model is used to classify counterparties into one of several categories with permissible ranges of credit limits. Specific counterparty credit limits are set within this prescribed range based on qualitative and quantitative factors. Credit limits are also used to manage counterparty concentration risk. The Department actively strives to reduce concentration of credit risk related to geographic location of counterparties as it only transacts in the western energy markets. This geographic concentration of counterparties may impact the Department's overall credit exposure because counterparties may be affected by similar conditions.

Credit limits, exposures and credit quality are actively monitored. Despite such efforts, there is potential for default; however, the Department has not faced a counterparty default in nearly 15 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

#### REQUESTS FOR INFORMATION

For more information about Seattle City Light, contact Communications at 206-684-3090 or at P.O. Box 34023, Seattle, WA 98124-4023.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2021 AND 2020

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
UTILITY PLANT—At original cost:		
Plant -in-service—excluding land	\$ 5,752.1	\$ 5,522.1
Less accumulated depreciation and amortization	<u>(2,195.6)</u>	<u>(2,103.0)</u>
Total plant-in-service—net	3,556.5	3,419.1
Construction work-in-progress	639.8	612.6
Nonoperating property—net of accumulated depreciation	17.8	17.5
Assets held for future use	4.0	4.0
Land and land rights	<u>154.6</u>	<u>153.9</u>
Total utility plant—net	<u>4,372.7</u>	<u>4,207.1</u>
RESTRICTED ASSETS:		
Rate stabilization account	99.4	96.8
Municipal light and power bond reserve account	95.9	153.8
Construction account	56.2	38.3
Special deposits and other restricted assets	<u>29.4</u>	<u>35.9</u>
Total restricted assets	<u>280.9</u>	<u>324.8</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	193.1	102.4
Accounts receivable, net of allowance of \$49.7 and \$41.8	175.3	144.2
Interfund receivables	0.5	0.6
Unbilled revenues	99.1	87.5
Materials and supplies at average cost	42.4	38.1
Prepayments and other current assets	<u>0.3</u>	<u>0.3</u>
Total current assets	<u>510.7</u>	<u>373.1</u>
OTHER ASSETS:		
Conservation costs—net	256.1	256.7
Environmental costs—net	118.7	117.1
Other charges and assets—net	<u>53.6</u>	<u>53.3</u>
Total other assets	<u>428.4</u>	<u>427.1</u>
<b>TOTAL ASSETS</b>	<u>5,592.7</u>	<u>5,332.1</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to Pension and OPEB	41.9	44.9
Charges on advance refunding	<u>16.3</u>	<u>20.1</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>58.2</u>	<u>65.0</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 5,650.9</u>	<u>\$ 5,397.1</u>

See notes to financial statements.



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## BALANCE SHEETS - LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION AS OF DECEMBER 31, 2021 AND 2020

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
<b>LIABILITIES</b>		
LONG-TERM DEBT:		
Revenue bonds	\$ 2,587.3	\$ 2,553.5
Plus bond premium—net	283.1	259.0
Less revenue bonds—current portion	<u>(123.3)</u>	<u>(117.7)</u>
Total long-term debt	<u>2,747.1</u>	<u>2,694.8</u>
NONCURRENT LIABILITIES:		
Net pension liability	199.5	265.2
Accumulated provision for injuries and damages	111.6	112.7
Compensated absences	20.2	20.3
Other noncurrent liabilities	<u>10.3</u>	<u>9.7</u>
Total noncurrent liabilities	<u>341.6</u>	<u>407.9</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	125.2	109.4
Accrued payroll and related taxes	7.3	6.3
Compensated absences	1.1	1.4
Accrued interest	38.5	36.3
Long-term debt—current portion	<u>123.3</u>	<u>117.7</u>
Total current liabilities	<u>295.4</u>	<u>271.1</u>
OTHER LIABILITIES	<u>34.7</u>	<u>38.0</u>
TOTAL LIABILITIES	<u>3,418.8</u>	<u>3,411.8</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization unearned revenue	74.4	71.8
Deferred inflows related to pension and OPEB	82.8	48.2
Other deferred inflows of resources	<u>52.1</u>	<u>40.9</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>209.3</u>	<u>160.9</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,886.0	1,822.8
Restricted:		
Rate stabilization account	<u>25.0</u>	<u>25.0</u>
Total restricted	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>111.8</u>	<u>(23.4)</u>
Total net position	<u>2,022.8</u>	<u>1,824.4</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 5,650.9</u>	<u>\$ 5,397.1</u>

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
OPERATING REVENUES:		
Retail power revenues	\$ 964.3	\$ 926.7
Short-term wholesale power revenues	66.3	51.3
Other power-related revenues	59.3	40.8
Transfers from/(to) rate stabilization account	(2.6)	(22.7)
Other operating revenues	<u>21.7</u>	<u>19.6</u>
Total operating revenues	<u>1,109.0</u>	<u>1,015.7</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville and other	207.5	216.6
Short-term wholesale power purchases	38.5	10.0
Other power expenses	95.2	72.6
Transmission	55.7	54.6
Distribution	68.0	56.3
Customer service	50.8	58.6
Conservation	28.8	33.3
Administrative and general	97.1	127.3
Taxes	101.5	101.2
Depreciation and amortization	<u>148.6</u>	<u>149.8</u>
Total operating expenses	<u>891.7</u>	<u>880.3</u>
OPERATING INCOME	<u>217.3</u>	<u>135.4</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)—net	4.3	26.7
Interest expense		
Interest expense—net	(109.6)	(111.0)
Amortization of bond costs—net	<u>20.7</u>	<u>17.3</u>
Total interest expense	<u>(88.9)</u>	<u>(93.7)</u>
Total nonoperating expenses	<u>(84.6)</u>	<u>(67.0)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>132.7</u>	<u>68.4</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	65.3	53.3
Capital grants	<u>0.4</u>	<u>0.5</u>
Total capital contributions and grants	<u>65.7</u>	<u>53.8</u>
CHANGE IN NET POSITION	198.4	122.2
NET POSITION:		
Beginning of year	1,824.4	1,702.2
End of year	<u>\$ 2,022.8</u>	<u>\$ 1,824.4</u>

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

<i>(\$ in millions)</i>	2021	2020
<b>OPERATING ACTIVITIES:</b>		
Cash received from customers and counterparties	\$ 1,039.2	\$ 996.4
Cash paid to suppliers and counterparties	(354.6)	(365.7)
Cash paid to employees	(165.9)	(173.2)
Taxes paid	(97.2)	(103.3)
Net cash provided by operating activities	<u>421.5</u>	<u>354.2</u>
<b>NONCAPITAL FINANCING ACTIVITIES:</b>		
Interfund operating cash received	1.8	1.3
Interfund operating cash paid	(54.0)	(47.0)
Principal paid on long-term debt	(9.1)	(12.7)
Interest paid on long-term debt	(8.2)	(11.0)
Noncapital grants	(0.2)	0.9
Bonneville receipts for conservation	1.0	6.1
Payment to vendors on behalf of customers for conservation	(19.4)	(21.0)
Net cash used in noncapital financing activities	<u>(88.1)</u>	<u>(83.4)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	326.9	198.3
Proceeds from long-term debt premiums	53.9	50.4
Payment to trustee for defeased bonds	(173.3)	(93.3)
Bond issue costs paid	(0.2)	(0.4)
Principal paid on long-term debt	(108.6)	(109.8)
Interest paid on long-term debt	(97.2)	(94.9)
Acquisition and construction of capital assets	(318.1)	(315.6)
Interfund payments for acquisition and construction of capital assets	(25.6)	(20.9)
Capital contributions	52.8	52.6
Interfund receipts for capital contributions	0.5	1.7
Capital grants	0.4	0.2
Interest received for suburban infrastructure improvements	2.5	2.5
Proceeds on sale of property	-	1.6
Decrease in other assets	1.7	1.8
Net cash used in capital and related financing activities	<u>(284.3)</u>	<u>(325.8)</u>
<b>INVESTING ACTIVITIES:</b>		
Interest received (paid) on cash and equity in pooled investments	(2.3)	15.5
Net cash provided by (used in) investing activities	<u>(2.3)</u>	<u>15.5</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	<b>46.8</b>	<b>(39.5)</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS:</b>		
Beginning of year	<u>427.2</u>	<u>466.7</u>
End of year	<u>\$ 474.0</u>	<u>\$ 427.2</u>

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

<i>(\$ in millions)</i>	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 217.3	\$ 135.4
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	148.6	149.8
Amortization of other assets	33.8	32.0
Bad debt expense	17.6	20.7
Power revenues	(51.7)	(27.1)
Power expenses	64.0	26.1
Provision for injuries and damages	3.8	2.6
Other non-cash items	(29.8)	(7.1)
Change in:		
Accounts receivable	23.1	15.4
Unbilled revenues	(11.6)	5.1
Materials and supplies	(1.5)	(4.6)
Other assets	(0.7)	(3.3)
Provision for injuries and damages and claims payable	0.2	(0.7)
Accounts payable and other payables	8.4	(10.6)
Deferred inflows	(2.6)	(2.2)
Rate stabilization unearned revenue	2.6	22.7
Total adjustments	<u>204.2</u>	<u>218.8</u>
Net cash provided by operating activities	<u>\$ 421.5</u>	<u>\$ 354.2</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 0.7	\$ 1.8
Amortization of debt related costs—net	20.7	17.3
Power exchange revenues	32.6	11.4
Power exchange expenses	(32.6)	(11.4)
Power revenue netted against power expenses	10.1	5.4
Power expense netted against power revenues	(8.6)	(9.0)

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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### 1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 485,200 residential, commercial, and public customers in the city of Seattle. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues for services provided to other City departments were \$9.5 million and \$13.3 million in 2021 and 2020, respectively, and \$2.1 million and \$2.2 million for non-energy services, respectively.

The Department receives certain services from other City departments and paid \$122.0 million in 2021 and \$111.7 million in 2020 for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, administrative, information technology and building rentals, including for the Department's administrative offices.

The Department's receivables from other City departments totaled \$0.5 million and \$0.6 million at December 31, 2021, and 2020, respectively. The Department's payables to other City departments were \$0.0 million on December 31, for 2021 and 2020, respectively. The balances receivable and payable are the result of transactions incurred in the normal course of operations.

***Basis of Presentation and Accounting Standards***—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2021 with all applicable GASB pronouncements.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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**GASB Statement No. 87** - GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about leasing activities. In 2020, due to the ongoing impacts of COVID-19, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Statement No. 87 will now be effective for the Department in 2022. The Department is currently evaluating the impact the adoption of this statement will have on its financial statements.

**GASB Statement No. 91** - GASB Statement No. 91, *Conduit Debt Obligations*, clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement will be effective for the Department in 2022. GASB Statement No. 95 delayed implementation of this statement by one year. However, because the Department's debt instruments do not include conduit debt obligations, implementation of this statement is not expected to have an impact on the financial statements.

**GASB Statement No. 92** - GASB Statement No. 92, *Omnibus 2020*, addresses several topics and issues that have been identified during implementation of various GASB Statements. This statement clarifies issues related to intra-entity transfers of assets, pension and postemployment benefits, asset retirement obligations, risk pools, and fair value measurements. This statement will be effective for the Department in 2022. GASB Statement No. 95 delayed implementation of this statement by one year. The Department is currently evaluating the impact of implementation on the financial statements.

**GASB Statement No. 93** - GASB Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank offered rates such as the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. This statement is effective for the Department in 2022. GASB Statement No. 95 delayed implementation of this statement by one year. The Department is evaluating the impact this implementation will have on the financial statements.

**GASB Statement No. 94** - GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements (PPPs) and provides guidance for availability payment arrangements. This statement will be effective for the Department in 2023 and the Department is currently evaluating the impact of implementation on the financial statements.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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**GASB Statement No. 96** - GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. This Statement defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. This statement will be effective for the Department in 2023 and the Department is currently evaluating the impact of implementation on the financial statements.

**GASB Statement No. 97** - GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This statement is effective for the Department in 2022 and the Department is currently evaluating the impact of implementation on the financial statements.

**Fair Value Measurements**—Descriptions of the Department’s accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2021 and 2020, are as noted in Note 2 Fair Values, Note 5 Cash and Equity in Pooled Investments and Investments, Note 6 Accounts Receivable and Note 19 Long-Term Purchased Power, Exchanges, and Transmission.

**Fair Value of Financial Instruments**—The Department’s financial instruments reported on the balance sheets at December 31, 2021 and 2020, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department’s share of the City-wide pool of investments (see Note 5 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. The fair value of long-term debt at December 31, 2021 and 2020 is discussed in Note 9 Long-Term Debt.

**Net Position**—The Department classifies its net position into three components as follows:

- *Net investment in capital assets*—This component consists of capital assets, net of accumulated depreciation and amortization, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.
- *Restricted*—This component consists of net position with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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- *Unrestricted*—This component consists of assets and liabilities that do not meet the definition of Net investment in capital assets or Restricted.

***Restricted and Unrestricted Net Position***—The Department’s policy is to use restricted net position for specified purposes and to use unrestricted net position for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted net position is available.

***Assets Held for Future Use***—These assets include property acquired but never used by the Department inelectrical service and therefore, held for future service under a definitive plan. Also, included is property previously used in service, but retired and held pending its reuse in the future under a definitive plan.

***Materials and Supplies***—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued utilizing the average cost method and charged to construction or expense when used.

***Revenue Recognition***—Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements as unbilled revenue within Retail power revenues.

The Department’s customer base accounted for electric energy sales at December 31, 2021 and 2020, as follows:

	2021	2020
Residential	40.7 %	41.0 %
Nonresidential	<u>59.3 %</u>	<u>59.0 %</u>
Total	100.0 %	100.0 %

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of change in net position. Investment income, nonexchange transactions, and other revenues are considered Nonoperating revenues.

***Expense Recognition***—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered Nonoperating expenses.

***Administrative and General Overhead Costs Applied***—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$60.7 million and \$49.7 million in 2021 and 2020, respectively. Benefit costs applied were \$30.5 million and \$37.4 million in 2021 and 2020, respectively. Administrative and general expenses, net of total applied overhead, were \$97.1 million and \$127.3 million in 2021 and 2020, respectively.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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**Nonexchange Transactions**—Capital contributions and grants in the amount of \$65.7 million and \$53.8 million for 2021 and 2020, respectively, are reported in the statements of revenues, expenses, and changes in net position as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized at estimated acquisition value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

**Compensated Absences**—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA) receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cash out. The HRA program is administered by an independent third-party administrator, Meritain Health. HRA investments are managed by HRA Voluntary Employee Beneficiary Association (VEBA) Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

**Use of Estimates**—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, net pension liability, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

**Significant Risk and Uncertainty**—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; local and federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

**Deferred Outflows of Resources**—A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time. See Note 8 for additional information.

**Deferred Inflows of Resources**—A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time. See Note 17 for additional information.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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### 2. FAIR VALUE MEASUREMENT

The Department records certain assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The Department uses the market approach for the valuation of pooled investments, a combination of the market and income approaches for the valuation of the undelivered forward portion of energy exchanges and other nonmonetary transactions.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

The valuation methods of the fair value measurements are disclosed as noted below.

Cash resources of the Department are combined with cash resources of the City to form a pool of cash and investments that is managed by the City's Department of Finance and Administrative Services (FAS). The City records pooled investments at fair value based on quoted market prices.

The Department obtained the lowest level of observable input of the fair value measurement of energy exchanges and other non-monetary transactions in its entirety from subscription services or other independent parties. The observable inputs for the settled portion of the energy exchange contracts are Dow Jones price indices. The observable inputs for the undelivered forward portion of energy exchanges and other non-monetary transactions are Kiindex forward curves and present value factors based on the interest rate for Treasury constant maturities, bond-equivalent yields.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

The Department had no assets or liabilities that met the criteria for Level 3 at December 31, 2021 and 2020. The following fair value hierarchy table presents information about the Department's assets and liabilities, reported at fair value on a recurring basis or disclosed at fair value as of December 31, 2021 and 2020:

*(\$ in millions)*

<b>2021</b>	<b>Credit Rating</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>				
Fair value investments				
Corporate Bonds	AA+ to A	\$ -	\$ 14.9	\$ 14.9
International Bank for Reconstruction & Development	AAA	-	4.3	4.3
Local Government Investment Pool	N/A	93.3	-	93.3
Municipal Bonds	AAA to A	-	34.1	34.1
Repurchase Agreements	N/A	21.1	-	21.1
U.S. Government Agency Mortgage-Backed Securities	AA+	-	60.2	60.2
U.S. Government Agency Securities	AA+	-	120.8	120.8
U.S. Treasury and U.S. Government-Backed Securities	AA+	125.3	-	125.3
Total fair value investments		<u>239.7</u>	<u>234.3</u>	<u>474.0</u>
Total Assets at fair value		<u>\$ 239.7</u>	<u>\$ 234.3</u>	<u>\$ 474.0</u>

*(\$ in millions)*

<b>2020</b>	<b>Credit Rating</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>				
Fair value investments				
Corporate Bonds	AA+ to A	\$ -	\$ 15.6	\$ 15.6
International Bank for Reconstruction & Development	AAA	-	6.9	6.9
Local Government Investment Pool	N/A	87.2	-	87.2
Municipal Bonds	AAA to A	-	53.7	53.7
Repurchase Agreements	N/A	12.2	-	12.2
U.S. Government Agency Mortgage-Backed Securities	AA+	-	45.0	45.0
U.S. Government Agency Securities	AA+	-	127.7	127.7
U.S. Treasury and U.S. Government-Backed Securities	AA+	78.9	-	78.9
Total fair value investments		<u>178.3</u>	<u>248.9</u>	<u>427.2</u>
Total Assets at fair value		<u>\$ 178.3</u>	<u>\$ 248.9</u>	<u>\$ 427.2</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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#### 3. UTILITY PLANT

*Utility Plant*—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs.

The capitalization threshold for tangible assets was \$5,000, and for intangible assets, \$500,000 in 2021 and 2020. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and capital grants totaled \$65.7 million in 2021 and \$53.8 million in 2020. The Department uses a straight-line composite method of depreciation and amortization and, therefore, groups assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 50 years. Effective January 1, 2017, the Department changed from a half-year convention method of depreciation to an actual month method. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.6% in 2021 and 2.7% in 2020. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments are capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives. There were no impairments in 2021 and 2020.

Intangible assets are those that lack physical substance, are nonfinancial in nature, and have useful lives extending beyond a single reporting period. The Department's intangible assets are reported as capital assets under Utility Plant. The Department's intangible assets consist of easements, purchased and internally developed software, transmission rights, capitalized relicensing costs for Skagit and Boundary hydroelectric projects, Tolt hydroelectric project mitigation costs, and costs capitalized under the High Ross Agreement.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Utility plant-in-service at original cost, including land on December 31, 2021 and 2020 was:

	Hydroelectric Production	Transmission	Distribution	General	Intangibles	Total
<b>2021</b>						
<i>(\$ in millions)</i>						
<b>Utility Plant-in-service - At original cost:</b>						
<b>Plant-in-service, excluding Land:</b>						
1/1/2021 Balance	\$ 954.2	\$ 316.6	\$ 3,101.6	\$ 414.7	\$ 735.0	\$ 5,522.1
Acquisitions	55.9	13.6	171.3	13.4	45.5	299.7
Dispositions	(17.8)	(2.1)	(45.3)	(4.5)	-	(69.7)
Transfers and adjustments	-	-	-	-	-	-
12/31/2021 Balance	<u>992.3</u>	<u>328.1</u>	<u>3,227.6</u>	<u>423.6</u>	<u>780.5</u>	<u>5,752.1</u>
<b>Accumulated depreciation and amortization:</b>						
1/1/2021 Balance	\$ 397.6	\$ 91.3	\$ 1,062.9	\$ 265.0	\$ 286.2	\$ 2,103.0
Increase in accumulated depreciation and amortization	17.8	7.1	88.9	12.9	44.9	171.6
Retirements	(20.9)	(6.5)	(53.9)	(4.6)	-	(85.9)
Gain/Loss on Retirements	1.2	2.6	3.1	-	-	6.9
12/31/2021 Balance	<u>395.7</u>	<u>94.5</u>	<u>1,101.0</u>	<u>273.3</u>	<u>331.1</u>	<u>2,195.6</u>
<b>Sub Total Plant-in-service - Net, excluding Land:</b>	<u>\$ 596.6</u>	<u>\$ 233.6</u>	<u>\$ 2,126.6</u>	<u>\$ 150.3</u>	<u>\$ 449.4</u>	<u>\$ 3,556.5</u>
<b>Land and land rights:</b>						
1/1/2021 Balance	\$ 57.8	\$ 3.0	\$ 86.5	\$ 6.6	\$ -	\$ 153.9
Acquisitions	0.7	-	-	-	-	0.7
Dispositions	-	-	-	-	-	-
Transfers and adjustments	-	-	-	-	-	-
12/31/2021 Balance	<u>58.5</u>	<u>3.0</u>	<u>86.5</u>	<u>6.6</u>	<u>-</u>	<u>154.6</u>
<b>Construction work-in-process:</b>						
1/1/2021 Balance	\$ 78.8	\$ 41.9	\$ 416.0	\$ 55.6	\$ 20.3	\$ 612.6
Additions	40.1	24.1	200.6	27.5	47.5	339.8
Closings	(60.5)	(15.8)	(178.8)	(13.7)	(43.8)	(312.6)
12/31/2021 Balance	<u>58.4</u>	<u>50.2</u>	<u>437.8</u>	<u>69.4</u>	<u>24.0</u>	<u>639.8</u>
<b>* Total Plant-in-service - Net, including Land and CVIP:</b>	<u>\$ 713.5</u>	<u>\$ 286.8</u>	<u>\$ 2,650.9</u>	<u>\$ 226.3</u>	<u>\$ 473.4</u>	<u>\$ 4,350.9</u>

\*Excludes Nonoperating property and Assets held for future use.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

2020 (\$ In Millions)	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
<b>Utility Plant-in-service - At original cost:</b>						
<b>Plant-in-service, excluding Land:</b>						
1/1/2020 Balance	\$ 939.2	\$ 302.3	\$ 3,011.9	\$ 405.0	\$ 695.7	\$ 5,354.1
Acquisitions	18.4	20.2	106.6	9.7	39.3	194.2
Dispositions	(3.4)	(5.9)	(16.9)	-	-	(26.2)
Transfers and adjustments	-	-	-	-	-	-
12/31/2020 Balance	<u>954.2</u>	<u>316.6</u>	<u>3,101.6</u>	<u>414.7</u>	<u>735.0</u>	<u>5,522.1</u>
<b>Accumulated depreciation and amortization:</b>						
1/1/2020 Balance	\$ 384.9	\$ 92.6	\$ 999.3	\$ 251.1	\$ 251.5	1,979.4
Increase in accumulated depreciation and amortization	17.2	6.7	85.4	13.9	34.7	157.9
Retirements	(3.3)	(5.4)	(18.7)	-	-	(27.4)
Transfers and adjustments	(1.2)	(2.6)	(3.1)	-	-	(6.9)
12/31/2020 Balance	<u>397.6</u>	<u>91.3</u>	<u>1,062.9</u>	<u>265.0</u>	<u>286.2</u>	<u>2,103.0</u>
<b>Sub Total Plant-in-service - Net: excluding Land:</b>	<b><u>\$ 556.6</u></b>	<b><u>\$ 225.3</u></b>	<b><u>\$ 2,038.7</u></b>	<b><u>\$ 149.7</u></b>	<b><u>\$ 448.8</u></b>	<b><u>\$ 3,419.1</u></b>
<b>Land and land rights:</b>						
1/1/2020 Balance	\$ 56.5	\$ 3.0	\$ 86.5	\$ 6.6	\$ -	\$ 152.6
Acquisitions	1.3	-	-	-	-	1.3
Dispositions	-	-	-	-	-	-
Transfers and adjustments	-	-	-	-	-	-
12/31/2020 Balance	<u>57.8</u>	<u>3.0</u>	<u>86.5</u>	<u>6.6</u>	<u>-</u>	<u>153.9</u>
<b>Construction work-in-process:</b>						
1/1/2020 Balance	\$ 56.8	\$ 50.0	\$ 335.9	\$ 39.9	\$ 10.8	\$ 493.4
Additions	43.9	14.0	190.2	25.2	48.6	321.9
Closings	(21.9)	(22.1)	(110.1)	(9.5)	(39.1)	(202.7)
12/31/2020 Balance	<u>78.8</u>	<u>41.9</u>	<u>416.0</u>	<u>55.6</u>	<u>20.3</u>	<u>612.6</u>
<b>* Total Plant-in-service - Net: including Land and CWIP:</b>	<b><u>\$ 693.2</u></b>	<b><u>\$ 270.2</u></b>	<b><u>\$ 2,541.2</u></b>	<b><u>\$ 211.9</u></b>	<b><u>\$ 469.1</u></b>	<b><u>\$ 4,185.6</u></b>

\*Excludes No operating property and Assets held for future use

**THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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**4. RATE STABILIZATION ACCOUNT**

The Rate Stabilization Account (RSA) is a restricted cash reserve established to reduce the need for rapid and substantial rate increases solely to comply with the Department’s bond covenants.

In March 2010, the Seattle City Council adopted Resolution No. 31187 and Ordinance No. 123260, establishing revised financial policies and parameters for the operation of the RSA created by Ordinance No. 121637 in 2004. Ordinance No. 123260 identified the sources of significant funding of the RSA and specified parameters for its operation. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount, and conversely, deposits are to be made to the RSA when the surplus power sales revenues are greater than budgeted. Deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year.

Ordinance No. 123260 established a target size for the RSA of no less than \$100.0 million and no greater than \$125.0 million and authorized the imposition of automatic temporary surcharges on electric rates when the RSA balance is within the below specified levels. These thresholds were applicable for 2021 and 2020, but are superseded by Ordinance No. 126502 as of December 2021:

<b>RSA Balance</b>	<b>Action</b>
Less than or equal to \$90.0 million but greater than \$80.0 million:	Automatic 1.5% surcharge
Less than or equal to \$80.0 million but greater than \$70.0 million:	Automatic 3.0% surcharge
Less than or equal to \$70.0 million but greater than \$50.0 million:	Automatic 4.5% surcharge
Less than or equal to \$50.0 million:	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100.0 million within 12 months

In December 2021, the Seattle City council adopted Ordinance No. 126502, which establishes new thresholds and surcharge rates for the RSA as follows:

<b>RSA Balance at March 30 or September 31</b>	<b>Action</b>
Less than or equal to \$75.0 million but greater than \$50.0 million:	Automatic 2.0% surcharge until RSA balance reaches \$100.0 million
Less than or equal to \$50.0 million but greater than \$25.0 million	Automatic 4.0% surcharge until RSA balance reaches \$100.0 million
Less than or equal to \$25.0 million:	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100.0 million within 24 months

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

In 2021, actual net wholesale revenue was \$20.4 million less than budgeted. Hence, net transfers of \$20.4 million were made from the RSA to the operating cash account during the year. These transfers were partially offset by \$15.0 million transferred to the RSA from operating cash in December 2021 to prevent a surcharge from triggering, authorized by the City Council. The 3.0% surcharge in effect throughout 2020 was ended in March 2021. Transfers from the RSA were offset by \$6.6 million revenue resulting from the surcharge. Interest of \$1.4 million was earned on the RSA in 2021. The RSA balance was \$99.4 million at December 31, 2021.

In 2020, actual net wholesale revenue was \$2.3M million less than budgeted. Hence, net transfers of \$2.3 million were made from the RSA to the operating cash account during the year. The 1.5% surcharge enacted August 2016 and the 1.5% surcharge enacted November 2019 remained in effect throughout 2020, for a total of 3.0%. Transfers from the RSA were offset by \$23.5 million revenue resulting from the surcharge. Interest of \$1.5 million was earned on the RSA in 2020. The RSA balance was \$96.8 million at December 31, 2020.

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
<b>Rate Stabilization Account</b>		
Beginning balance	\$ 96.8	\$ 74.1
Council authorized transfer to RSA	15.0	-
Surcharge revenue	6.6	23.5
RSA interest income	1.4	1.5
Operating revenue	<u>(20.4)</u>	<u>(2.3)</u>
Ending balance	<u>\$ 99.4</u>	<u>\$ 96.8</u>

RSA transactions are recorded in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The regulatory deferred inflow of resources rate stabilization unearned revenue account at December 31, 2021 and 2020, consisted of the following:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
<b>Unearned revenue - Rate Stabilization Account</b>		
Beginning balance	\$ 71.8	\$ 49.1
Council authorized transfer to RSA	15.0	-
Surcharge revenue	6.6	23.5
RSA interest income	1.4	1.5
Operating revenue	<u>(20.4)</u>	<u>(2.3)</u>
Ending balance	<u>\$ 74.4</u>	<u>\$ 71.8</u>

The RSA includes \$25.0 million from the Contingency Reserve Account. This amount is not included in unearned revenue and is not available to be transferred to operating cash. The Contingency Reserve Account was established in 2005 with proceeds that had been deposited in the Bond Reserve Fund, which was replaced with a surety bond.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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Net transfers from/(to) the RSA in the statements of revenues, expenses and net position for the periods ended December 31, 2021, and 2020 were as follows:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Transfers from/(to) Rate Stabilization Account	<u>\$ (2.6)</u>	<u>\$ (22.7)</u>

#### 5. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

**Cash and Equity in Pooled Investments**—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City’s Department of Finance and Administrative Services (FAS). Under the City’s investment policy, all temporary cash surpluses in the pool are invested. The Department’s share of the pool is included on the balance sheets as Cash and Equity in Pooled Investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Department, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Department’s fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

**Custodial Credit Risk – Deposits**—Custodial credit risk of deposits is the risk that in the event of bank failure for one of the City’s depository institutions, the City’s deposits or related collateral securities may not be returned in a timely manner.

As of December 31, 2021, and 2020, 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, 2021, and 2020, the City held \$95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City’s various custodial banks, all of which fell within the NCUA/FDIC’s \$250,000 standard maximum deposit insurance amount. Any of the City’s cash not held in its vault, or a local depository, was held in the City’s operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

**Investments**—The Department’s cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City’s Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. As of December 31, 2021, and 2020, the Department 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 and includes, but is not limited to, the topics of Standards of Care, Objectives, Strategy, Eligible Investments and Investment Parameters.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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The City follows a set of Standards of Care when it comes to its investments that include the following:

- **Social Policies:** A City social policy shall take precedence over furthering the City’s financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- **Prudence:** The standard of prudence to be used by investment personnel shall be the “Prudent Investor Rule” and will be applied in the context of managing an overall portfolio.
- **Ethics and Conflict of Interest:** Investment officers shall comply with the City’s Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the City’s Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City’s investment portfolio.
- **Delegation of Authority:** The Director of Finance and Administrative Services has delegated management responsibility for the City’s investment program to the Director of Finance who has designated day to day management responsibility to investment officers under the supervision of the City’s Treasury Services Director. No persons may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

The three objectives in managing the City of Seattle’s investments 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.

Eligible investments for the City are those securities and deposits authorized by statute (RCW 39.59.040) and include, but are not limited to:

- A. Bonds of the state of Washington and any local government in the state of Washington
- B. General obligation bonds of a state and general obligation bonds of a local government of a state, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency
- C. Subject to compliance with RCW 39.56.030, registered warrants of a local government in the same county as the government making the investment
- D. 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
- E. 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
- F. 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
- G. Bankers’ acceptances purchased in the secondary market

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

- H. Commercial paper purchased in the secondary market
- I. Corporate notes purchased in the secondary market.

State statute also permits investment in the following types of securities:

- A. Certificates of deposit or demand deposits with financial institutions made in accordance with the provisions of Chapter 39.58 RCW
- B. Washington State Local Government Investment Pool (LGIP), Chapter 43.250 RCW
- C. Repurchase agreements collateralized by the above eligible securities issued by the U.S. Government and its sponsored entities.

As of December 31, 2021 and 2020, the City's pooled investments were as follows:

<i>(\$ in millions)</i>	2021		2020	
	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)
Corporate Bonds	\$ 89.0	632	\$ 92.7	508
International Bank for Reconstruction & Development	25.4	971	41.1	853
Local Government Investment Pool	555.2	3	519.7	1
Municipal Bonds	203.2	603	319.7	702
Repurchase Agreements	125.4	3	72.6	4
U.S. Government Agency Mortgage-Backed Securities	358.2	2375	268.7	1608
U.S. Government Agency Securities	719.4	950	760.6	1018
U.S. Treasury and U.S. Government-Backed Securities	745.7	651	470.0	732
<b>Total</b>	<b>\$ 2,821.5</b>		<b>\$ 2,545.1</b>	
Portfolio Weighted Average Maturity		788		731

As of December 31, 2021 and 2020, the Department's share of the City pool was as follows:

<i>(\$ in millions)</i>	2021	2020
Operating cash and equity in pooled investments	\$ 193.1	\$ 102.4
Restricted cash and equity in pooled investments	280.9	324.8
<b>Total</b>	<b>\$ 474.0</b>	<b>\$ 427.2</b>
Balance as a percentage of City pool cash and investments	16.8%	16.7%

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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**Fair Value of Pooled Investments**—The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. See Note 2 Fair Value Measurement. Fair value of the City’s pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City’s pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. U.S. Treasury interest rates have trended higher over the first quarter of 2022 on bets the Federal Reserve will raise its key interest rate, the Fed Funds Rate, higher and faster than most analysts predicted at the end of 2021. In January, the S&P 500 closed out its worst month since March 2020 with global bond markets beset by immense volatility, stemming from choked supply chains feeding global inflation. On February 24<sup>th</sup>, Russia invaded Ukraine sowing geo-political instability not seen since World War II and forcing close to four million people to flee their country by the end by March 29<sup>th</sup>. The invasion has destabilized global energy and food commodity prices.

The City held \$555.2 million in 2021, and \$519.7 million in 2020 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.

To provide for the City’s investment objectives, parameters have been established that guide the investment officers. Management of the Pool is subject to the restrictions outlined in the following sections.

**Interest Rate Risk**—Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. To mitigate interest rate risk, the City intentionally immunizes its known and expected cash flow needs. To best accomplish meeting its investment objectives, the City has divided the Pool into two separate portfolios: Operating and Strategic.

The Operating Portfolio is invested to meet reasonably expected liquidity needs over a period of twelve to eighteen months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington’s Local Government Investment Pool (LGIP).

The Strategic Portfolio consists of cash that is in excess of known and expected liquidity needs. Accordingly, this portfolio is invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle, is expected to provide a higher return and greater investment income. Consistent with this profile, and for the purpose of comparing duration, yield and total return, the benchmark for the Strategic portfolio is the Barclays U.S. Government 1-7 year index. The duration of the Strategic Portfolio is targeted between 75 percent and 125 percent 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, commercial paper and Banker’s Acceptances.

**Credit Risk**—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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To mitigate credit risk, municipal bonds must have one of the three highest credit ratings of a Nationally Recognized Statistical Rating Agency (NRSRO) at the time of purchase. The Office of the State Treasurer interprets the three highest credit ratings to include AAA, AA and A including gradations within each category. For example, the lowest credit rating allowable is A3 by Moody's and A- by S&P and Fitch.

Commercial paper and corporate note investments must adhere to the Washington State Investment Board Policy Number 2.05.500, and together are defined as the "credit portfolio" with the following constraints in place to mitigate credit risk:

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 be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. Corporate notes rated in the broad single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate notes downgraded to below single A and portfolio holdings of securities rated single A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.

Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool's fair value.

**Concentration Risk**—Concentration Risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. The policy limits vary for each investment category.

The maturity of a corporate note shall be 5.5 years or less at the time of purchase. The maximum duration of aggregate corporate note investments shall not exceed 3 years. No corporate note issuer may exceed 3 percent of the fair value of the assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer rated AA or better by all major rating agencies that rate the note is 3 percent of assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer in the broad single-A category from all the major rating agencies that rate the security is 2 percent of the total portfolio.

The credit portfolio may not exceed 25 percent of the Pool's fair value. Credit investments must be diversified by sector and industry. Commercial paper and corporate notes must be purchased in the secondary market and directly from an issuer. No single issuer shall exceed 3 percent of the total portfolio's fair value.

The individual country limit of non-U.S. and non-Canadian exposure is 2 percent of the total portfolio. The exposure is determined by the country of domicile of the issuer.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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. There is a maximum of 5 percent of the Pool in any municipal issuer. The City’s investments in which 5% or more is invested in any single issuer as of December 31, 2021 and 2020 are as follows:

*(\$ in millions)*

<u>Issuer</u>	Credit Rating	2021	
		Fair Value	Percent of Total Investments
U.S. Treasury and Government-Backed Securities	AA+	\$ 745.7	26%
Local Government Investment Pool	N/A	555.2	20%
Federal National Mortgage Association	AA+	413.0	15%
Municipal Bonds	AAA to A	203.2	7%
Federal Home Loan Mortgage Corporation	AA+	196.1	7%
Federal Home Loan Bank	AA+	159.6	6%
Federal Agriculture Mortgage Corporation	AA+	137.7	5%
Federal Farm Credit Bank	AA+	129.1	5%
		<u>\$ 2,539.6</u>	<u>91%</u>

*(\$ in millions)*

<u>Issuer</u>	Credit Rating	2020	
		Fair Value	Percent of Total Investments
Local Government Investment Pool	N/A	\$ 519.7	20%
Federal Farm Credit Bank	AA+	519.5	20%
U.S. Treasury and Government-Backed Securities	AA+	470.0	18%
Municipal Bonds	AAA to A	319.7	13%
Federal National Mortgage Association	AA+	267.5	11%
Federal Home Loan Mortgage Corporation	AA+	242.3	10%
		<u>\$ 2,338.7</u>	<u>92%</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

**Custodial Credit Risk – Investments**—Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City’s contractual custodial agent. The City maintains a custody relationship with Wells Fargo under the State of Washington’s statewide custody provider program arranged by the State Treasurer’s Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

By investment policy, the City maintains a list of approved securities dealers for transacting business. The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

**Foreign Currency Risk**—The City’s pooled investments do not include securities denominated in foreign currencies.

The City of Seattle’s Annual Comprehensive Financial Report may be obtained by writing to The City of Seattle, Department of Finance and Administrative Services, P.O. Box 94689, Seattle, WA 98124-4689; telephone: (206) 684-2489, or obtained on-line at <http://www.seattle.gov/financial-services/comprehensive-annual-financial-report>.

#### 6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2021 and 2020, consist of:

<i>(\$ in millions)</i>	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
<b>2021</b>						
Accounts receivable	\$ 110.2	\$ 10.2	\$ 29.1	\$ 149.5	\$ 75.5	\$ 225.0
Less allowance for doubtful account	<u>(33.4)</u>	<u>-</u>	<u>(16.3)</u>	<u>(49.7)</u>	<u>-</u>	<u>(49.7)</u>
	<u>\$ 76.8</u>	<u>\$ 10.2</u>	<u>\$ 12.8</u>	<u>\$ 99.8</u>	<u>\$ 75.5</u>	<u>\$ 175.3</u>
<b>2020</b>						
Accounts receivable	\$ 95.6	\$ 8.7	\$ 18.6	\$ 122.9	\$ 63.1	\$ 186.0
Less allowance for doubtful account	<u>(27.6)</u>	<u>-</u>	<u>(14.2)</u>	<u>(41.8)</u>	<u>-</u>	<u>(41.8)</u>
	<u>\$ 68.0</u>	<u>\$ 8.7</u>	<u>\$ 4.4</u>	<u>\$ 81.1</u>	<u>\$ 63.1</u>	<u>\$ 144.2</u>

There was no exchange energy at fair value under long-term contracts within Wholesale power receivables at December 31, 2021 and 2020. (See Note 19 Long-Term Purchased Power, Exchanges, and Transmission).

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

#### 7. OTHER ASSETS

Seattle City Council passed resolutions authorizing debt financing and reporting as regulatory assets certain costs in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Programmatic conservation costs incurred by the Department and not funded by third parties, Endangered Species Act costs, and environmental costs are reported as regulatory assets in accordance with GASB Statement No. 62. Conservation costs reported as regulatory assets are amortized over 20 years. Endangered Species Act costs reported as regulatory assets are amortized over the remaining license period (see Note 20 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

Other assets, which are not covered under GASB Statement No. 62, consist of:

- Suburban infrastructure long-term receivables are underground electrical infrastructure costs for suburban jurisdictions, which are recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.
- Long-term interfund receivable for expected recoveries related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 15 Environmental Liabilities).
- Puget Sound Energy interconnection and substation costs are being amortized to expense over 25 years.
- Studies, surveys, and investigations are reported as other assets until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.
- Long-term customer loans receivable and the remaining components of other assets are not amortized.

Regulatory assets and other assets, net, at December 31, 2021 and 2020, consisted of the following:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Regulatory assets:		
Conservation costs—net	\$ 256.1	\$ 256.7
Endangered Species Act costs—net	1.2	1.4
Environmental costs	<u>118.7</u>	<u>117.1</u>
	<u>376.0</u>	<u>375.2</u>
Other charges and assets—net:		
Suburban infrastructure long-term receivables	45.6	47.3
Long-term interfund receivable for environmental costs	2.9	0.6
Long-term customer notes receivable	1.2	1.1
Puget Sound Energy interconnection and substation	-	-
Studies, surveys, and investigations	2.4	2.8
Other	<u>0.3</u>	<u>0.1</u>
	<u>52.4</u>	<u>51.9</u>
Total Other Assets	<u>\$ 428.4</u>	<u>\$ 427.1</u>



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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### 8. DEFERRED OUTFLOWS OF RESOURCES

In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the Department recognizes pension contributions made between the pension plan measurement date and the Department’s fiscal year end as deferred outflows of resources. Also recognized as deferred outflows of resources are losses resulting from differences between projected and actual earnings on plan investments, which are amortized over a closed five-year period, and losses related to differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, which are amortized to pension expense over a period equal to the expected remaining service life of employees receiving pension benefits. See Note 13 Seattle City Employees’ Retirement System.

In accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, the Department records the contributions subsequent to the net OPEB liability measurement date, but before the end of the reporting period, as deferred outflows of resources. Also, the deferred outflows of resources result from (1) differences between expected and actual experience, (2) changes in assumptions, and (3) differences between projected and actual investment earnings. Deferred outflows of resources from assumption changes and experience differences are amortized using a systematic and rational method over a closed period equal to the average remaining service lives of all plan participants. Deferred outflows from investment earnings differences are amortized over a closed five-year period. See Note 14 Other Postemployment Benefits.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt are reported as deferred outflows of resources and amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. See Note 9 Long-term Debt.

Deferred outflows of resources at December 31, 2021 and 2020 consisted of the following:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Deferred outflows of resources:		
Unrealized contributions and losses related to pension	\$ 39.1	\$ 42.3
Unrealized contributions and losses related to OPEB	2.8	2.6
Charges on advance refunding	<u>16.3</u>	<u>20.1</u>
Total	<u>\$ 58.2</u>	<u>\$ 65.0</u>

**THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**9. LONG-TERM DEBT**

At December 31, 2021 and 2020, the Department’s long-term debt consisted of the following prior lien or parity bonds:

**LONG-TERM**

*(\$ in millions)*

		Rate	Maturity Year	Original Issuance	2021	2020
Prior Lien Bonds:						
2021A	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2051	\$ 259.8	\$ 259.8	\$ -
2021B	ML&P Refunding Revenue Bonds	variable rates	2045	100.6	100.6	-
2020A	ML&P Improvement Revenue Bonds	4.000%–5.000%	2050	198.3	195.9	198.3
2019A	ML&P Improvement Revenue Bonds	5.000%–5.000%	2049	210.5	203.8	207.0
2019B	ML&P Refunding Revenue Bonds	5.000%–5.000%	2026	140.3	118.5	140.3
2018C2	ML&P Refunding Revenue Bonds	variable rates	2046	49.2	44.9	45.9
2018C1	ML&P Refunding Revenue Bonds	variable rates	2046	49.2	44.9	45.9
2018B2	ML&P Refunding Revenue Bonds	variable rates	2045	50.1	-	50.1
2018B1	ML&P Refunding Revenue Bonds	variable rates	2045	50.1	-	50.1
2018A	ML&P Improvement Revenue Bonds	4.000%–5.000%	2048	263.8	250.8	255.5
2017C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2047	385.5	367.4	372.0
2016A	ML&P Revenue Bonds	4.050% fixed	2041	31.9	31.9	31.9
2016B	ML&P Refunding Revenue Bonds	4.000%–5.000%	2029	116.9	94.2	105.1
2016C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2046	160.8	139.1	151.6
2015A	ML&P Revenue Bonds	4.000%–5.000%	2045	171.9	137.7	143.2
2014	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2044	265.2	166.6	185.0
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	190.8	70.1	118.3
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	117.8	159.3
2012C	ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43.0	43.0	43.0
2011A	ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	296.3	-	46.1
2011B	ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10.0	10.0	10.0
2010A	ML&P Build America Bonds	4.447%–5.570%	2040	181.6	177.0	181.6
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3
Total prior lien bonds				<u>\$ 3,532.4</u>	<u>\$ 2,587.3</u>	<u>\$ 2,553.5</u>

**THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

The Department had the following activity in long-term debt during 2021 and 2020:

<i>(\$ in millions)</i>	<b>Balance at 1/1/21</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 12/31/21</b>	<b>Current Portion</b>
<b>2021</b>					
Prior Lien Bonds - fixed rate	\$ 2,361.4	\$ 259.8	\$ (224.2)	\$ 2,397.0	\$ 121.1
Prior Lien Bonds - variable rate	<u>192.1</u>	<u>100.6</u>	<u>(102.4)</u>	<u>190.3</u>	<u>2.2</u>
	\$ 2,553.5	\$ 360.4	\$ (326.6)	\$ 2,587.3	\$ 123.3
<i>(\$ in millions)</i>	<b>Balance at 1/1/20</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 12/31/20</b>	<b>Current Portion</b>
<b>2020</b>					
Prior Lien Bonds - fixed rate	\$ 2,372.5	\$ 198.3	\$ (209.4)	\$ 2,361.4	\$ 115.6
Prior Lien Bonds - variable rate	<u>194.6</u>	<u>-</u>	<u>(2.5)</u>	<u>192.1</u>	<u>2.1</u>
	\$ 2,567.1	\$ 198.3	\$ (211.9)	\$ 2,553.5	\$ 117.7

**Prior Lien Bonds**—In July 2021, the Department issued \$259.8 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2021A Bonds), and in August 2021 issued \$100.6 million of Municipal Light and Power (ML&P) variable rate (SIFMA Index) Refunding Revenue Bonds (2021B Bonds) and also defeased \$75.2 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2012A and 2013 Bonds). Proceeds from the 2021A Bonds were used to finance certain capital improvement and conservation programs and to refund \$33.5 million of the 2011A Bonds. The 2021B Bonds were used to advance refund \$50.1 million of the 2018B B-1 Bonds and \$50.1 million of the 2018B B-2 Bonds. Both the 2011A and 2018B B-1 and B-2 Bonds were refunded on a current refunding basis. The 2021A Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from July 1, 2022 through July 1, 2039, with term bonds maturing from July 1, 2040 through July 1, 2051. The 2021B Bonds had coupons rates ranging from 0.27% to 0.36%. The arbitrage yield was 1.50% for the 2021A Bonds and 0.28% for the 2021B Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds.

The debt service on the 2021A Bonds requires a cash flow over the life of the bonds of \$435.9 million, including \$176.1 million in interest and the 2021B Bonds requires a cash flow over the life of the bonds of \$163.2 million, including \$62.6 million in interest. The refunding gain on the 2021A Bonds was \$2.2 million. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2021A Bonds totaled \$3.9 million and the aggregate economic gain on refunding totaled \$3.9 million at present value. Bonds defeased in August 2021 partially refunded certain 2012A Bonds and 2013 Bonds on an advanced refunding basis. Advance refunding is a refunding in which the refunded issue(s) remains outstanding for a period of more than 90 days after a bond defeasance transaction, the proceeds of which are held in escrow invested in securities and used to pay principal and interest on the refunded issue(s). The source of refunding for the 2012A and 2013 bonds was from operating cash whereby \$80.4 million of open market securities were purchased and placed in escrow to pay principal and interest on the refunded bonds. The accounting loss on refunding for 2021 was \$0.1 million.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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**Prior Lien Bonds**— In August 2020, the Department issued \$198.3 million of tax exempt Municipal Light and Power (ML&P) Improvement Revenue Bonds (2020A Bonds) and in November 2020 defeased \$39.4 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2012A Bonds) and \$49.9 million of (2013 Bonds). The 2020A Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from July 1, 2021 through July 1, 2050. The arbitrage yield was 1.19% for the 2020A Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2020A Bonds were used to finance certain capital improvement and conservation programs and to make a deposit to the reserve fund.

The debt service on the 2020A Bonds requires a cash flow over the life of the bonds of \$320.1 million, including \$121.8 million in interest. Bonds defeased in November 2020 partially refunded certain 2012A Bonds and 2013 Bonds and the proceeds were placed in escrow until such time that the bonds will be called. The source of refunding for the 2012A and 2013 bonds was from operating cash whereby \$99.9 million of open market securities were purchased and placed in escrow to pay principal and interest on the refunded bonds. The accounting loss on refunding for 2020 was \$2.8 million.

The Department has certain bonds outstanding that provide a refundable tax credit, or federal subsidy, paid to state or local governmental issuers by the U.S. Treasury. The amount of the federal subsidy is equal to the lesser of the amount of interest payable based on the coupon interest rate or a percentage of the amount of interest payable based on the tax credit rate on the sale date with respect to those bonds. This federal subsidy ultimately results in a net decrease to debt service, although debt service payments are paid gross. The federal subsidies are recorded as nonoperating revenues on the statements of revenues, expenses, and changes in net position.

**Federal Sequestration**—The sequestration provisions of the Budget Control Act of 2011 went into effect on March 1, 2013. The only direct impact of sequestration on the Department for 2021 was a 5.7% reduction through the end of 2021 in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department received \$0.4 million less in interest subsidies than originally anticipated for 2021. The Department has sufficient revenues to pay the interest without these subsidies. The effect for the accrual of federal subsidies as of December 31, 2021 was inconsequential. The effect during 2022 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable. Sequestration was originally in effect through FFY 2021 and has subsequently been extended through approximately FFY 2029.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Debt service requirements for prior lien bonds, excluding federal subsidies for the 2016, 2012, 2011 and 2010 bonds are shown in the table below. Future debt service requirements on the variable 2018C and 2021B Bonds are estimated based on actual interest rates in effect as of December 31, 2021.

(\$ in millions)

Years Ending December 31	Fixed Rate Bonds		Variable Rate Bonds		Total
	Principal Redemptions	Interest Requirements	Principal Redemptions	Interest Requirements	
2022	\$ 121.1	\$ 106.1	\$ 2.2	\$ 0.9	\$ 230.3
2023	123.3	100.4	2.2	0.9	226.8
2024	127.2	94.1	2.3	0.9	224.5
2025	117.2	87.7	2.4	0.8	208.1
2026	109.6	82.5	5.9	0.8	198.8
2027 – 2031	415.9	344.7	33.1	3.7	797.4
2032 – 2036	428.3	254.3	40.4	2.9	725.9
2037 – 2041	457.5	157.0	49.3	1.8	665.6
2042 – 2046	347.6	70.1	52.6	0.6	470.9
2047 – 2051	149.2	12.5	-	-	161.7
Total	<u>\$ 2,396.9</u>	<u>\$ 1,309.4</u>	<u>\$ 190.4</u>	<u>\$ 13.3</u>	<u>\$ 3,910.0</u>

*Reserve Fund*—The Department has created and is required under Ordinance No. 125459 (Bond Ordinance) to maintain a Reserve Fund for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding and all amounts due under Parity Payment Agreements. The Reserve Fund is a pooled reserve and is an account within the books of the Department.

*Reserve Fund Requirement*—Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements established for each issue of Parity Bonds outstanding. The Bond Ordinance permits the City to establish the Reserve Fund Requirement (if any) for each issue of the Bonds or of Future Parity Bonds in connection with approving the sale of each such issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued together under a single bond sale resolution are treated as a single “issue”. Upon issuance of the 2021B Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding was \$164.5 million. The Reserve Fund Requirement is satisfied by cash held in the Reserve Fund and the current value of the surety bond (see below). The reserve fund balance of \$95.9 million at December 31, 2021 consisted of \$95.9 million in cash. The City also holds approximately \$60.0 million in additional cash, apart from the amounts deposited in satisfaction of the Reserve Fund Requirement that is intended to satisfy the Reserve Fund Requirement upon the expiration or termination of the Surety Bond. The reserve fund balance at December 31, 2020 of \$153.8 million consisted of \$107.9 million in cash which included a \$4.4 million deposit from the 2020A bond proceeds, and \$45.9 million in surety bond replacement funds.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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*Surety Bond*—Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with an Alternate Reserve Security consistent with the Bond Legislation requirements. Under the Bond Legislation, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider’s ratings are in one of the top two rating categories at the time the policy is issued. The Bond Legislation does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded. The City currently has a surety bond (the “Surety Bond”) purchased from Assured Guaranty Municipal Corporation (AGM), with a policy limit that is equal to \$71.5 million. This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement.

AGM is currently rated A2 and AA by Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively.

*Irrevocable Trust Accounts*—\$80.4 million from operating cash was placed in a separate irrevocable trust account to partially defease the 2012A and 2013 Bonds on an advanced refunding basis. There were balances outstanding in the irrevocable trust account during 2021 for prior lien bonds advance refunded or defeased in 2021 with balances outstanding for prior lien bonds advance refunded prior to 2020. The ending balance of irrevocable trust accounts for the defeased bonds outstanding was \$164.5 million and \$234.5 million as of December 31, 2021 and 2020, respectively. During 2021, \$145.1 million of the defeased bonds were called and paid from the 2021 irrevocable trust account. Neither the assets of the trust accounts nor the liabilities for the defeased bonds are reflected in the Department’s financial statements. Funds held in the irrevocable trust accounts at December 31, 2021 are sufficient to service and redeem the defeased bonds outstanding.

*Bond Ratings*—The 2021 and 2020 Bonds, along with other outstanding parity bonds, were rated “Aa2” and “AA”; and “Aa2” and “AA”, by Moody’s Investors Service, Inc. and Standard Poor’s Rating Services, respectively.

*Revenue Pledged*—Revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and Reserve Fund. Principal and interest paid during 2021 and 2020 was \$223.1 million and \$228.5 million, respectively. Total revenue available for debt service as defined for the same periods was \$449.0 million and \$386.3 million, respectively. Annual interest and principal payments are expected to require 51.4% of revenues available for debt service for 2022, and required 57.7% in 2021.

*Federal Arbitrage Regulations*—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. As of December 31, 2021 and 2020, arbitrage liability existed for certain bonds outstanding totaling \$0.2 million and \$0.7 million, respectively.

*Certain Disclosures Related to Debt* – There were no direct borrowings or direct placements for the Department as of December 31, 2021 and 2020, respectively.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

The Department has an arrangement with the City of Seattle Department of Finance and Administrative Services (FAS) regarding potential sources of funds that could be accessed if cash resources of the Department are insufficient for a period of less than 90 days. The Department relies on ready access to the City’s consolidated cash pool via interfund loans as a source of short-term emergency liquidity. Interfund loans of longer than 90 days require review by the Debt Management Policy Advisory Committee (DMPAC) and City Council approval. As of December 31, 2021, and 2020, there were no interfund loans outstanding. Also, there were no financed purchases of underlying assets or accounts payable for capital leases as of December 31, 2021 and 2020, respectively.

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

If any Bond of a Series is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay, solely from the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”) and the other sources pledged in the Bond Ordinance, interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

**Other**—There were no liens on property or revenue pertaining to parity bonds and all bond covenants were in compliance for the Department’s prior lien bonds as of December 31, 2021 and 2020, respectively.

**Fair Value**— Debt is recorded and presented in the financial statements at carrying value net of premiums and discounts and shown below with fair values as provided by the Department’s financial advisor, Piper Sandler Companies. The fair value for the Department’s bonds is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts and fair values at December 31, 2021 and 2020, were as follows:

(\$ in millions)	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 2,870.4	\$ 2,974.2	\$ 2,812.5	\$ 2,950.9

**Amortization**—Discounts and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value (refunding loss), or the excess of carrying value over costs (refunding gain) of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. Net refunding losses and gains amortized to interest expense totaled \$2.6 million in 2021 and \$6.0 million in 2020. Charges on advance refunding in the amount of \$16.3 million and \$20.1 million are included as a component of Deferred Outflows of Resources on the 2021 and 2020 balance sheets, respectively. Gains on advance refunding included as a component of Deferred Inflows of Resources were \$2.8 million in 2021 and \$1.4 million in 2020.

**THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**10. NONCURRENT LIABILITIES**

The Department had the following activities during 2021 and 2020:

*(\$ in millions)*

	<b>Balance at 1/1/21</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 12/31/21</b>
<b>2021</b>				
Net pension liability	\$ 265.2	\$ -	\$ (65.7)	\$ 199.5
Accumulated provision for injuries and damages	112.7	0.7	(1.8)	111.6
Compensated absences	20.3	0.1	(0.2)	20.2
Other	9.7	1.1	(0.5)	10.3
<b>Total</b>	<b>\$ 407.9</b>	<b>\$ 1.9</b>	<b>\$ (68.2)</b>	<b>\$ 341.6</b>
<b>2020</b>				
Net pension liability	\$ 321.6	\$ -	\$ (56.4)	\$ 265.2
Accumulated provision for injuries and damages	112.0	0.7	-	112.7
Compensated absences	16.7	3.6	-	20.3
Other	9.5	0.2	-	9.7
<b>Total</b>	<b>\$ 459.8</b>	<b>\$ 4.5</b>	<b>\$ (56.4)</b>	<b>\$ 407.9</b>

Additional information on the Net pension liability can be found in Note 13 Seattle City Employees' Retirement System. Information about the provision for injuries and damages can be found in Note 11 Provision for Injuries and Damages and Note 15 Environmental Liabilities. "Other" consists primarily of a liability for Other Postemployment Benefits. See Note 14 Other Postemployment Benefits.

**11. PROVISION FOR INJURIES AND DAMAGES**

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 15 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. For 2021 and 2020, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 29 to 34 years at the City's average annual rate of return on investments, which was 1.58% and 2.36%, respectively.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. Effective June 1, 2021, the City had general liability insurance coverage for losses over a \$10.0 million self-insured retention per occurrence with a \$20.0 million limit per occurrence in the aggregate. Prior to June 1, 2021, the City had general liability insurance coverage for losses over a \$6.5 million self-insured retention per occurrence with a \$35.0 million limit per occurrence in the aggregate. The Department had no settled claims exceeding coverage in the last three years.

The City also purchased an all-risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes \$100.0 million in earthquake and flood limits. Hydroelectric and certain other utility producing and processing projects are not covered by the property policy. The City also purchased insurance for excess workers' compensation, cyber, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures, and specific projects and activities as necessary.

In 2021, the Department accrued \$3.5 million related to a pending class action legal settlement expected to take place in 2022 related to billing practices associated with the Department's transition to advanced meters.

The changes in the provision for injuries and damages at December 31, 2021 and 2020 are as follows:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Beginning unpaid claims liability	\$ 12.6	\$ 10.3
Payments	(1.9)	(3.8)
Accrual for class action settlement	3.5	-
Incurred Claims	2.6	6.1
	<u>16.8</u>	<u>12.6</u>
Ending balance	<u>\$ 16.8</u>	<u>\$ 12.6</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2021 and 2020 is as follows:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Noncurrent liabilities	\$ 9.1	\$ 8.4
Accounts payable and other current liabilities	7.7	4.2
	<u>16.8</u>	<u>12.6</u>
Ending balance	<u>\$ 16.8</u>	<u>\$ 12.6</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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#### 12. ACCOUNTS PAYABLE

*Accounts Payable and Other Current Liabilities*—The composition of accounts payable and other current liabilities at December 31, 2021 and 2020, is as follows:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Vouchers payable	\$ 33.8	\$ 33.7
Power accounts payable	27.0	23.5
Taxes payable	12.7	8.1
Claims payable	14.1	6.4
Guarantee deposit and contract retainer	34.7	34.1
Other accounts payable	2.9	3.6
Total	<u>\$ 125.2</u>	<u>\$ 109.4</u>

#### 13. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

*Plan Description*—The Seattle City Employees' Retirement System (SCERS) is a cost-sharing multiple-employer defined benefit public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City. SCERS is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of the King County Departments of Transportation and Public Health who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership.

Beginning with employees with hire dates of January 1, 2017, all new members are enrolled in SCERS Plan II, which has contribution and benefit calculation rates different than the SCERS I Plan.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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Following is membership data for employees covered by the benefit terms as of the reporting date, December 31, 2021, and the measurement date, December 31, 2020 and the reporting date December 31, 2020, and the measurement date December 31, 2019:

	2021	2020
Active members	9,164	9,410
Retired members and beneficiaries receiving benefits	7,324	7,138
Vested terminated employees entitled to benefits	1,537	1,366

**Summary of Significant Accounting Policies**—SCERS financial statements and schedules are presented using the economic resources measurement focus and the accrual basis of accounting. For purposes of measuring the net pension liability (NPL), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SCERS and additions to and deductions from SCERS fiduciary net position have been determined on the same basis as they are reported by SCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value in accordance with GASB 72.

The NPL was measured as of December 31, 2020 and December 31, 2019, and the total pension liability used to calculate the NPL was based on an actuarial valuation as of January 1, 2020 and January 1, 2019, respectively.

**Pension Benefits**—Service retirement benefits are calculated on the basis of age, salary, and service credit.

**SCERS I** – Members are eligible for retirement benefits after 30 years of service, at age 52 after 20 years of service, at age 57 after 10 years of service, and at age 62 after 5 years of service. Annual retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

**SCERS II** – Members are eligible for retirement benefits at age 55 after 20 years of service, at age 57 after 10 years of service, and at age 60 after 5 years of service. Annual retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

**Disability Benefits**—An active member is eligible to receive disability benefits when: (a) member has achieved 10 years of credited service within the 15 years preceding disability retirement, or (b) the disability occurs in the course of City employment in which no service requirement exists. The amount of the disability benefit is the greater of (a) 1.5% times the final compensation times completed years of creditable service, or (b) 1.5% times final compensation total years of service that could have been earned to age 62, but not to exceed one-third of final compensation. Disability benefits vest after 10 years of credited service.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

**Death Benefits**—Death benefits may be paid to a member’s designated beneficiary. If a member’s death occurs before retirement, the benefit options available are (a) payment to the beneficiary of accumulated contributions, including interest, or (b) if the member had completed 10 years of service at the time of death, a surviving spouse or registered domestic partner may elect to receive, in place of (a) above, either: (1) A monthly allowance for life equal to the benefit the spouse would have received had the member just retired with a 100% contingent annuitant option in force, or (2) A cash payment of no more than one-half of the member’s accumulated contributions, along with a correspondingly reduced retirement allowance. If a member’s death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement. Death benefits vest after 10 years of credited service.

**Contributions**—Member and employer contributions rates are established by Seattle Municipal Code Chapter 4.436. The overall contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. Member contribution rates are also set via collective bargaining contracts. The overall formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations. Contribution rates and amounts were as follows as of the reporting dates, December 31, 2021 and December 31, 2020, and the measurement dates, December 31, 2020 and December 31, 2019:

	Contributions					
	Rates				Amounts	
	SCERS I Employer	SCERS I Employee	SCERS II Employer	SCERS II Employee	City	Department
2021	16.20%	10.03%	14.42%	7.00%	\$139.5	\$28.9
2020	16.20%	10.03%	14.42%	7.00%	\$141.0	\$28.7

**Net Pension Liability**—The Department reported a liability of \$199.5 million and \$265.2 million for its proportionate share of net pension liability as of December 31, 2021 and December 31, 2020, respectively. The Department’s proportion of the NPL as of December 31, 2021 and December 31, 2020 was based on contributions to SCERS during the fiscal year ended December 31, 2020 and December 31, 2019, respectively. The Department’s proportionate share was 20.38% and 21.10% for the years ended December 31, 2020 and December 31, 2019, respectively. The net pension liability was measured as of December 31, 2020 and December 31, 2019, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of January 1, 2020 and January 1, 2019, respectively.

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	Changes in Net Pension Liability	
	(\$ In millions)	
	Fiscal Year Ended December 31	
	2021	2020
<u>Total Pension Liability</u>		
Service cost	\$ 24.1	\$ 22.5
Interest on total pension liability	65.2	64.0
Effect of economic/demographic gains or losses	1.0	(4.5)
Benefit payments	(43.6)	(42.9)
Refund of contributions	(3.1)	(3.2)
Net change in total pension liability	43.6	35.9
Total pension liability, beginning of period	929.8	896.9
Effect of change in proportionate share	(32.0)	(3.0)
Adjusted total pension liability, beginning of period	897.8	893.9
Total pension liability, end of period	941.4	929.8
<u>Plan fiduciary net position</u>		
Benefit payments	(43.6)	(42.9)
Refunds of contributions	(3.1)	(3.2)
Administrative expenses	(1.5)	(2.0)
Member contributions	16.9	15.9
Employer contributions	28.8	25.1
Net investment income	102.6	98.3
Net change in Plan fiduciary net position	100.1	91.2
Plan fiduciary net position, beginning of period	664.6	575.3
Effect of change in proportionate share	(22.8)	(1.9)
Adjusted fiduciary net position, beginning of period	641.8	573.4
Plan fiduciary net position, end of period	741.9	664.6
Net pension liability, end of period	\$ 199.5	\$ 265.2

The Department incurred pension expense of \$1.5 million and \$24.7 million for the years ended December 31, 2021, and 2020, respectively.

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*Actuarial assumptions*—The total pension liability at December 31, 2021 and 2020 was based on actuarial valuations as of January 1, 2020 and 2019, respectively, using the following actuarial methods and assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	
Level percent or level dollar	Level percent
Closed, open, or layered periods	Closed
Amortization period and start date	30 years as of January 1, 2013 Valuation
Amortization growth rate	3.50%
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.75%
Investment Rate of Return	7.25%
Cost of Living Adjustments	Annual compounding COLA of 1.5% assumed. Additional restoration of purchasing power benefits available based on an assumed 3.25% if purchasing level decreases to 65%.
Mortality	Various rates based on RP-2014 mortality tables and using generational projection of improvement using MP-2014 Ultimate projection scale.

All other actuarial assumptions used in the January 1, 2020 and January 1, 2019 valuations were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2017.

*Discount Rate*—The discount rate used to measure the total pension liability for FY 2021 and FY 2020 was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

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

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The following table reflects long-term expected (30 year) real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected inflation rate for FY 2021 and 2020 is projected at 2.75% for the same periods.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Equity		
Public Equity	48%	4.25%
Private Equity	11%	7.32%
Fixed Income		
Core Fixed Income	18%	-0.10%
Credit Fixed Income	7%	3.26%
Real Assets		
Real Estate	12%	3.41%
Infrastructure	4%	3.85%

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**—The following table presents the Department’s proportionate share of the net pension liability of SCERS, calculated using a discount rate of 7.25% for FY 2021 and FY 2020, as well as what the Department’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

<b>Discount Rate Sensitivity</b>		
<i>(In millions)</i>		
<u>Discount Rate</u>	<b>Net Pension Liability at December 31,</b>	
	<b>2021</b>	<b>2020</b>
1% decrease - 6.25%	\$ 314.9	\$ 379.6
Current discount Rate - 7.25%	199.5	265.2
1% increase - 8.25%	103.0	169.5

**Plan Fiduciary Net Position**—Detailed information about the SCERS’s fiduciary net position is available in the separately issued, audited financial statements as of December 31, 2021, which are publicly available at <http://www.seattle.gov/retirement/about-us/board-of-administration>.

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*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension*—The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for the Department at December 31, 2021, and December 31, 2020:

(\$ in millions)	December 31,	
	2021	2020
<u>Deferred outflows of resources</u>		
Differences between expected and actual experience	\$ 0.8	\$ -
Changes of assumptions	9.4	13.6
Contributions made subsequent to measurement date	28.9	28.7
Total deferred outflows of resources	\$ 39.1	\$ 42.3
<u>Deferred inflows of resources</u>		
Differences between expected and actual experience	\$ 5.7	\$ 8.6
Net difference between projected and actual earnings	60.2	\$ 23.0
Changes in employer proportion and differences between employer contributions and proportionate share of contributions	13.9	13.0
Total deferred inflows of resources	\$ 79.8	\$ 44.6

Department contributions made in 2021 in the amount of \$28.9 million are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. These contributions along with the net difference between projected and actual earnings reported as deferred outflows of resources will be recognized as pension expense in the future as shown in the following table.

Year Ending December 31	Amortization
(\$ in millions)	
2022	\$ (22.6)
2023	(10.0)
2024	(22.6)
2025	(13.4)
2026	(1.0)
Total	\$ (69.6)



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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### 14. 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.

Employees retiring under the City may continue their health insurance coverage under the City’s health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The 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 rate subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The City of Seattle covers 11,853 active employee plan participants and 466 retirees, disabled, and survivor plan participants as of the January 1, 2020 valuation date.

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.

Valuation date	January 1, 2020
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	FY 2021: 2.12% FY 2020: 2.74%
Participation	25% of Active Employees who retire participate

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**Health care cost trend rates** - The health care cost trend assumptions shown below were based on national average information from a variety of sources, including S&P Healthcare Economic Index, NHCE data, plan renewal data, and vendor Rx reports, with adjustments based on the provisions of the benefits sponsored by City of Seattle.

<u>Year</u>	<u>Pre 65</u>		
	<u>Medical</u>	<u>Rx</u>	<u>Composite</u>
2020 to 2021	6.55%	9.00%	7.15%
2021 to 2022	6.32%	8.50%	6.86%
2022 to 2023	6.09%	8.00%	6.57%
2023 to 2024	5.86%	7.50%	6.28%
2024 to 2025	5.64%	7.00%	5.99%
2025 to 2026	5.41%	6.50%	5.69%
2026 to 2027	5.18%	6.00%	5.40%
2027 to 2028	4.95%	5.50%	5.10%
2028 to 2029	4.73%	5.00%	4.80%
2029 to 2030	4.50%	4.50%	4.50%

**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

**Dependent Coverage** – 25% of members electing coverage are assumed to be married or have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses. It is assumed that children will have aged off of coverage.

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**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.

Age	Aetna Preventive Plan			Aetna Traditional Plan		
	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

Age	Group Health Deductible			Group Health Standard		
	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

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.

**Morbidity Factors** – The claim costs for medical and prescription drugs were assumed to increase with age according to the table below.

Age Band	Medical	Rx	Composite
40-44	3.00%	4.80%	3.3%
45-49	3.70%	4.70%	3.8%
50-54	4.20%	4.70%	4.3%
55-59	4.40%	4.60%	4.4%
60-64	3.70%	4.60%	3.8%

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*Net OPEB Liability* – The Department reported an OPEB liability of \$10.1 million and \$9.0 million for the years ended December 31, 2021 and 2020, respectively. The OPEB liability is included under Other noncurrent liabilities on the Department’s balance sheet. The Department’s proportionate share of the OPEB liability was 14.38% and 14.14% for the years ended December 31, 2021 and 2020, respectively. Based on the actuarial valuation date of January 1, 2020 and measurement dates January 1, 2020 and January 1, 2021, details regarding the Department’s Total OPEB Liability, Plan Fiduciary Net Position, and Net OPEB Liability as of December 31, 2021 and 2020 are shown below.

(\$ in millions)	<b>Changes in Net OPEB Liability</b>	
	<b>Fiscal Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<u>Total OPEB Liability</u>		
Service cost	\$ 0.6	\$ 0.5
Interest on the total OPEB liability	0.3	0.4
Differences between expected and actual experience	-	1.0
Changes of assumptions	0.5	(1.1)
Benefit payments	(0.4)	(0.4)
Net Changes	1.0	0.4
Total OPEB liability, beginning of period	9.0	8.7
Effect of change in proportionate share	0.1	(0.1)
Adjusted total OPEB liability, beginning of period	9.1	8.6
Total OPEB liability, end of period	10.1	9.0
<u>Plan fiduciary net position</u>		
Benefit payments	(0.4)	(0.4)
Employer contributions	0.4	0.4
Net change in Plan fiduciary net position	-	-
Plan fiduciary net position, beginning of period	-	-
Effect of change in proportionate share	-	-
Adjusted fiduciary net position, beginning of period	-	-
Plan fiduciary net position, end of period	-	-
Net OPEB liability, end of period	\$ 10.1	\$ 9.0

The Department recorded an expense for OPEB of \$0.9 million and \$0.3 million in 2021 and 2020, respectively. The Health Care Subfund of the General Fund is reported in The City of Seattle’s Annual Report.

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*Discount Rate and Healthcare Cost Trend Rates* – The discount rate used to measure the total OPEB liability is 2.12% and 2.74% for the years ended December 31, 2021 and 2020, respectively. 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:

(In millions)	Discount Rate Sensitivity	
	Net OPEB Liability at December 31,	
	2021	2020
<u>Discount Rate</u>		
1% decrease - 1.12%	\$ 11.0	
Current discount Rate - 2.12%	10.1	
1% increase - 3.12%	9.3	
1% decrease - 1.74%		\$ 9.8
Current discount Rate - 2.74%		9.0
1% increase - 3.74%		8.2

The following table presents the impact of healthcare cost trend sensitivity on the net OPEB liability calculation to a 1% increase and a 1% decrease in the healthcare cost trend rates:

(In millions)	Healthcare Cost Trend Rate Sensitivity	
	Net OPEB Liability at December 31,	
	2021	2020
<u>Discount Rate</u>		
1% decrease	\$ 8.9	\$ 8.0
Trend rate	10.1	9.0
1% increase	11.6	10.2

*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 Department at December 31, 2021 and December 31, 2020.

(\$ in millions)	December 31,	
	2021	2020
	<u>Deferred outflows of resources</u>	
Difference between actual and expected experience	\$ 1.9	\$ 2.2
Assumption changes	0.5	-
Contributions made after measurement date	0.4	0.4
Total deferred outflows of resources	\$ 2.8	\$ 2.6
<u>Deferred inflows of resources</u>		
Assumption changes	\$ 3.0	\$ 3.5
Total deferred inflows of resources	\$ 3.0	\$ 3.5

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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Department contributions made in 2021 in the amount of \$0.4 million 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, 2022. 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 <i>(\$ in millions)</i>	Amortization
2022	\$ (0.1)
2023	(0.2)
2024	(0.1)
2025	(0.2)
2026	(0.1)
Total Thereafter	<u>0.1</u>
Total	<u>\$ (0.6)</u>

#### 15. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$108.9 million and \$106.6 million, at December 31, 2021, and 2020, respectively.

The following is a brief description of the significant Superfund sites:

*The Harbor Island Superfund Site*—In 1983, the U.S. Environmental Protection Agency (EPA or Agency) designated this site as a federal Superfund site. The Department and other entities are sharing costs equally for investigating contamination in the East Waterway (EWW) alongside Harbor Island. The City's share is split between the Department 45% and Seattle Public Utilities (SPU) 55%. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City is one of four parties who are conducting remedial investigation and feasibility study that will delineate cleanup actions. A draft final feasibility study was submitted to EPA in October 2016. Nine alternative actions were presented with costs ranging from \$256.0 million to \$411.0 million with an estimated time to complete construction on active cleanup components ranging from 9 to 13 years. The Feasibility Study (FS) was completed in 2017. The EPA comments were received in 2017 and the final FS was approved by the EPA in June 2019. The proposed plan is expected to be released in 2022. The clean-up construction timing and cost estimates will not be known until the Agency identifies a preferred remedy; the final FS has identified a range of costs on which the clean-up estimate is based. The Department does not own East Waterway.

The City anticipates that EPA will issue a notification letter to Potential Liable Parties (PLP) informing them of their potential liability for the East Waterway Cleanup. The timing of this notification is unknown. The current East Waterway Group is working to define an allocation process that will commence once additional PLPs are identified. The Department owns property adjacent to the East Waterway but does not own any of the waterway channel or sediments. The Department recorded a liability of \$52.6 Million as of December 31, 2021 and the ultimate liability is indeterminate.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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*The Lower Duwamish Waterway Superfund Site*—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department’s involvement is attributable to its land ownership or use of property along the river. The City is one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology (DOE) to conduct a remedial investigation and feasibility study to prepare a site remedy. The EPA approved the feasibility study in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway. In December 2014, the EPA issued its final Record of Decision (ROD) indicating its preferred alternative clean-up with an estimated discounted cost of \$342.0 million, from the total estimated cost of \$394.0 million. This estimate was recalculated to its 2018 value using a starting point of the undiscounted estimated cost of \$394.0 million plus an average Marine Construction Inflation Factor of 1.038 annually. This recalculation resulted in an increase in estimated environmental liability of \$12.3 million for the Department for a revised estimated total project cost of \$504.2 million for the project in 2018. The same inflation factor was applied in 2021 with a revised estimated total project cost of \$579.5 Million at the end of 2021.

There have been five amendments to the AOC. The first amendment required Lower Duwamish Waterway Group (LDWG) to complete the Fisher Study which was completed in 2016; the second amendment required the completion of carbon study. Year 1 and year 2 monitoring of the carbon plots were completed in 2018 and 2019. The third amendment required additional pre-design activities. The workplan for pre-design work was approved by EPA in August 2017. The field work was completed in 2018 and the draft final reports were submitted in the same year. In July 2018, EPA issued a 4<sup>th</sup> amendment to the AOC that requires LDWG to (1) Design the remedy for river mile 3.0 to river mile 5.0 of Lower Duwamish Waterway Site (LDW) Upper Reach, consistent with the Lower Duwamish Waterway ROD and Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); (2) incorporate the work being carried out under the Third Amendment to this AOC in support of the development of seafood consumption institutional controls for the Site; and (3) provide for timely periodic monitoring of selected site conditions, as necessary. The fifth amendment requires LDWG to (1) Design the remedy for river mile 1.6 to river mile 3.0 of Lower Duwamish Waterway site (the "LDW middle reach"), consistent with the Lower Duwamish Waterway ROD and CERCLA; (2) summarize available Puget Sound seafood data, identify data gaps and recommend additional sampling, as necessary, to refine ROD background levels of contamination in seafood; (3) provide for timely periodic monitoring of clam tissues to correspond with fish and crab tissue sampling under the Fourth Amendment; and (4) continue support of the seafood consumption institutional controls for the Site following completion of the Fourth Amendment. The final amendment consultant selection and initial work were completed in 2021. Notice to proceed on the Fifth Amendment is expected in early 2022. The cost is currently split equally between the four LDWG parties. The Department recorded a liability of \$44.2 Million as of December 31, 2021. The Department’s ultimate liability is indeterminate.

In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The City and other three parties who signed the AOC with the EPA agreed to invite some of those parties to participate in an alternative dispute resolution process (the “allocation process”) to resolve their respective shares of past and future costs. There are 45 parties participating in allocation. The City hired an allocator, and the allocation process began in April 2014. The Department agreed to administer the allocator’s contract, estimated to cost about \$4.0 million over a four-year period. Parties participating in the allocation process will share the cost of the allocator and the process.

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The City is also responsible for investigation and cleanup at the Port of Seattle Terminal 117 Streets, Uplands and Sediments sites, which is an Early Action Area of the Lower Duwamish Waterway (LDW). The South Park Street is not owned by the Department, but the City has jurisdiction over the streets and rights-of-way. Remediation activities for streets were completed in August 2016. The City's share for the uplands and sediments site is paid 100% by the Department. The City's share for the adjacent streets is split between the Department and SPU according to a Memorandum of Agreement (MOA) signed in August 2014. According to this MOA, SPU will pay 2.5% for some portions of the construction and up to 100% for other parts of the cleanup and restoration. The final construction closeout and project closeout was approved by EPA in July 2018. In September 2018, the Long-term Monitoring and Maintenance Plan (LTMMP) was approved by EPA. Activities and costs related to the ongoing monitoring of the drainage infrastructure will be completed by SPU. Annual reports are submitted in March of each year. The annual monitoring reports were submitted in 2018, 2019, and 2020. The annual report covering January 1 through December 31, 2021 was submitted in March 2022. The Department recorded a liability of \$2.1 Million as of December 31, 2021, and the ultimate liability is indeterminate.

*South Park Marina*—The Washington Department of Ecology has notified the City that it is a Potentially Liable Party for contamination at South Park Marina, which is adjacent to Terminal 117. The Department is the lead for the City at this site. Negotiations for an Agreed Order between Ecology and Potential Liable Parties (PLP) have resulted in an Agreed Order to conduct a Remedial Investigation (RI). The Agreed Order was finalized in April 2019. The Common Interest for Cost Sharing agreement between PLPs was signed in 2019. The City, the Port of Seattle and South Park Marina have agreed to share costs equally with the City administering the contract with a common consultant. City share is split between the Department 97.5% and SPU 2.5%. In 2019, the City contracted with a consultant to conduct the RI. A draft workplan was submitted to the Department of Ecology in May 2020 and comments were received. A revised draft workplan was submitted in December 2020. Phase 1 field activities and some data analyses were completed in 2021. The Department recorded a liability of \$0.9 Million as of December 31, 2021 and the ultimate liability is indeterminate.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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*North Boeing Field/Georgetown Steam Plant*—The City, King County, and Boeing signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant (GTSP), and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing agreed to pay 67% of the costs for Ecology's implementation of the current order. The order requires completion and then implementation of a Remedial Investigation (RI) and feasibility study. The final RI work plan was issued in November 2013. In January 2015, all parties executed the First Amendment to the North Boeing Field/Georgetown Steam Plant Agreed Order, making the PRPs responsible for conducting and completing remedial action at the site. The City is responsible for one third of the costs, with the Department's share at 90% and SPU's share at 10%. The draft RI was submitted in June 2016. Ecology directed additional investigation in offsite areas following the submittal of RI. The additional investigation and negotiation on RI comments has delayed the submittal of the revised draft RI until 2020. Furthermore, conditions related to COVID-19 pandemic further delayed the Ecology engagement and negotiations in 2020 and 2021. The draft RI is now anticipated to be submitted in 2022. The FS process will begin following approval of RI. The timing of the approval is currently unknown. Boeing and the City will each pay 100% of costs for remedial action at their own facilities. Storm drain sampling conducted during the RI revealed presence of chemicals in the storm lines that drain the GTSP roof. City light agreed with Department of Ecology that it will replace the GTSP roof as an interim action prior to finalization of the RI/FS. Roof replacement began in December 2020 and was completed in early 2021. The Department recorded a liability of \$0.5 Million as of December 31, 2021 and the ultimate liability is indeterminate.

*Newhalem* – this project is comprised of three sites. The Ladder Creek Settling Tank – this project is one of three sites within City Light's Skagit River Hydroelectric Project being conducted under a 2019 Settlement Agreement with the National Park Service (NPS). The project is located near Newhalem, WA and is a cleanup of contaminated debris and soil resulting from the incineration of a building structure that covered a large water settling tank during the 2015 Goodell Creek Forest Fire. The removal work was completed in 2018 to comply with CERCLA requirements under a Time Critical Removal Action (TCRA) administered by NPS. The final TCRA Completion Report has been approved, and a final reporting of two years of post-TCRA vegetative restoration monitoring has been approved. NPS will keep the project open while conducting periodic vegetative restoration monitoring through approximately 2023. NPS owns the land.

*Newhalem Penstock* – this project is the second of three sites within City Light's Skagit River Hydroelectric Project being conducted under the 2019 Settlement Agreement with NPS. The project is also located near Newhalem and currently includes preparation of an Engineering Evaluation and Cost Analysis (EE/CA) to comply with CERCLA requirements under a Non-time Critical Removal Action administered by NPS. The draft EE/CA was started in 2020 and the final is anticipated to be approved in Q1 or Q2 2022. Floyd/Snyder (F/S) is under contract to provide City Light with consulting services related to the EE/CA, and cleanup planning if necessary. NPS owns the land.

*Diablo Dry Dock* – this project is the third of three sites within City Light's Skagit River Hydroelectric Project being conducted under the 2019 Settlement Agreement with NPS. The project is located near Diablo, WA and includes preparation of an EE/CA to comply with CERCLA requirements under a Non-time Critical Removal Action administered by the NPS. GeoSyntec is under contract to provide City Light with consulting services related to the EE/CA. The EE/CA field investigation was completed in October 2021, and the draft and final EE/CA Reports are planned for 2021-2023. NPS owns the land.

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The Department recorded a liability of \$3.4 Million as of December 31, 2021 for all three Skagit sites and the ultimate liability is indeterminate.

The Department has included in the estimated environmental liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable.

Cost estimates were developed using the expected cash flow technique in accordance with GASB Statement No. 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation except as noted earlier for LDW. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of Superfund sites for appropriate cost sharing. The Department’s estimate for realized recoveries was \$2.2 million and less than \$0.1 million at December 31, 2021, and 2020, respectively, primarily representing an interfund receivable from SPU for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department’s estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department’s estimated environmental liabilities was zero at December 31, 2021 and 2020. As of December 31, 2021, and 2020, environmental costs of \$118.7 million and \$117.1 million were deferred primarily for cleanup estimates of the Department’s responsibility for the LDW and EWW Superfund Sites; and these costs are being amortized and will be recovered through future rates in accordance with GASB Statement No. 62.

The changes to the deferred environmental costs at December 31, 2021 and 2020 were as follows:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Beginning Deferred Environmental Costs	\$ 117.1	\$ 116.0
Incurred	4.3	1.5
True-up of Realizable Recoveries from SPU and Other Parties	(2.2)	-
Amortization	(0.5)	(0.4)
	<hr/>	<hr/>
Ending Deferred Environmental Costs net of Recoveries	\$ 118.7	\$ 117.1

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The changes in the provision for environmental liabilities at December 31, 2021, and 2020 were as follows:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Beginning Environmental Liability, Net of Recoveries	\$ 106.6	\$ 108.6
Payments	(2.0)	(3.5)
Incurring Environmental Liability	<u>4.3</u>	<u>1.5</u>
Ending Environmental Liability, Net of Recoveries	<u>\$ 108.9</u>	<u>\$ 106.6</u>

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2021 and 2020, was as follows:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Noncurrent Liabilities	\$ 102.5	\$ 104.3
Accounts Payable and Other Current Liabilities	<u>6.4</u>	<u>2.3</u>
Ending Non-Current Liabilities	<u>\$ 108.9</u>	<u>\$ 106.6</u>

**16. OTHER LIABILITIES**

Other liabilities include unearned capital fees which are amortized to revenues as earned, deposits and certain other unearned revenues which expire at contract completion.

Other liabilities at December 31, 2021 and 2020 consisted of the following:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Other liabilities:		
Unearned capital fees	\$ 27.6	\$ 26.5
Customer deposits—sundry sales	5.3	10.6
Unearned revenues—other	<u>1.8</u>	<u>0.9</u>
Total	<u>\$ 34.7</u>	<u>\$ 38.0</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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#### 17. DEFERRED INFLOWS OF RESOURCES

Seattle City Council passed resolutions authorizing the reporting of certain credits as regulatory liabilities in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*.

The unearned revenue for the Rate Stabilization Account for 2021 and 2020 is the result of spreading retail electric revenues and related activity over multiple periods to reduce the need for rapid and substantial rate increases (see Note 4 Rate Stabilization Account). Payments received from Bonneville's Energy Conservation Agreement are amortized to revenues over 20 years.

In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, decreases in Net Pension Liability resulting from changes in employer proportion and differences between contributions and proportionate share of pension expense are recognized as deferred inflows of resources. These deferred inflows are amortized over a closed five-year period. See Note 13 Seattle City Employees' Retirement System for more information.

In accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, amounts related to assumption changes are recognized as deferred inflows of resources, which are amortized over a closed five-year period. See Note 14 Other Postemployment Benefits for more information.

The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration under the Block and Slice Power Sales Agreement, exclusively purchasing Block. Seattle City Council affirmed the Department's practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007. See Note 19 Long-Term Purchased Power, Exchanges, and Transmission for more information.

In 2020, the Department became aware that the Federal Energy Regulatory Commission (FERC) overcharged the Department for the use of approximately 5,200 acres of federal land located in the High Ross Inundation Zone. In 2021, FERC agreed to refund \$11.2 million paid by the Department for the period of 1996 to 2019 in the form of credit to future invoices beginning 2022. The refund of \$11.2 million is recognized as a deferred inflow and will be amortized as applied to future FERC invoices.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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Deferred inflows of resources at December 31, 2021 and 2020 consisted of the following:

<i>(\$ in millions)</i>	<b>2021</b>	<b>2020</b>
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 74.4	\$ 71.8
Changes in Net Pension Liability	79.8	44.7
Changes in OPEB Liability	3.0	3.5
Gains on advanced refunding	2.8	1.4
Bonneville energy conservation agreement	37.9	39.5
FERC land use fee refund	11.2	-
Other deferred inflows	<u>0.2</u>	<u>-</u>
Total	<u>\$ 209.3</u>	<u>\$ 160.9</u>

#### 18. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of stream flows, availability of generating units, historic and forward market information, contract terms, and experience. Based on these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 60 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future.

Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating profit. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council. In April 2020, the Department entered the California ISO Energy Imbalance Market (EIM) which is an energy market system that balances fluctuations in supply and demand by automatically finding lower cost resources to meet real-time power needs and serve consumer demand across the western region. The EIM manages congestion on transmission lines to maintain grid reliability and supports integrating renewable resources. In addition, the EIM makes excess renewable energy available to participating utilities at low cost.

It is the Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*, as appropriate. Certain forward purchase and sale of electricity contracts meet the definition of a derivative instrument but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, the Department considers these forward contracts as normal purchases and normal sales under GASB Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

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### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

The undiscounted aggregate contract amounts, fair value, and unrealized gain or (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31, 2021 and 2020 consisted of the following:

<i>(\$ in millions)</i>	<b>Aggregate Contract Amount</b>	<b>Aggregate Fair Value</b>	<b>Unrealized Gain (Loss)</b>
<b>2021</b>			
Sales	\$ 2.7	\$ 3.8	\$ (1.1)
Purchases	-	-	-
Total	<u>\$ 2.7</u>	<u>\$ 3.8</u>	<u>\$ (1.1)</u>
<b>2020</b>			
Sales	\$ 13.0	\$ 12.5	\$ 0.5
Purchases	-	-	-
Total	<u>\$ 13.0</u>	<u>\$ 12.5</u>	<u>\$ 0.5</u>

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to GASB Statement No. 53. In 2010, the Seattle City Council adopted a resolution granting the Department authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under GASB Statement No. 53. The Department did not have any such activity for 2021 and 2020. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Note 7 Other Assets and Note 17 Deferred Inflows of Resources).

**Market Risk**—Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of, or demand for, the commodity. Because the Department is active in the wholesale energy market, it is subject to market risk.

**Credit Risk**—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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The Department has concentrations of suppliers and customers in the electric industry including electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

**Other Operational and Event Risk**—There are other operational and event risks that can affect the supply of the commodity, and the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including springtime snow melt, runoff, and rainfall, can significantly affect the Department's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

#### 19. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

**Bonneville Power Administration**—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 17-year contract, for the period October 1, 2011 through September 30, 2028. Effective October 1, 2017 there was an amendment to the agreement whereby the Department no longer participates as a Slice customer and will exclusively purchase Block. Block quantities are expected to be recalculated periodically during the term of the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

**Lucky Peak**—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

The Department incurred \$6.6 million and \$6.7 million in 2021 and 2020, respectively, including operations costs and royalty payments to the irrigation districts. The Department provided and billed Lucky Peak \$0.3 million for operational and administrative services in both 2021 and 2020. These amounts are recorded as offsets to purchased power expense.

The Department's receivables from Lucky Peak were less than \$0.1 million on December 31, for 2021 and 2020, respectively. The Department's payables to Lucky Peak were \$0.5 million and \$0.8 million at December 31, for 2021 and 2020, respectively.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

**British Columbia—High Ross Agreement**—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. The final fixed capital payment was made to BC Hydro in 2020. Operations and maintenance payments will be made through the life of the agreement. These other costs are included in utility plant-in-service as an intangible asset and are being amortized to purchase power expense over 15 years, from 2021 through 2035 (see Note 3 Utility Plant).

Expenses incurred, and energy received under these and other long-term purchased power agreements at December 31, 2021 and 2020 were as follows:

(\$ in millions)	Expense		Average Megawatts	
	2021	2020	2021	2020
Long-term purchased power-Bonneville	\$ 154.7	\$ 161.1	470.2	489.4
Lucky Peak	6.6	6.7	25.3	29.0
British Columbia - High Ross Agreement	13.1	13.4	36.0	35.3
Grant County Public Utility District	1.1	1.2	2.7	2.9
Columbia Basin Hydropower	8.0	7.9	30.3	29.4
Bonneville South Fork Tolt billing credit	(3.5)	(3.4)	-	-
Renewable energy - State Line Wind	25.2	26.3	41.1	43.4
Renewable energy - Other	7.3	7.9	11.9	13.2
Exchanges and loss returns energy at fair value	4.8	1.9	49.6	48.8
Long-term purchased power booked out	<u>(9.8)</u>	<u>(6.4)</u>	<u>(21.8)</u>	<u>(35.6)</u>
Long-term purchase power-other	<u>52.8</u>	<u>55.5</u>	<u>175.1</u>	<u>166.4</u>
Total	<u>\$ 207.5</u>	<u>\$ 216.6</u>	<u>645.3</u>	<u>655.8</u>

**Renewable Energy Purchase and/or Exchanges**—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State with more than 25,000 customers to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits (RECs) as a percentage of total energy delivered to retail customers. The annual target is at least 15% for 2021 and 2020. The law also has a compliance option for utilities with declining load to spend 1% of revenue requirements on eligible RECs and/or resources. The Department met the requirements of the compliance option in both 2021 and 2020.

**Fair Value of Exchange Energy**—During 2021 and 2020, exchange energy settled deliveries were valued using Dow Jones U.S Daily Electricity Price Indices.



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*Estimated Future Payments Under Purchased Power, Transmission and Related Contracts*—The Department’s estimated payments for purchased power and transmission, RECs, and other contracts for the period from 2022 through 2065, undiscounted, are as follows:

<i>\$ in millions</i> Years Ending December 31	Estimated Payments
2022	\$ 231.3
2023	237.4
2024	248.6
2025 <sup>(a)</sup>	216.0
2026	187.1
2027-2031 <sup>(b)</sup>	403.3
Thereafter (through 2065)	<u>141.2</u>
<b>Total</b>	<b><u>\$ 1,664.9</u></b>

(a) Bonneville transmission agreement expires July 31, 2025.

(b) Bonneville Block & Slice agreement expires September 30, 2028.

**20. COMMITMENTS AND CONTINGENCIES**

*Operating Leases*—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses for all operating leases totaled \$1.8 million in 2021 and \$1.4 million in 2020.

Minimum payments under the operating leases are:

Year Ending December 31 <i>(\$ in millions)</i>	Minimum Payments
2022	\$ 1.5
2023	1.5
2024	<u>1.4</u>
<b>Total</b>	<b><u>\$ 4.4</u></b>

*2022 Capital Program*—The budget for the Department’s 2022 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$457.7 million. At December 31, 2021, the Department had approximately \$181.0 million in commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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**2022 Operations and Maintenance Budget**—The Department’s 2022 Operating and Maintenance budget is \$1,007.8 million for labor and related benefits, purchased power, outside services, supplies, taxes, injuries and damages, interest, debt-related costs, maintenance of Department assets, and other non-capital expenditures incurred in the normal course of operations.

**Federal Energy Regulatory Commission Fees**—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$151.3 million through 2055; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, when their existing FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year the current license issued by FERC expires. The Boundary FERC license and related issues are discussed below.

**New Boundary License**—The Department’s FERC license for the Boundary Project was re-issued on March 20, 2013 with a 42-year life and a total cost of \$48.6 million. The terms and conditions of the new license have been evaluated and the Department continues the license implementation process, which imposes mitigation of endangered species including water quality standards and conservation management.

As part of the license renewal process, the Department negotiated a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The settlements sought to preserve the Department’s operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures.

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$365.2 million adjusted to 2021 dollars, of which \$113.0 million were expended through 2021. Projected mitigation cost estimates are subject to revision as more information becomes available.

**Skagit and South Fork Tolt Licensing Mitigation and Compliance**—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both licenses, the Department has taken and will continue to take required mitigating and compliance measures.

Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2021, to be \$156.2 million, of which \$148.4 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$2.2 million, of which \$2.2 million were expended through 2021. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2021 dollars. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

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Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

***Endangered Species***—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. Although the species were listed after FERC licenses were issued for all the Department’s hydroelectric projects, the ESA listings still affect operations of the Department’s Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department’s power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project’s firm capability is also reduced.

The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Department’s share of the Early Action program from inception in 1999 through December 31, 2021, are estimated to be \$17.5 million, and \$2.4 million has been allocated for the program in the 2022 budget.

***Project Impact Payments***—Effective May 2020, the Department renewed its contract with Pend Oreille County and committed to pay a total of \$29.8 million over 10 years ending in 2029 to Pend Oreille County for impacts on county governments from the operations of the Department’s hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of \$15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The impact payments totaled \$2.9 million and \$2.7 million to Pend Oreille County in 2021 and 2020 respectively, and \$1.2 million to Whatcom County in 2021 and 2020 respectively.

***Deien v. City*** – Plaintiff brings a purported class action against City Light based on City Light billing practices associated with City Light’s transition to advanced meters. Pending court approval, the case will be settled on a class basis for a \$3.5M payment from the City. The Department accrued the \$3.5 million expense and liability in 2021.

***East Marginal Way Poles*** – The City faces several claims and lawsuits related to the collapse of power poles along East Marginal Way in Seattle on April 5, 2019. The claimants allege that City Light and CenturyLink (a co-owner of certain poles) negligently maintained a number of poles. City Light’s ultimate liability is indeterminate.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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***Tucker v. City and Andrew Strong*** – Plaintiff Tucker alleges race discrimination, harassment, and retaliation against City Light and Mr. Strong, as well as a claim against Mr. Strong for aiding and abetting discrimination. An adverse result could include awards of compensatory damages and attorneys’ fees. City Light’s ultimate liability is indeterminate. Trial is currently set in state court for November 14, 2022.

***Sauk-Suiattle Litigation*** – In July 2021, the Sauk-Suiattle Indian Tribe (the “Tribe”) filed the first of three lawsuits against City Light alleging that City Light’s operation of the Skagit Hydroelectric Project (the Project”) in a manner that de-watered a portion of the Skagit River violates various rights of the Tribe. City Light operates the Project under a thirty-year license from the Federal Energy Regulatory Commission (“FERC”) granted in 1995. The license allows the de-watering of the Skagit River for a short stretch of the river between the Gorge Dam and the Gorge Powerhouse.

1. Federal Claims – The initial lawsuit brought by the Tribe was originally filed in Skagit County Superior Court in July 2021. In that suit, the Tribe alleged violations of the Washington and United States constitutions, in addition to the establishing acts of the Territory of Oregon and State of Washington, and other state and federal law, by blocking the passage of fish. The City removed the case to the federal court in the Western District of Washington and moved to dismiss the case. The Tribe moved to remand the case back to Skagit County. Ultimately, the district court denied the Tribe’s motion to remand, and then on December 2, 2021, dismissed all of the Tribe’s claims. The Tribe has appealed this decision to the 9th Circuit. Briefing is scheduled to be complete by June 2022. The City cannot predict whether a material adverse outcome will occur.

2. King County Superior Court – In September 2021, the Tribe filed a second suit against the City based on the same operative facts, alleging that City Light was “greenwashing” its operations because it did not allow for fish passage in the stretch of the Skagit River between Gorge Dam and Gorge Powerhouse, and other state law nuisance claims. City Light moved to dismiss this case, and the Court granted its motion to dismiss on January 14, 2022. The Tribe has appealed the dismissal, but no briefing schedule has been set yet. The City cannot predict whether a material adverse outcome will occur.

3. Sauk-Suiattle Tribal Court – On January 6, 2022, the Tribe filed its third complaint out of the same set of operative facts. In the Tribal Court, the Tribe makes the following claims: (1) violations of the Tribe’s treaty based usufructuary property interests through blocking fish passage; (2) that the “blockage of water” constitutes an arbitrary and capricious seizure of salmon habitat and the Tribe’s water property rights in violation of the Fourth Amendment; (3) infringement on the Tribe’s members religious and cultural practices protected by the American Indian Religious Freedom Act and the First Amendment; and fraud and intentional or negligent infliction of emotional distress. The City has filed a motion to dismiss these claims, which is scheduled to be argued on March 29, 2022. Additionally, the City filed a complaint in federal court in the Western District of Washington seeking to enjoin the Sauk-Suiattle Tribal Court from exercising jurisdiction. The Tribe has filed a motion to dismiss this complaint as premature. The case has been assigned to the same judge that dismissed the Tribe’s earlier federal court lawsuit. Liability is indeterminate

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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The following case from 2020 was settled in 2021:

***Dixon v. City and 3 “John Doe” defendants*** – Plaintiff Dixon alleged that he was a victim of discrimination and retaliation based on race, color, and engaging in protected activities. The plaintiff includes allegations of race discrimination, harassment, and retaliation throughout his 30-year employment. Trial was set in state court for May 23, 2022. This matter resolved upon the plaintiff’s acceptance of an Offer of Judgment on December 27, 2021 in the amount of \$200,000.00, plus fees and costs.

***Other Contingencies***—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department’s financial position, operations, or cash flows.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**DEFINED BENEFIT PENSION PLAN**

The Department's schedule of the employer's proportionate share of the net pension liability for the years ended December 31 (dollar amounts in millions):

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	20.38%	21.10%	21.17%	21.00%	22.13%	24.46%	24.53%
Employer's proportionate share of total pension liability	\$ 941.4	\$ 929.8	\$ 896.9	\$ 831.6	\$ 839.5	\$ 883.5	\$ 841.5
Employer's proportionate share of plan fiduciary net position	\$ 741.9	\$ 664.6	\$ 575.3	\$ 599.1	\$ 550.7	\$ 565.7	\$ 569.7
Employer's proportionate share of the net pension liability	\$ 199.5	\$ 265.2	\$ 321.6	\$ 232.5	\$ 288.8	\$ 317.8	\$ 271.8
Employer's covered-employee payroll	\$ 178.1	\$ 165.3	\$ 163.7	\$ 153.6	\$ 156.5	\$ 157.0	\$ 152.3
Employer's proportionate share of net pension liability as a percentage of its covered-employee payroll	112.03%	160.44%	196.42%	151.41%	184.49%	202.44%	178.48%
Plan fiduciary net position as a percentage of the total pension liability	78.81%	71.48%	64.14%	72.04%	65.60%	64.03%	67.70%

**Notes to Schedule**

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

*Actuarial Methods and Assumptions:*

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percent
Amortization Growth Rate	3.50% for FY 2019-2021, 4.0% for prior years
Remaining amortization period	30 years as of January 1, 2013 Valuation
Asset valuation method	5 years, Non-asymptotic
Inflation	2.75% for FY 2019-2021, 3.25% for prior years
Investment rate of return	7.25% for FY 2019-2021, 7.50% for prior years
Mortality	Based on RP-2014 mortality tables using generational projection of improvement using MP-2014 Ultimate projection scale for FY 2019-2021. Prior years based on RP- 2000 mortality tables

The Department's proportionate schedule of employer's contributions (dollar amounts in millions):

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 28.9	\$ 28.7	\$ 24.8	\$ 24.7	\$ 23.7	\$ 25.3	\$ 24.9
Contributions in relation to contractually required contribution	28.9	28.7	24.8	24.7	23.7	25.3	24.9
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 179.3	\$ 178.1	\$ 165.3	\$ 163.7	\$ 153.6	\$ 156.5	\$ 157.0
Contributions as a percentage of covered-employee payroll	16.12%	16.11%	15.00%	15.09%	15.43%	16.17%	15.86%

**THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT**  
**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

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**CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**

The Department's schedule of the employer's proportionate share of the net OPEB liability for the years ended December 31:

<i>(\$ in millions)</i>	2021	2020	2019	2018
Employer's proportion of the net OPEB liability	14.38%	14.14%	14.34%	14.61%
Employer's proportionate share of total OPEB liability	\$ 10.1	\$ 9.0	\$ 8.7	\$ 8.9
Employer's proportionate share of plan fiduciary net position	-	-	-	-
Employer's proportionate share of the net OPEB liability	\$ 10.1	\$ 9.0	\$ 8.7	\$ 8.9
Employer's covered-employee payroll	\$ 161.7	\$ 159.0	\$ 145.6	\$ 148.3
Employer's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	6.25%	5.66%	6.00%	6.02%
Plan fiduciary net position as a percentage of the total OPEB liability	-	-	-	-

**Notes to Schedule**

This schedule is intended to show information for 10 years. Since 2018 was the first year of this presentation, data on years preceding 2018 are not available. Additional years' data will be included as they become available.

There were no changes to benefit terms in 2021. See Note 14 for details regarding actuarial methods and assumptions.

*Actuarial Methods and Assumptions:*

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Discount Rate	2.12% for FY 2021, 2.74% for FY 2020, 4.10% for FY 2019, and 3.44% for FY 2018
Health care cost trend rate- Medical	6.55% initial, decreasing to an ultimate rate of 4.50% for FY 2020-2021.
	7.00% initial, decreasing to an ultimate rate of 4.50% for prior years.
Health care cost trend rate- RX	9.00% initial, decreasing to an ultimate rate of 4.50% for FY 2020-2021.
	10.00% initial, decreasing to an ultimate rate of 4.50% for prior years.
Mortality	Based on RP-2014 mortality tables using generational projection of improvement using MP-2014 Ultimate projection scale

There were no changes to benefit terms in 2021. See Note 14 for details regarding actuarial methods and assumptions.



**OTHER INFORMATION (UNAUDITED)**

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### OTHER INFORMATION (UNAUDITED)

#### DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2021, 2020, and 2019. The target level for debt service coverage was 1.8x on all bonds for 2021, 2020, and 2019 in accordance with current financial policies (which include a Rate Stabilization Account that will result in greater compliance of actual debt service coverage with the policy-specified level)

(\$ in millions)

Debt Service Coverage	December 31		
	2021	2020	2019
<b>OPERATING REVENUES:</b>			
Retail power revenues	\$ 964.3	\$ 926.7	\$ 938.9
Short-term wholesale power revenues	66.3	51.3	43.2
Other power-related revenues (a)(b)(c)	59.3	40.8	52.2
Transfers from/(to) rate stabilization account (d)	(2.6)	(22.7)	22.8
Other operating revenues	21.7	19.6	22.4
<b>Total operating revenues</b>	<b>\$ 1,109.0</b>	<b>\$ 1,015.7</b>	<b>\$ 1,079.5</b>
<b>OPERATING EXPENSES:</b>			
Long-term purchased power—Bonneville and other (b)	\$ 207.5	\$ 216.6	\$ 215.9
Short-term wholesale power purchases	38.5	10.0	34.3
Other power expenses (b)	95.2	72.6	74.4
Transmission (e)	55.7	54.6	52.4
Distribution	68.0	56.3	60.4
Customer service	50.8	58.6	33.7
Conservation	28.8	33.3	33.4
Administrative and general	97.1	127.3	122.9
Taxes	101.5	101.2	100.1
Depreciation and amortization	148.6	149.8	145.8
<b>Total operating expenses</b>	<b>\$ 891.7</b>	<b>\$ 880.3</b>	<b>\$ 873.3</b>
<b>NET OPERATING REVENUE (f)</b>	<b>\$ 217.3</b>	<b>\$ 135.4</b>	<b>\$ 206.2</b>
<b>Adjustments to Net Operating Revenue (g)</b>			
City Taxes (h)	\$ 53.6	\$ 57.5	\$ 58.5
Depreciation and amortization	148.6	149.8	145.8
Depreciation & amortization included in operating & maintenance expenses (i)	47.1	32.5	30.8
Pension expense (j)	1.5	24.6	33.6
Pension contributions (j)	(28.9)	(28.7)	(24.8)
Valuation on exchange power, net (b)(c)	-	-	-
BPA Conservation Augmentation/Agreement revenue (k)	(2.6)	(2.4)	(2.1)
Investment income (l)	8.7	10.8	10.7
Non-cash expenses (m)	4.4	3.4	1.0
Other (n)	(0.7)	3.4	3.0
<b>Total adjustments</b>	<b>\$ 231.7</b>	<b>\$ 250.9</b>	<b>\$ 256.5</b>
<b>Net Revenue Available for Debt Service</b>	<b>\$ 449.0</b>	<b>\$ 386.3</b>	<b>\$ 462.7</b>
<b>Total Debt Service (o)</b>	<b>\$ 216.3</b>	<b>\$ 223.0</b>	<b>\$ 220.8</b>
<b>Ratio of Available Net Revenue to Debt Service</b>	<b>2.08x</b>	<b>1.73x</b>	<b>2.10x</b>

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### Notes

- (a) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (b) Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*. Non-monetary transactions are measured at fair value and are valued at market. Disclosures required by GASB Statement No. 72 are available in Note 2 Fair Value Measurement.
- (c) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (d) Transfers from/(to) the RSA in accordance with Ordinance No. 123260, primarily to address fluctuations in surplus power sales.
- (e) Includes revenue from the short-term sale of excess transmission capacity.
- (f) Operating Income per audited financial statements.
- (g) Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for Debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines within the table.
- (h) City taxes are excluded because the lien on such taxes is junior to debt service in accordance with the Bond Legislation.
- (i) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (j) Pension expense is the amount recorded for compliance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, a non-cash item. Pension contributions are the Department cash contributions to the Seattle City Employee's Retirement System.
- (k) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (l) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (m) Effective 2018 includes adjustment for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in addition to primarily claim expenses and capital projects expenditures from prior year which were determined not to be capital expenditures.
- (n) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.
- (o) Net of federal bond subsidies.

### DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
(\$ in millions)			
2021	\$ 449.0	\$ 216.3	2.08
2020	386.3	223.0	1.73
2019	462.7	220.8	2.10
2018	388.4	212.4	1.83
2017	376.8	203.3	1.85

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### OTHER INFORMATION (UNAUDITED)

#### INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

Year Ending December 31 (\$ in millions)	Fixed Rate Bonds			Variable Rate Bonds			Total <sup>(a)</sup>
	Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2022	\$ 121.1	\$ 106.1	\$ 227.2	\$ 2.2	\$ 0.9	\$ 3.1	\$ 230.3
2023	123.3	100.4	223.7	2.2	0.9	3.1	226.8
2024	127.2	94.1	221.3	2.3	0.9	3.2	224.5
2025	117.2	87.7	204.9	2.4	0.8	3.2	208.1
2026	109.6	82.5	192.1	5.9	0.8	6.7	198.8
2027	88.5	77.2	165.7	6.1	0.8	6.9	172.6
2028	92.3	72.7	165.0	6.3	0.8	7.1	172.1
2029	86.8	68.6	155.4	6.6	0.7	7.3	162.7
2030	72.7	64.8	137.5	6.9	0.7	7.6	145.1
2031	75.6	61.4	137.0	7.2	0.7	7.9	144.9
2032	78.7	58.0	136.7	7.4	0.7	8.1	144.8
2033	81.8	54.4	136.2	7.8	0.6	8.4	144.6
2034	83.9	51.0	134.9	8.1	0.6	8.7	143.6
2035	87.6	47.4	135.0	8.4	0.5	8.9	143.9
2036	96.3	43.5	139.8	8.7	0.5	9.2	149.0
2037	86.5	39.4	125.9	9.1	0.4	9.5	135.4
2038	91.3	35.4	126.7	9.5	0.4	9.9	136.6
2039	94.2	31.4	125.6	9.8	0.4	10.2	135.8
2040	97.9	27.3	125.2	10.2	0.3	10.5	135.7
2041	87.6	23.5	111.1	10.7	0.3	11.0	122.1
2042	74.5	20.1	94.6	11.1	0.2	11.3	105.9
2043	77.6	17.1	94.7	11.5	0.2	11.7	106.4
2044	71.2	13.8	85.0	12.0	0.1	12.1	97.1
2045	65.0	10.8	75.8	12.5	0.1	12.6	88.4
2046	59.3	8.3	67.6	5.5	-	5.5	73.1
2047	54.2	5.8	60.0	-	-	-	60.0
2048	42.0	3.4	45.4	-	-	-	45.4
2049	28.2	1.9	30.1	-	-	-	30.1
2050	15.6	1.0	16.6	-	-	-	16.6
2051	9.2	0.4	9.6	-	-	-	9.6
<b>Total</b>	<b>\$ 2,396.9</b>	<b>\$ 1,309.4</b>	<b>\$ 3,706.3</b>	<b>\$ 190.4</b>	<b>\$ 13.3</b>	<b>\$ 203.7</b>	<b>\$ 3,910.0</b>

<sup>(a)</sup> Maximum debt service of \$230.3 million is due in 2022. See Note 9 Long-term debt.

Note: All parity bonds of the Department are fixed rate bonds except the 2018C C.1 & C.2, and 2021B bonds which are variable rate bonds.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### STATEMENT OF LONG-TERM DEBT

As of December 31, 2021

(\$ in millions)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due		Accrued Interest
					Within One Year		
Series 2010A	2022	4.597	\$ 7.2	\$ 7.2	\$ 7.2	\$	0.2
Series 2010A	2023	4.747	7.5	7.5	-		0.2
Series 2010A	2024	4.947	7.7	7.7	-		0.2
Series 2010A	2025	5.047	8.0	8.0	-		0.2
Series 2010A	2026	5.147	8.2	8.2	-		0.2
Series 2010A	2027	5.247	8.5	8.5	-		0.2
Series 2010A	2028-2030	5.470	27.4	27.4	-		0.6
Series 2010A	2031-2040	5.570	102.6	102.5	-		2.3
Series 2010C	2040	5.590	13.3	13.3	-		0.3
Series 2011B	2027	5.750	10.0	10.0	-		0.2
Series 2012A	2022-2027	5.000	198.0	66.1	15.3		0.2
Series 2012A	2028	3.250	12.4	12.4	-		0.1
Series 2012A	2037-2041	4.000	49.1	39.2	-		0.1
Series 2012C	2028	3.400	4.3	4.3	-		-
Series 2012C	2029	3.500	7.7	7.7	-		-
Series 2012C	2030	3.500	7.7	7.7	-		-
Series 2012C	2031-2033	3.750	23.4	23.4	-		0.1
Series 2013	2022-2033	5.000	97.4	30.9	4.0		0.7
Series 2013	2034-2035	4.000	14.7	14.7	-		0.3
Series 2013	2036-2038	4.125	24.4	24.4	-		0.6
Series 2014	2022-2029	5.000	163.2	64.7	14.9		0.9
Series 2014	2030-2038	4.000	53.9	53.9	-		0.8
Series 2014	2039-2040	4.000	14.8	14.8	-		0.2
Series 2014	2041-2044	4.000	33.3	33.3	-		0.5
Series 2015A	2022-2026	5.000	62.9	28.7	5.8		0.2
Series 2015A	2027-2045	4.000	109.0	109.0	-		0.8
Series 2016A	2036-2041	4.050	31.9	31.9	-		0.6
Series 2016B	2022-2028	5.000	103.0	80.3	9.8		1.0
Series 2016B	2029	4.000	13.9	13.9	-		0.2
Series 2016C	2022-2026	5.000	56.9	35.2	10.7		0.3
Series 2016C	2027-2046	4.000	103.9	103.9	-		1.2
Series 2017C	2022-2032	5.000	174.2	156.2	11.7		2.3
Series 2017C	2033-2047	4.000	211.3	211.3	-		3.1
Series 2018A	2022-2029	5.000	60.2	47.1	4.9		0.7
Series 2018A	2030-2048	4.000	203.6	203.6	-		4.6
Series 2018C C.1	2022-2046	.27 - 0.60 A	49.3	44.9	1.1		-
Series 2018C C.2	2022-2046	.27 - 0.60 A	49.3	44.9	1.1		-
Series 2019A	2022-2049	5.000	210.5	203.8	3.5		2.5
Series 2019B	2022-2026	5.000	140.3	118.5	22.9		2.5
Series 2020A	2022-2030	5.000	78.5	76.1	2.1		2.2
Series 2020A	2031-2050	4.000	119.8	119.8	-		2.1
Series 2021A	2022-2031	5.000	63.6	63.6	8.3		1.3
Series 2021A	2032-2051	4.000	196.2	196.2	-		3.8
Series 2021B	2022-2045	.27 - 0.36 A	100.6	100.6	-		-
Total			\$ 3,043.5	\$ 2,587.3	\$ 123.3	\$	38.5

<sup>A</sup> Range of adjustable rates in effect during 2021.

Note: All parity bonds of the Department are fixed rate bonds except the 2018C C1&C2 and 2021B bonds, which are variable rate bonds.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### POWER COSTS AND STATISTICS

Year ending December 31 (\$ in millions)	2021	2020	2019	2018	2017
<b>POWER COSTS</b>					
Hydroelectric generation <sup>(a)Ⓞ</sup>	\$ 63.0	\$ 58.2	\$ 54.4	\$ 51.7	\$ 56.8
Long-term purchased power <sup>(b)</sup>	207.5	216.6	215.9	217.8	224.8
Wholesale power purchases <sup>(c)(e)</sup>	38.5	10.0	34.3	18.5	15.2
Fair valuation & other power purchases <sup>(b)(e)</sup>	34.1	15.2	21.9	20.6	11.4
Owned transmission <sup>(a)</sup>	16.9	16.4	15.7	17.0	15.5
Wheeling expenses	45.9	44.9	43.3	43.2	42.9
Other power expenses	15.9	16.3	14.5	13.1	13.9
Total power costs	<u>421.8</u>	<u>377.6</u>	<u>400.0</u>	<u>381.9</u>	<u>380.5</u>
Less short-term wholesale power sales <sup>(c)</sup>	(66.3)	(51.3)	(43.2)	(61.0)	(60.9)
Less other power-related revenues	(26.7)	(29.3)	(36.8)	(28.5)	(20.8)
Less fair valuation other power-related <sup>(b)</sup>	<u>(32.6)</u>	<u>(11.4)</u>	<u>(15.4)</u>	<u>(17.4)</u>	<u>(15.0)</u>
Net power costs	<u>\$ 296.2</u>	<u>\$ 285.6</u>	<u>\$ 304.6</u>	<u>\$ 275.0</u>	<u>\$ 283.8</u>
<b>POWER STATISTICS (MWh)</b>					
Hydroelectric generation <sup>(c)</sup>	6,009,237	6,017,176	5,346,373	6,419,136	6,396,563
Long-term purchased power <sup>(b)</sup>	5,945,779	6,173,078	6,243,569	6,354,303	7,521,767
Wholesale power purchases <sup>(c)(e)</sup>	1,281,656	633,111	1,028,182	1,167,441	904,362
Wholesale power sales <sup>(c)(e)</sup>	(2,543,488)	(2,605,592)	(2,123,263)	(3,329,288)	(3,695,173)
Other <sup>(d)</sup>	<u>(1,164,379)</u>	<u>(1,003,455)</u>	<u>(958,287)</u>	<u>(938,363)</u>	<u>(1,154,419)</u>
Total power available	<u>9,528,805</u>	<u>9,214,318</u>	<u>9,536,574</u>	<u>9,673,229</u>	<u>9,973,100</u>
Less self consumed energy	(26,537)	(26,203)	(26,962)	(25,642)	(26,691)
Less system losses	<u>(423,886)</u>	<u>(549,228)</u>	<u>(387,653)</u>	<u>(573,525)</u>	<u>(537,750)</u>
Total power delivered to retail customers	<u>9,078,382</u>	<u>8,638,887</u>	<u>9,121,959</u>	<u>9,074,062</u>	<u>9,408,659</u>
Net power cost per MWh delivered <sup>(1)</sup>	<u>\$ 32.62</u>	<u>\$ 33.05</u>	<u>\$ 33.38</u>	<u>\$ 30.31</u>	<u>\$ 30.16</u>

(a) Including depreciation.

(b) Long-term purchased power, fair valuation & other power purchases, and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts are valued at market.

(c) The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region.

(d) "Other" includes seasonal exchange power delivered and miscellaneous power transactions.

(e) Bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales, however MWh are presented gross.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### OTHER INFORMATION (UNAUDITED)

#### HISTORICAL ENERGY RESOURCES (in MWh)

Year ending December 31	2021	2020	2019	2018	2017
Department-Owned Generation					
Boundary Project	3,211,443	3,576,351	3,307,074	4,008,235	3,825,302
Skagit Hydroelectric Project:					
Gorge	988,738	958,211	832,815	947,000	998,676
Diablo	847,067	703,719	610,968	626,127	692,828
Ross	823,907	655,524	524,516	690,006	741,493
Cedar Falls/Newhalem	83,424	81,065	41,376	89,250	83,461
South Fork Tolt	54,658	42,306	29,624	58,518	54,803
Subtotal	6,009,237	6,017,176	5,346,373	6,419,136	6,396,563
Energy Purchases					
Bonneville	4,119,204	4,299,280	4,388,973	4,435,838	5,482,904
Priest Rapids	23,601	25,596	19,866	25,732	24,532
Columbia Basin Hydropower	265,850	258,498	219,094	241,236	228,789
High Ross	315,101	309,960	307,599	310,700	313,973
Lucky Peak	221,981	254,619	364,089	347,669	463,403
Stateline Wind Project	360,191	380,795	338,452	342,873	330,161
Columbia Ridge	92,937	102,421	101,615	102,617	96,096
Seasonal and Other Exchange <sup>(a)</sup>	546,914	541,909	503,881	547,638	581,909
Wholesale Market Purchases <sup>(b)</sup>	1,281,656	633,111	1,028,182	1,167,441	904,362
Subtotal	7,227,435	6,806,189	7,271,751	7,521,744	8,426,129
Total Department Resources	13,236,672	12,823,365	12,618,124	13,940,880	14,822,692
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Los:	695,102	505,727	387,615	344,435	328,666
Seasonal and Other Exchange <sup>(a)</sup>	469,277	497,728	570,672	593,928	825,753
Wholesale Market Sales	2,543,488	2,605,592	2,123,263	3,329,288	3,695,173
Total Energy Resources	9,528,805	9,214,318	9,536,574	9,673,229	9,973,100

(a) Includes exchange contracts with Grant County, Lucky Peak Project, Northern California Power Agency (NCPA), expired 5/31/2018, and Sacramento Municipal Utility District (SMUD), expired 7/31/2017.

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

(c) Energy provided to Public Utility District of Pend Oreille County under the Boundary Project's FERC license and include incremental losses due to expanded activity in the wholesale market.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### CUSTOMER STATISTICS

Years ended December 31,	2021	2020	2019	2018	2017
Average number of customers:					
Residential	433,686	426,359	419,601	410,664	403,888
Industrial	61				
Commercial	51,408	51,219	50,779	50,859	50,608
Total	<u>485,155</u>	<u>477,578</u>	<u>470,380</u>	<u>461,523</u>	<u>454,496</u>
Megawatt-hours <sup>(a)</sup> :					
Residential	37% 3,320,729	37% 3,192,877	34% 3,091,019	32% 2,992,914	32% 3,132,079
Industrial	9% 817,060				
Commercial	54% 4,940,593	63% 5,446,010	66% 6,030,940	68% 6,081,148	68% 6,276,580
Total	100% <u>9,078,382</u>	100% <u>8,638,887</u>	100% <u>9,121,959</u>	100% <u>9,074,062</u>	100% <u>9,408,659</u>
Average annual revenue per customer <sup>(a)</sup> :					
Residential	\$ 902	\$ 890	\$ 859	\$ 778	\$ 812
Industrial	\$ 1,126,113				
Commercial	\$ 9,779	\$ 10,651	\$ 11,361	\$ 10,748	\$ 10,757

\* Seattle City Light changed customer counts to Service Agreement effective September 2016 with the implementation of the new retail electric billing system. Service Agreement determines how Seattle City Light and Seattle Public Utilities charge customers for services provided. An account can have several Service Agreements for the different types of services.

\*Beginning 2021, Seattle City Light separated the non-residential category into industrial and commercial categories in the customer statistics table.

Years ended December 31,	2021	2020	2019	2018	2017	
Average annual consumption per customer (kWhs) <sup>(a)(b)</sup> :						
Residential	- Seattle	7,657	7,489	7,367	7,288	7,755
	- National	n/a	10,715	10,649	10,972	10,399
Industrial	- Seattle	13,394,426				
	- National	n/a				
Commercial	- Seattle	96,105	106,329	118,768	119,568	124,018
	- National	n/a	113,555	120,663	122,952	122,121
Average rate per kilowatt-hour (cents) <sup>(a)(b)</sup> :						
Residential	- Seattle	11.78	11.88	11.66	10.67	10.47
	- National	n/a	13.15	13.01	12.87	12.89
Industrial	- Seattle	8.41				
	- National	n/a				
Commercial	- Seattle	10.18	10.02	9.57	8.99	8.67
	- National	n/a	8.92	9.04	9.10	9.07

(a) Source of national data: Department of Energy ([www.eia.doe.gov/electricity/annual/](http://www.eia.doe.gov/electricity/annual/)). 2021 National average annual consumption data and average rate data not available. Certain 2020-2017 national average annual consumption and national average rate data were updated with revised actuals.

(b) Seattle amounts include an allocation for the net change in unbilled revenue. Unbilled revenue excludes retail customer voluntary payments for conservation and solar energy as well as revenue from diverted electricity.

NOTE 1: A comprehensive rate change of 3.0% became effective April 1, 2021

NOTE 2: As of April 2021, the Rate Stabilization Account (RSA) surcharge of 3% was discontinued for all residential and non-residential rates schedules.

NOTE 3: A Bonneville Power Administration (BPA) passthrough adjustment of -1.9% is being applied to all retail energy charges beginning November 2019

NOTE 4: Notice of public hearings on future rate actions may be obtained on request to:

The Office of the City Clerk, 600-4th Ave, Floor Three, Seattle, WA 98104. Phone number 206-684-8344.

Additional information about city of Seattle Council meetings can be found on the Web at [www.seattle.gov/council/calendar](http://www.seattle.gov/council/calendar).



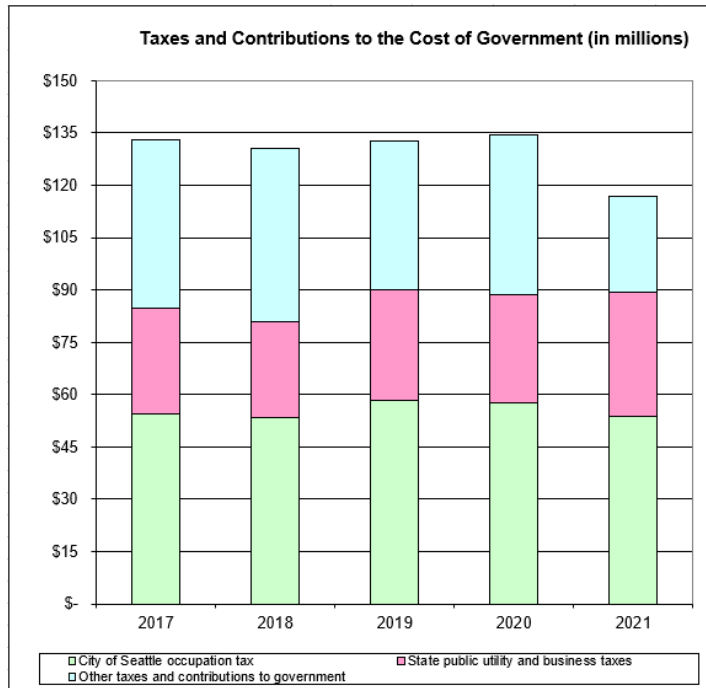
# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

TAXES AND CONTRIBUTIONS BY SEATTLE CITY LIGHT TO THE COST OF GOVERNMENT (Unaudited)					
<i>(in millions)</i>					
Years ended December 31,	2021	2020	2019	2018	2017
<b>Taxes</b>					
City of Seattle occupation utility tax	\$ 53.6	\$ 57.5	\$ 58.4	\$ 53.4	\$ 54.4
State public utility and business taxes	35.7	31.3	31.5	27.4	30.2
Suburban contract payments and other	6.9	7.3	6.8	6.3	6.4
Contract payments for government services	5.3	5.1	3.3	4.6	3.8
<b>Total taxes as shown in statement of revenues and expenses</b>	<b>101.5</b>	<b>101.2</b>	<b>100.0</b>	<b>91.7</b>	<b>94.8</b>
<b>Taxes/licenses charged to accounts other than taxes</b>	<b>2.1</b>	<b>16.7</b>	<b>15.5</b>	<b>16.6</b>	<b>15.4</b>
<b>Other contributions to the cost of government</b>	<b>13.4</b>	<b>16.5</b>	<b>17.1</b>	<b>22.2</b>	<b>22.7</b>
<b>Total miscellaneous taxes</b>	<b>15.5</b>	<b>33.2</b>	<b>32.6</b>	<b>38.8</b>	<b>38.1</b>
<b>Total taxes and contributions</b>	<b>\$ 117.0</b>	<b>\$ 134.4</b>	<b>\$ 132.6</b>	<b>\$ 130.5</b>	<b>\$ 132.9</b>

Note 1: Electric rates include all taxes. The State Public Utility Tax rate for retail electric power sales was 3.8734%. The City of Seattle Occupation Utility Tax rate was 6% for in-state retail electric power sales.

Note 2: 2017 Taxes/licenses charged to accounts other than taxes updated with more recent information.



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### PUBLIC PURPOSE EXPENDITURES (Unaudited)

Years ended December 31,	2021	2020	2019	2018	2017
<b>CONSERVATION</b>					
Annual energy savings (megawatt hours) <sup>A</sup>	91,271	80,731	111,735	131,858	136,632
Programmatic conservation expenses <sup>B</sup>					
Non-low income	\$ 19.7	\$ 20.3	\$ 23.8	\$ 24.3	\$ 31.0
Low income	2.7	1.7	3.1	1.7	2.9
Non-programmatic conservation expenses <sup>C</sup>	4.7	4.8	6.4	11.5	12.6
Subtotal	27.1	26.8	33.3	37.5	46.5
<b>OTHER PUBLIC PURPOSE EXPENDITURES</b>					
Low-income energy assistance <sup>D</sup>	29.2	23.4	18.8	17.8	18.6
Non-hydro renewable resources <sup>E</sup>	38.3	39.7	34.5	33.7	32.9
Subtotal	67.5	63.1	53.3	51.5	51.5
<b>NET PUBLIC PURPOSE SPENDING</b>	94.6	89.9	86.6	89.0	98.0
Revenue from retail electric sales	\$ 964.3	\$ 926.7	\$ 938.9	\$ 868.6	\$ 875.2
<b>PERCENT PUBLIC PURPOSE SPENDING TO RETAIL ELECTRIC SALES</b>					
Conservation only	2.8%	2.9%	3.5%	4.3%	5.3%
Low-income assistance & non-hydro renewables	7.0%	6.8%	5.7%	5.9%	5.9%
Total	9.8%	9.7%	9.2%	10.2%	11.2%

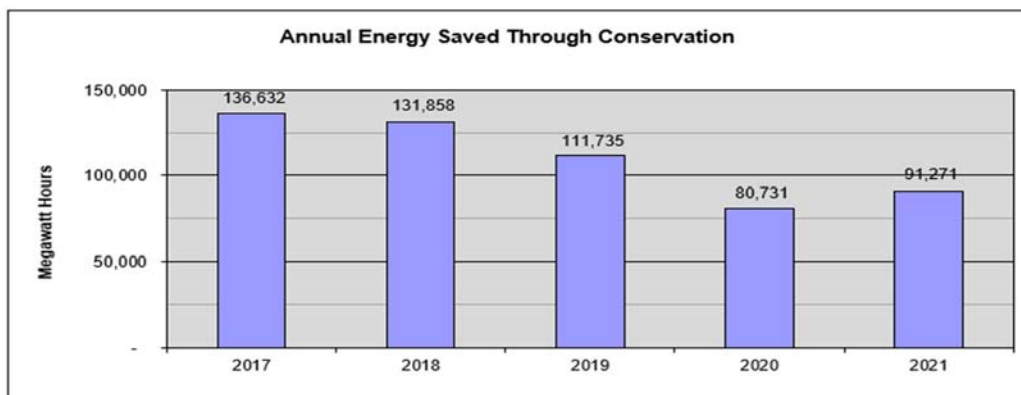
A Energy savings are from completed projects in that year include those from Northwest Energy Efficiency Alliance, residential behavior programs and applicable Transmission & Distribution benefit.

B Programmatic conservation expenditures are deferred and amortized over a 20-year period in accordance with City Council-passed resolutions and Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Non-low income programmatic conservation includes expenditures for program measures, customer incentives, field staff salaries, energy code enforcement, and direct program administration. They do not include expenditures related to solar or other renewable programs. Low-income programmatic conservation includes these types of expenditures for the Department's HomeWise and Low-Income Multifamily Programs.

C Non-programmatic expenditures include program planning, evaluation, data processing, and general administration. These expenses are not associated with measured energy savings.

D Low-income assistance includes rate discounts and other programs that provide assistance to low income customers.

E Non-hydro renewable resources include energy generated from various sources bundled with renewable energy certificates (RECs) and purchased RECs which are funded from current revenues to comply with State of Washington Energy Independence Act (RCW 19.285).



**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

To the Economic Development, Technology, and City Light Committee of  
The City of Seattle - City Light Department

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Seattle, City Light Department, which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year ended December 31, 2021, and have issued our report thereon dated April 29, 2022.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City of Seattle, City Light Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Seattle, City Light Department's internal control. Accordingly, we do not express an opinion on the effectiveness of The City of Seattle, City Light Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the financial statements of the City of Seattle, City Light Department are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly US, LLP*

Madison, Wisconsin  
April 29, 2022

**APPENDIX D**  
**DEMOGRAPHIC AND ECONOMIC INFORMATION**

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## DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat and is the center of the County’s economic activity. King County is the largest county in the State in population, number of cities and employment, and the fourteenth most populous county in the United States. Of the State’s population, nearly 30% reside in the County, and of the County’s population, 32% live in the City of Seattle.

### Population

The most recently released historical and current population counts and estimates for the State of Washington, the County, and the City are given below.

<b>POPULATION</b>			
<b>Year</b>	<b>Washington</b>	<b>King County</b>	<b>Seattle</b>
2012 <sup>(1)</sup>	6,835,396	1,945,686	614,283
2013 <sup>(1)</sup>	6,909,666	1,983,550	624,045
2014 <sup>(1)</sup>	7,005,504	2,021,027	638,784
2015 <sup>(1)</sup>	7,106,989	2,061,981	660,908
2016 <sup>(1)</sup>	7,237,661	2,118,958	684,136
2017 <sup>(1)</sup>	7,344,589	2,149,910	694,513
2018 <sup>(1)</sup>	7,464,069	2,187,460	707,555
2019 <sup>(1)</sup>	7,582,481	2,227,755	724,144
2020 <sup>(2)</sup>	7,705,281	2,269,675	737,015
2021 <sup>(3)</sup>	7,766,975	2,287,050	742,400

- (1) Source: State of Washington, Office of Financial Management (“OFM”). Intercensal population estimates are bracketed by the two most recent decennial censuses and are provided by OFM to yield a more consistent series than the original postcensal estimates—see following note.
- (2) Source: U.S. Department of Commerce, Bureau of Census.
- (3) State of Washington, OFM, April 1 Postcensal Estimates of Population (2021 Revised, released November 30, 2021). City postcensal population estimates reference the most recent decennial census count and are updated each year based on changes in housing stock and counts of persons in group quarters facilities.

### Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division, the County, the State, and the United States.

<b>PER CAPITA INCOME</b>					
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Seattle MD	\$ 71,903	\$ 75,973	\$ 81,201	\$ 85,284	\$ 87,452
King County	79,742	84,542	90,438	94,974	96,647
State of Washington	55,884	58,550	62,026	64,758	67,126
United States	49,870	51,885	54,446	56,490	59,510

*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

Year	New Single Family Units		New Multi-Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
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	247	111,343,923	5,479	637,037,156	748,381,079
2021	264	78,231,798	11,716	1,849,751,186	1,927,982,984
2021 <sup>(1)</sup>	88	29,972,334	3,350	483,009,405	512,981,739
2022 <sup>(1)</sup>	140	38,733,905	3,029	612,050,662	650,784,567

(1) Through April.

Source: U.S. Bureau of the Census

## Retail Activity

The following table presents 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
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
2020	66,955,895,952	25,904,879,115
2021	78,440,949,141	30,047,705,303

Source: Quarterly Business Review, Washington State Department of Revenue



## Employment

The following table presents total employment in Washington State as of December 31, 2020 (unless otherwise noted) for certain major employers in the Puget Sound area.

### PUGET SOUND MAJOR EMPLOYERS

Employer	Employees
Amazon.com	80,000
Microsoft Corp.	57,700
The Boeing Co.	56,900 <sup>(1)</sup>
Joint Base Lewis-McChord	54,000 <sup>(2)</sup>
University of Washington Seattle	49,500
Providence	43,500
Walmart Inc.	22,100
Costco Wholesale Corp.	20,200
Albertsons Cos. dba Safeway, Haggen, Albertsons	20,000
MultiCare Health System	18,300
Virginia Mason Franciscan Health <sup>(3)</sup>	17,800
King County Government	16,400
Fred Meyer Stores	16,100
City of Seattle <sup>(4)</sup>	15,200
Starbucks Coffee Co.	14,000
Swedish Health Services	12,700
Seattle Public Schools	11,700
Alaska Air Group Inc.	9,200
Kaiser Permanente	8,200
Seattle Children's Foundation	8,000
T-Mobile USA Inc.	8,000

- (1) Since the date of this table, Boeing has faced financial stress and has significantly reduced its company-wide workforce through a combination of buyouts and layoffs and the shift of 787 production out of the State. The State's quarterly economic and revenue forecast released in September 2021 assumed that Boeing was about three quarters of the way through its announced 31,000 company-wide layoffs, which were assumed to be concentrated in the State. The forecast estimated a loss of about 22,300 aerospace jobs (including Boeing and non-Boeing jobs) as of August 2021 and anticipated a further decline in this sector by the end of calendar year 2021
- (2) 40,000 are service members and 14,000 are civilian employees.
- (3) Virginia Mason and CHI Franciscan Health merged in January 2021.
- (4) Source: City of Seattle

Source: *Puget Sound Business Journal*, Publication Date October 8, 2021

**KING COUNTY**  
**RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT**  
**AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT<sup>(1)</sup>**

	<b>Annual Average</b>				
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Civilian Labor Force	1,231,166	1,260,655	1,285,974	1,278,594	1,278,003
Total Employment	1,187,422	1,218,696	1,250,766	1,178,362	1,223,432
Total Unemployment	43,744	41,959	35,208	100,232	54,571
Percent of Labor Force	3.6%	3.3%	2.7%	7.8%	4.3%
<b>NAICS INDUSTRY</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Total Nonfarm	1,397,875	1,432,817	1,467,850	1,383,033	1,407,858
Total Private	1,216,542	1,254,283	1,292,300	1,211,158	1,237,183
Goods Producing	177,733	181,550	186,058	172,467	168,533
Mining and Logging	533	500	500	475	408
Construction	74,342	78,108	79,533	76,675	79,258
Manufacturing	102,867	102,925	106,000	95,267	88,850
Service Providing	1,220,142	1,251,267	1,281,792	1,210,567	1,239,325
Trade, Transportation, and Utilities	268,325	274,642	280,933	276,558	282,650
Information	102,883	111,017	121,633	127,908	134,450
Financial Activities	71,450	73,708	75,267	72,533	73,567
Professional and Business Services	227,792	233,092	238,875	234,558	245,675
Educational and Health Services	179,142	185,842	189,592	179,767	182,683
Leisure and Hospitality	140,775	145,050	146,833	100,675	104,417
Other Services	48,442	49,383	53,108	46,692	45,208
Government	181,333	178,533	175,550	171,875	170,675
Workers in Labor/Management Disputes	0	0	0	0	0
	<b>Apr. 2022</b>				
Civilian Labor Force	1,328,152				
Total Employment	1,302,585				
Total Unemployment	25,567				
Percent of Labor Force	1.9%				

(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").*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities 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 Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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

*The following information has been provided by the City.*

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

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

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

Neither the City nor the Bond Registrar shall have any responsibility or obligation to Participants of DTC or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC or its Participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Registered Owners under the Bond Ordinance (except such notice as is required to be given by the Bond Registrar to DTC).